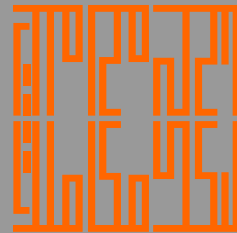


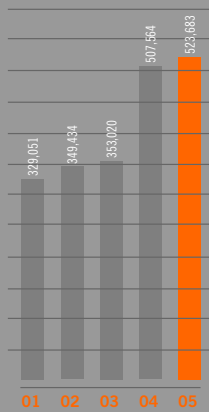


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Bank Muamalat

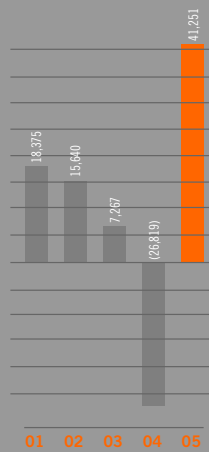
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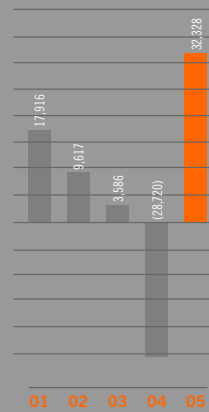
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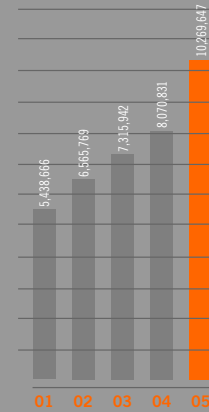
Total Shareholders' Funds
RM'000



Profit/(Loss) Before Taxation and Zakat
RM'000



Profit/(Loss) After Taxation and Zakat
RM'000



Total Assets
RM'000

we thrive on challenges. they're opportunities for growth.

now that we've made a turnaround, it's time to reflect on how we can move forward from here. it's an opportune time; our emerging economy presents opportunities for us to expand our horizons. it's time for us to strengthen and improve ourselves for greater growth. these are challenging times, demanding our highest commitment and dedication to meet the greatest of expectations.

5-year financial highlights

	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Total Shareholders' Funds	329,051	349,434	353,020	507,564	523,683
Profit/(Loss) Before Taxation and Zakat	18,375	15,640	7,267	(26,819)	41,251
Profit/(Loss) After Taxation and Zakat	17,916	9,617	3,586	(28,720)	32,328
Total Assets	5,438,666	6,565,769	7,315,942	8,070,831	10,269,647
Total Deposits	4,965,251	6,029,351	6,846,533	7,455,010	9,373,971
Total Financing	2,091,802	2,312,405	2,272,526	2,887,415	4,154,021
No. of Branches	40	40	40	41	42
No. of Service Centres	6	6	7	7	6
No. of Offshore Branches/Labuan	1	1	1	1	1
No. of Staff	1,154	1,174	1,244	1,241	1,154



muamalat home financing-i

Our new home financing package is truly one with a difference. Providing you better value through long-term fixed payments, which does not affect your income, it's a plan distinctive from others. Be it a complete home, a house under construction or a refinancing option you're considering, our home financing packages are offered at attractive rates and tenures to suit your budget!



muamalat hire purchase-i

Our hire purchase facility is specially designed for everyone; loyal existing customers, purchasers of new vehicles, staff of corporate customers, universities in which we operate and even walk-in customers. Whether you wish to acquire a new or used vehicle, you are entitled to enjoy our competitive privileged rate.

bank muamalat - Bridging your dreams with the best of banking

As a full-fledged Islamic banking institution offering diverse products and services, we dedicate ourselves to bridging the requirements of modern businesses with Shariah-compliant banking facilities.

We believe in building the relationship that will link entrepreneurship with vision, built on fair dealings and best of banking practices - a value based on the equality in the relationship between people, irrespective of race or religion.



muamalat trade finance-i

Bank Muamalat's trade finance facilities can help you broaden your business horizons to all corners of the world. Our Trade Finance Centre, the core of our service activities, is ready to look into your needs, and all within your reach.



labuan offshore branch

The Labuan Offshore Branch is the second full fledged Islamic Offshore bank established to cater for customers' non-Ringgit financing needs and offshore banking requirements. The Labuan Offshore Branch offers Foreign Currency Deposits/Investment Accounts, Foreign Currency Financing Facilities, Foreign exchange and other services to cater to customers' needs.

vision to be a strong, progressive and modern Islamic Bank offering innovative, quality and competitive products and services. **mission** to build the Bank into a modern, dynamic and strong Islamic Bank that would play a role in providing a viable alternative to the conventional system and contribute to the development of modern Malaysia.

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message from the Holy Qu'ran

Bismillahir Rahmanir Raheem

O ye who believe, eat not up your property among yourselves in vanities: but let there be amongst you traffic and trade by mutual good will.

(Surah An-Nisaa: 29)

Those who devour Riba (usury) will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: Trade is like Riba (usury), but Allah hath permitted trade and forbidden Riba (usury). He who after receiving direction from his Rob (Lord), desist, shall be pardoned for the past; his case is for Allah (to Judge); but those who repeat (the offence) are companions of the fire: they will abide therein (for ever).

(Surah Al-Baqarah: 275)

Allah will deprive usury of all blessing, but will give increase for Sadaqat. Allah loveth not creatures ungrateful and wicked.

(Surah Al-Baqarah: 276)

O ye who believe, fear Allah, and give up what remains of your demand for usury, if ye are indeed believers.

(Surah Al-Baqarah: 278)

If ye do it not, take notice of war from Allah and His Messenger, but if ye repent, then ye shall have your capital sums: deal not unjustly, and ye shall not be dealt with unjustly.

(Surah Al-Baqarah: 279)

relationships

TAKES TIME TO NURTURE...
YET INVALUABLE TO INCULCATE

One corporation, with common goals, with a commitment to put our customers first, with an aspiration to be the best that we can be to ensure that competitive advantage.



chairman's statement



Dato' Ismail Shahudin
Chairman

In The Name of Allah, The Most Gracious, The Most Merciful

My fellow stakeholders,

It is my pleasure to report to you the progress made for the year ended 31 December 2005. Significantly, the past year has shown the great strength of our business and demonstrated our capability to execute substantial change. Muamalat has made tremendous advancement as operations were streamlined and focus enhanced.

As expected, the process has been challenging and rewarding. The record net profit of RM32.3 million realised in 2005, which is post Voluntary Separation Scheme payment of RM34.0 million and reversing the net loss of RM28.7 million made in 2004, is testimony to the creativity and strength of Muamalat, especially to the excellence and intelligence of our 1,145 employees across the nation.

Looking ahead, we are more confident than ever in our ability to build on our position as the leading provider of Shariah compliant financial solutions.

economic environment

Muamalat persevered in an environment of increased uncertainty in 2005. The nation's economic momentum moderated in the year under review as economic expansion, as measured by the Gross Domestic Product (GDP), eased to 5.3% in 2005 compared to the 7.1% growth gained in the preceding year. The moderation in growth was

chairman's statement (cont'd)

evident in key segments of the economy, of which engine of growth manufacturing sector expanded a modest 4.9% in 2005 compared to the almost 10% growth realised in the preceding year. Still, the sharper rise in capital formation growth, accelerating 4.7% from 3.1% in 2004, suggests that investment levels remained buoyant during the year under review.

Broadly, the less than certain external environment was the primary factor of influence in 2005, characterised by the rising interest rates in the United States and the higher prices of primary commodities, in particular the spiralling crude oil prices. The former was triggered by policy moves aimed at sustaining equilibrium between economic growth and price stability amidst the possible increases in resource utilisation ahead as well as the rising energy prices that have the potential to add to inflationary pressures. Evidently, the U.S. Federal funds rate was hiked eight times in 2005 and had increased by 200 basis points during the year, increasing to 4.25% as at end 2005, its highest level since April 2001.

The cost of funds in Malaysia was similarly higher in 2005 with the benchmark Overnight Policy Rate (OPR) increasing 30 basis points to end the year at 3%, of which the rate hike in November 2005 was its first since the implementation of the new interest rate framework introduced in April 2004. OPR has since increased to 3.25% following the recent 25 basis point hike on 23 Feb 2006.

The financial system, however, continued to thrive in 2005 with financing growth sustained at robust levels in the year under review, expanded by 8.6% in the year under review to RM558 billion, equivalent to an estimated 119% of total GDP. In comparison, total financing grew 8.5% in 2004.

The past year also witnessed the transition in the nation's foreign exchange regime, referring to the adoption of a 'managed float' for the ringgit exchange rate compared to the previous fixed regime introduced in September 1998. Essentially, the shift, which took effect from 21 July 2005, represented a change in the system by which the value of the ringgit is determined; referring to valuation via a trade-weighted index of Malaysia's major trading partners. The ringgit ended the year at RM3.7795 against the U.S. dollar, registering an annual gain of 0.5%.

business performance highlights

Muamalat recorded a net profit after taxation and zakat of RM32.3 million for the year ended 31 December 2005, reversing the loss of RM28.7 million recorded in the preceding year. The performance in 2005 also marks its highest



chairman's statement (cont'd)

net profit since it commenced operation in 1999. Significantly, the improved showing was also realised after absorbing the RM34.0 million payment for the Voluntary Separation Scheme exercise involving 230 employees completed in June 2005, an exercise illustrating Muamalat's commitment to strengthen and sustain productivity.

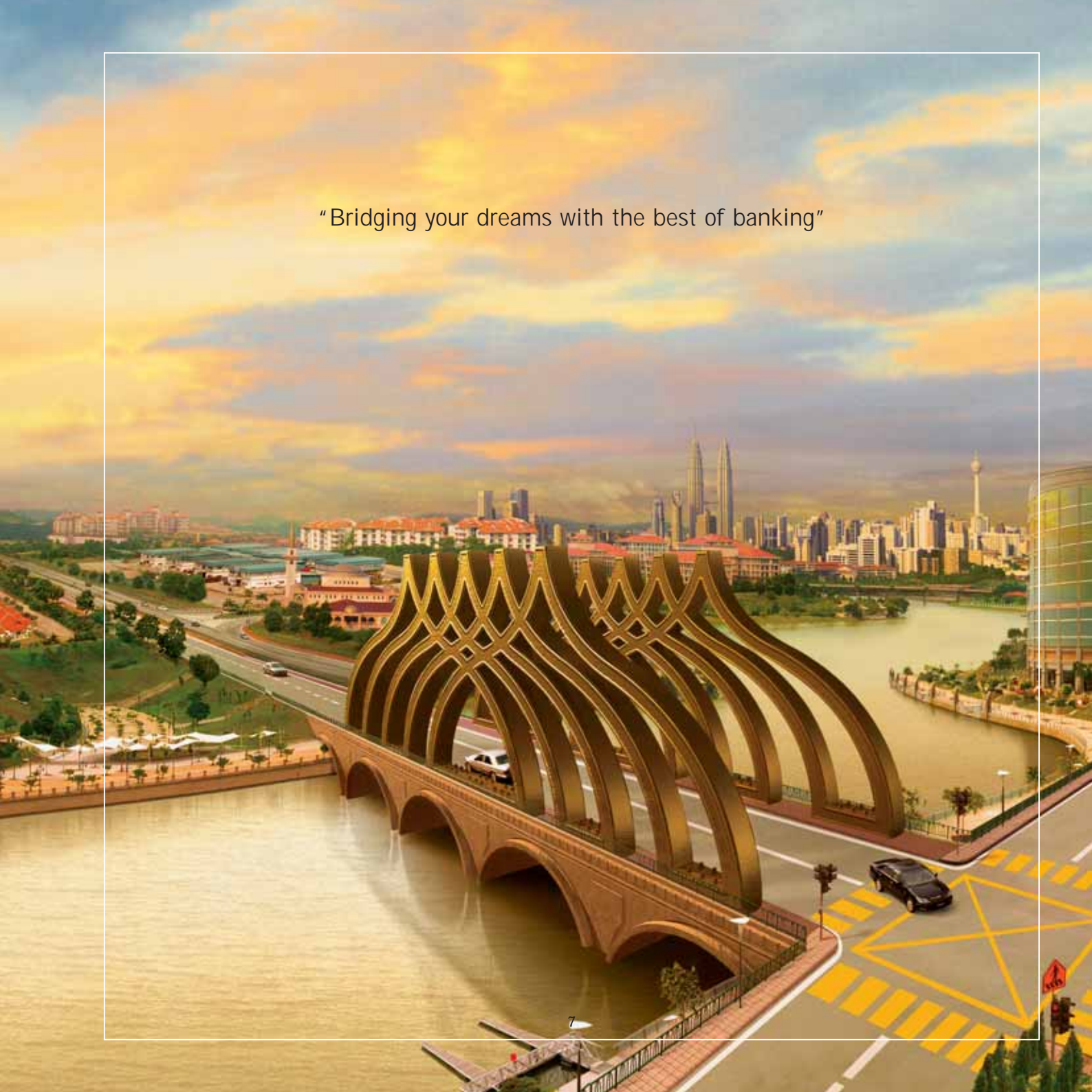
Broadly, the enhanced focus and streamlined banking operations of consumer, enterprise and investment as well as treasury and capital market services characterised the turnaround achieved in 2005. The enhanced business platform had led to stronger revenue in 2005, advancing 33.0% to RM471.9 million, underpinned by steady gains generated in income from both, financing portfolio and capital market activities. Previously, total revenue grew a mere 8.1%.

Financial performance by segment illustrated greater equilibrium within the broad portfolio of Muamalat with consumer activities generating 45.1% of the total revenue compared to less than a third a year ago. Investment and treasury activities revenue contribution remained a sturdy 32.6% in 2005, reflecting steady gains in income diversification, generating increased contribution from portfolio management resulting in significant rise in income from capital gains and fee-based activities, while enterprise activities was sustained at about a fifth of total.

At the operating profit level, the combination of sturdy contribution from investment and treasury activities underscored the gains made in the year under review. Enhanced infrastructure led to greater contribution from treasury and capital market activities as the series of initiatives implemented during the past year resulted in focused engagement of treasury and capital market operations that broadened the scope of asset liability management and significantly, strengthened the diversification of Muamalat's income base. Also, investment banking contributions were underpinned by substantial presence in the capital market where Muamalat were arranger of Private Debt Securities in excess of RM6 billion in the year under review. The improved trend bolstered our position as a leading arranger of Islamic papers in 2005, garnering Muamalat multiple awards including recipient of Malaysia's Best Deal award by Asset publication, a Hong-Kong based-periodical, in recognition for the facility arranged for Jimah Energy Ventures Sdn. Bhd..

Total assets breached the RM10 billion mark in 2005, soaring 27.2% from RM8.1 billion a year ago. The milestone was realised on the back of a 48.1% rise in financing, advancing to RM4 billion from RM2.7 billion in 2004. The buoyant appetite for consumer financing accentuated the rise in total financing in the year under review, underpinned by the robust demand for Muamalat's hire purchase financing product, referring to the multi-fold

“Bridging your dreams with the best of banking”



chairman's statement (cont'd)

YAB Dato' Seri Abdullah
Haji Ahmad Badawi,
Prime Minister of Malaysia
paid a visit to the
Bank's booth during
SMIDEC 2005



increase in *Al-Ijarah Thumma Al-Bai* financing. Consequently, its share of total financing jumped to 17.0% in 2005 from less than 5% in the preceding year while residential property financing share remained steady at 30.8% during the same period under review.

Total customer deposits, meanwhile, soared to RM9.4 billion in 2005 from RM7.5 billion in the preceding year. The rising trend reflected the sharp rise in demand deposits, which enlarged by 31.2% to RM2.1 billion, equivalent to almost a third of the total core deposits, auguring positively for Muamalat in light of its progressive effort aimed at broadening the funding base at competitive levels. The benign development also illustrated increased presence of businesses or commercial accounts that accounted for almost 55% of the total deposits compared to 40.5% in the preceding period.

The record performance in 2005 was also bolstered by enhanced asset quality, already reflecting results from the series of on-going initiatives implemented aimed at strengthening asset management. For the year 2005, the allowance made for losses of financing fell by almost 11% to RM67.9 million. In comparison, allowance made for losses of financing more than doubled in the preceding period, increasing to RM76.6 million from RM34.6 million in 2003. Equally, the provisioning level has been sustained at sturdy levels, of which the financing loss reserve stood at about 68% in the year under review. At the same time, total gross non-performing financing vis-à-vis total financing improved to 68% in 2005 compared to 9.4% previously while on net basis, the ratio strengthened to 4.2% from 4.9% in 2004, improving ahead of the industry average ratio of 4.6%.

The active management of capital had ensured sustainable capital strength amidst the acceleration in business growth. While total assets soared in the year under review, Muamalat's capital expanded in tandem, increasing to RM583.1 million from RM528.1 million previously. Significantly, the Risk-Weighted Capital Ratio (RWCR) remained sound at 11.1%. This compares to RWCR of 14.5% at the end of the preceding year.



"We are more confident than ever in our ability to build on our position as the leading provider of Shariah compliant financial solutions"

chairman's statement (cont'd)

Signing of Islamic Financing Facilities between Jimah Energy Ventures Sdn Bhd and Joint Lead Arrangers



community care

Among Muamalat's core values include contributing to the community and the society at large. While we are focused on our objective towards realising our goal of developing our position as the leading provider of Shariah compliant financial solutions, we will continue to invest in the communities where we work and live as essentially our responsibility is to ensure that our reach are beyond the realm of the financial industry.

prospects

Our focus will be to continue to build our business for the future and further enhance what we have. Broadly, what we do well, we will try to do even better and we will continue to review and reorganise businesses that structurally fall short of our performance requirements. Profoundly, we remain a work in progress in our ultimate objective of developing a framework for legitimate Islamic transactions taking into account the *Maqasid Al Shariah* or objectives of Shariah that is based on the ethical principles of justice, clarity, reasonable security and predictability.

In conclusion, we asked a great deal of our fellow stakeholders during the past year, and they delivered. The past year was merely a first step but a step in the right direction as we still have an enormous amount of work ahead. The coming year will be a crucial one for us. The potential is tremendous and we intend to keep our momentum building, even in an environment of economic challenges. Most importantly, we are confident that Muamalat's best years lie ahead.

acknowledgement

On behalf of the Board of Directors, I wish to thank all the stakeholders of Muamalat; our business associates, customers and depositors, and the employees and Management for their trust and continued support.

YBhg. Dato' Othman Abdullah and Encik Ashari Ayub have retired while YBhg. Datuk Mohd Khamil Jamil has resigned as members of the Board during the past year. I wish to thank them for their dedication and guidance rendered during the years. I wish to also express our welcome to YBhg. Dato' Abdul Manap Abd Wahab to the Board and at the same time, my gratitude to members of the Board for their advice and support that they have provided.

Also, our special thanks to the Ministry of Finance, Bank Negara Malaysia, Bukhary Capital Sendirian Berhad and Khazanah Nasional Berhad for their continuous support.

Dato' Ismail Shahudin
Chairman

"We intend to keep our momentum building, even in an environment of economic challenges"



directors' profile

Dato' Ismail Shahudin

Chairman

Dato' Ismail Shahudin, was appointed Non-Independent Director of Bank Muamalat since 17 March 2004. Subsequently he was appointed Chairman of the Board on 30 March 2004.

Dato' Ismail holds a bachelor of Economics (Hons) degree from University of Malaya. Upon graduation in 1974, he joined ESSO Malaysia Berhad and served for 5 years within its Finance Division. Thereafter, he joined Citibank Malaysia in 1979 and served at the Bank's Headquarters in New York in 1984 as part of the team in the Asia Pacific Division. Upon his return to Malaysia in 1986, he was appointed as Vice President & Group Head of Public Sector and Financial Institutions Group in Citibank Malaysia.

In 1988, he served United Asian Bank Berhad (UAB) as its Deputy General Manager until 1992 when UAB was taken over by Bank of Commerce. Subsequently, he joined Maybank as its General Manager, Corporate Banking Division. In September 1997, he was appointed as the Executive Director of Maybank. He left Maybank in July 2002 to assume the post as the Group Chief Executive for MMC Corporation Berhad until 31st March 2006.



Dato' Ismail Shahudin also sits on the Boards of Malaysia Smelting Corporation Berhad, Tronoh Consolidated Malaysia Berhad and IJM Corporation Berhad.

Dato' Abdul Manap Abd Wahab

Chief Executive Officer

Dato' Abdul Manap bin Abd Wahab, an experienced banker, acquired his experience while working with Maybank for more than twenty years in various capacities. He joined the bank soon after completing his Bachelor in Business Administration from Ohio University. He also completed his Masters in Business Administration (Finance) from University of Hull, United Kingdom while working with the Bank.

Rising through the ranks, he served as Branch Manager at several branches, and as Regional Manager and General Manager of Branch Operations Division. He also has overseas working experience while serving as General Manager of Maybank's London Operations in the United Kingdom. While holding the position of General Manager of Branch Operations Division, he was also Project Manager of Maybank's Retail Development Program – a project to transform the Bank's Retail Business capabilities working in partnership with Fortis Bank, the leading Bancasurer in Europe.



directors' profile (cont'd)

His last position in Maybank before he left in early 2003 was as Head of Group Retail Marketing. He also sat as Director of Maybank Unit Trust Berhad.

While serving in these positions, he acquired a wide range of experience in banking operations, sales management, project management and people management.

From 2003 to 2004, he was operating his own consulting business.

He joined Bank Muamalat in January 2005 as Chief Operating Officer and was appointed as Chief Executive Officer on 1st March 2006.



Encik Ismail Ibrahim

Non-Independent Director

Encik Ismail Ibrahim holds a Degree in Accounting from Universiti Kebangsaan Malaysia in 1985. He is currently the Vice President of Khazanah Nasional Berhad, a position he held since 1997. He joined Khazanah Nasional Berhad as Accountant/Finance Manager in 1995. He started his career in 1985 with the Accountant General's Department during which he served as Treasury Accountant in the Investments and Loans Division and as Assistant Director in the Funds Management Division. He is a member of the Malaysian Institute of Accountants.

He was appointed Non-Independent Director of Bank Muamalat on 23 March 2001. He is also a member of the Bank's Audit Committee.

Datin Azizah Mohd Jaafar

Independent Director

Datin Azizah Mohd Jaafar is an Independent Director of Bank Muamalat since 17 September 2001. She is a Fellow of the Institute of Chartered Accountants in England & Wales. She is also a member of the Malaysian Institute of Chartered Public Accountants (MICPA).

Her career in the Government sector included various positions, among others, the Public Trustee Department, the Federal Treasury, the Ministry of Health and the Accountant General's Department where she last served as the Deputy Accountant General. From 1981 to 1992 she was seconded as Deputy Commissioner of Commodities Trading with the Commodities Trading Commission. Between 1995 and 2000 she served the Securities Commission Department and the Investment & Issues Department. She is currently a part-time Lecturer at a local university.



Dr. Aziuddin Ahmad

Non-Independent Director

Dr. Aziuddin Ahmad, was appointed Non-Independent Director of BMMB on 24 August 2004. Graduated in 1977 with a Bachelors Degree (Honours) in Electrical & Electronics Engineering from Kings College London, Master's in Nuclear Reactor Science & Engineering from Queen Mary College London in 1979, and Doctor of Philosophy in Reactor Neutron Physics from Imperial College London in 1982.

directors' profile (cont'd)



Back in Malaysia, he served at the Tun Ismail Atomic Research Centre (Malaysian Institute of Nuclear Technology) before returning again to Kings College London to read Law full-time from 1989-1992. He was awarded the Cameron Waller Prize in Law in 1991.

In 1987, Dr. Aziuddin entered the financial services sector and since 1994, has been a holder of a Fund Management Representative's License, and practising Islamic Finance. He had provided Islamic & Corporate Finance Advisory services to the Founder Chairman of AlBukhary Foundation. He also sat as a Member of the Board of Directors of MMC Corporation Berhad. He was also the Group Financial Adviser to the Sapura Group of Companies. Since October 2001, he was appointed an investment Panel Member at Lembaga Tabung Haji. He is also a Board Director of Amanah Raya Asset Management Sdn Bhd. Dr. Aziuddin is currently a Fellow of the AlBukhary Foundation.

From June 2002 to May 2003, Dr. Aziuddin was Adjunct Professor, at the Faculty of Engineering Universiti Putra Malaysia where he taught Engineering & Society, covering diverse topics such as entrepreneurship, corporate governance, management, finance, ethics, values & moral expected in business.

Since March 2003, he is Adjunct Professor at the Centre for Civilisation Dialogue at University of Malaya. He currently teaches Science & Technology: Policy & Strategy to University of Malaya Master's degree students.

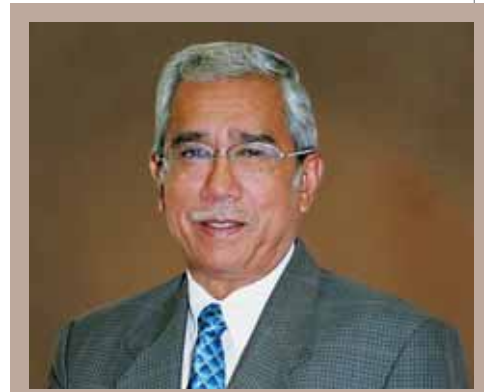
Dr. Aziuddin's current applied interest is in Education, Political Economy, Islamic Finance and Human Development. His reading and research interests cover the New Sciences of Quantum Theory, Complexity, Chaos, Cosmology & Parapsychology and their relationships with Mysticism, Ontology, Eschatology, Consciousness and Al Tawhid.

Encik Abdul Jabbar Abdul Majid

Independent Director

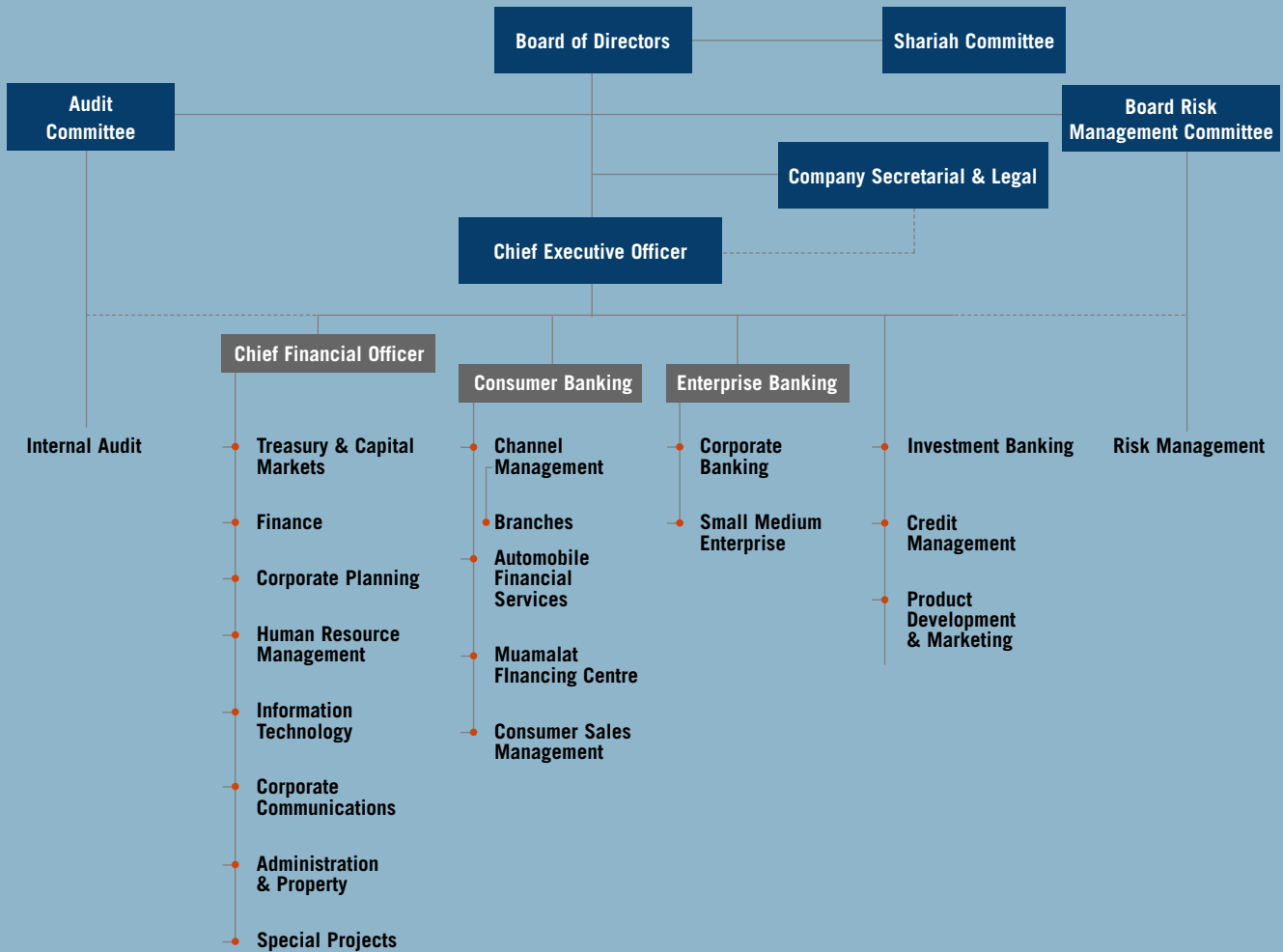
Encik Abdul Jabbar Abdul Majid is an Independent Director of Bank Muamalat since 13 October 2004. Currently he sits on the Board of Directors of Tradewinds Corporation Berhad as a Non-Executive Independent Director, a position he has held since 21 January 2003. He is also a director of Malakoff Berhad, Perusahaan Otomobil Nasional Berhad (Proton), Opcom Holdings Berhad and a few other unlisted public and private companies.

Abdul Jabbar is a member of the Institute of Chartered Accountants, Australia and the Malaysian Institute of Certified Public Accountants. His career includes a two-year stint with Bank Pertanian Malaysia in the early 70's followed by 21 years at KPMG Malaysia where he was a Senior Partner from 1995-2000.





organisation structure



management team

Dato' Abdul Manap Abd Wahab

Zafer Hashim

Abd Rasid Abd Kadir

Syed Abdull Aziz Jailani Syed Kechik

Ma'amor Che Alias

Azaddin Ngah Tasir

Zainuddin Ahmad

Helmi Izham Harunarashid

Abu Yaziz Brahim

Lukman Ismail

Mohamad Yasin Abdullah

Abdul Khalib Hj Abdul Rashid

Nik Ahmad Fauzan Nik Mohamed

Mohammad Roose Mohd Adam

Azizan Ahmad

Abdullah Sikandar Ali

Badrul Hisham Mohd Salleh

Abdul Hanif Abu Bakar

Razali Abdul Karim

Zana Rudin Ujang

Chief Executive Officer

Chief Financial Officer

Consumer Banking

Enterprise & Corporate Banking

Investment Banking

Channel Management

Human Resource Management

Treasury & Capital Markets/

Principal Officer, Labuan Offshore

Internal Audit

Information Technology

Finance

Automobile Financial Services

Corporate Planning

Muamalat Financing Centre

Credit Management

Small Medium Enterprise

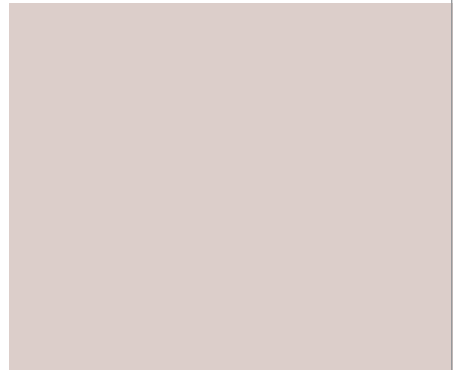
Risk Management

Corporate Communications

Consumer Sales Management

Administration & Property

shariah committee



- 1 Azizi Che Seman
- 2 Tuan Haji Md. Saleh Hj. Md @ Hj. Ahmad
- 3 Engku Ahmad Fadzil Engku Ali
- 4 Dr Mohamad Sabri Haron



statement of corporate governance

The Board of Directors of Bank Muamalat Malaysia Berhad adopts the corporate governance framework as stipulated in the Malaysian Code of Corporate Governance, as well as international best practices. Although the Bank is not a listed entity, it nonetheless is committed to ensure that the highest standards of corporate governance are observed.

An effective Board leads the Bank. The Board is responsible for the strategic direction of the Bank and the proper business conduct. It has the ultimate responsibility for all matters affecting Banking operations.

The Board comprises five members with two Independent Directors and three representing shareholders namely Bukhary Capital Sdn Bhd and Khazanah Nasional Berhad. The Board complies with the criteria of Independent Directors as provided in the Bank Negara Malaysia Garis Panduan 1 (GP 1) and BNM GP dated 2 June 2003, on Board Committees, qualification and training of Directors and responsibilities of Independent Directors.

The current Board comprises members with a mix of competence and experience. The Board reviews the financial statements of the Bank, the performance of business units, strategic and corporate issues and factors relating to potential risks in the business of the Bank.

The Board of Directors meets on a scheduled basis once every month and special Board meetings may also be convened should the need arise. Board papers are sent in advance ahead of Board meetings to facilitate focused and constructive discussions.

The Shariah Committee was established in accordance with the requirements of the Islamic Banking Act 1983 as well as the Bank's Articles of Association, which prescribe the setting up of a Shariah body to ensure that the Bank conducts its affairs in accordance with the Shariah Principles. Members of the Shariah Committee are scholars renowned for their knowledge and experience in fiqh Muamalat.

board committees

In line with good governance, four Board Committees were set up. Comprising members from the Board of Directors these Committees are the Nomination Committee, Remuneration Committee, Board Risk Management Committee and Audit Committee.

statement of corporate governance (cont'd)

With the appointment of YBhg. Dato' Abdul Manap Abd Wahab as the CEO of the Bank, with effect from 1st March 2006, the Board has agreed to dissolve the establishment of the Board Executive Committee (EXCO).

1. nomination committee

The Board Nomination Committee provides a formal and transparent procedure for the appointment of Directors and Chief Executive Officer as well as assessment of effectiveness of individual directors, the Board as a whole and the performance of Chief Executive Officer and key Senior Management officers.

The Committee's principal functions are to recommend to the Board candidates for appointment as additional directors, to fill up casual vacancies, to carry out an annual review of the non-executive directors and to perform an annual assessment of the Board as a whole.

The Committee is headed by YBhg. Datin Azizah Mohd Jaafar and the other members are Encik Ismail Ibrahim, Dr. Aziuddin Ahmad and Encik Abdul Jabbar Abdul Majid.

2. remuneration committee

The Board Remuneration Committee provides a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer and key Senior Management officers and ensures that compensation is competitive and consistent with the Islamic Bank's culture, objectives and strategy.

The Committee is authorised to recommend to the Board the remuneration of the Executive Directors and Non-Executive Directors of the Board, as well as the fees of the Board Committees.

The Committee is chaired by Encik Abdul Jabbar Abdul Majid and the other members are Encik Ismail Ibrahim and Dr. Aziuddin Ahmad.

3. board risk management committee

The Board Risk Management Committee oversees Senior Management's activities in managing credit, market, liquidity, operational, legal and other risks and ensures that the risk management process is in place and functioning.

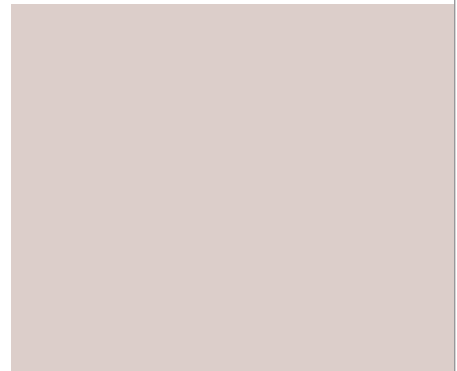
The Committee is chaired by YBhg. Datin Azizah Mohd Jaafar and the other members are Encik Abdul Jabbar Abdul Majid, Encik Ismail Ibrahim and Dr. Aziuddin Ahmad.

4. audit committee

The Audit Committee assists the Board of Directors in its monitoring responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the Bank's code of conduct.

The Committee is chaired by Encik Abdul Jabbar Abdul Majid and the other members are YBhg. Datin Azizah Mohd Jaafar and Encik Ismail Ibrahim.

audit committee



- 1 Datin Azizah Mohd Jaafar
- 2 Encik Ismail Ibrahim
- 3 Encik Abdul Jabbar Abdul Majid



membership

The Audit Committee consists of members of the Board of Directors of whom the majority shall be independent members. At least one member shall have expertise in finance or accounting. The Committee comprises the following:

Encik Ashari Ayub (Retired on 24 July 2005)

Datin Azizah Mohd Jaafar

Encik Ismail Ibrahim

Encik Abdul Jabbar Abdul Majid

authority

The Audit Committee has authority to conduct or authorise investigations into any matter within the scope of its responsibility. It is empowered to:

- Employ outside counsel, accountants or others to advise the Committee to assist in the conduct of an investigation.
- Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests or external parties.
- Meet with members of Management, external auditor or outside counsel, as necessary.

duties and responsibilities

The primary duties and responsibilities of the Committee are as follows:

- To review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements.
- To review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.

audit committee (cont'd)

- To review the Bank's internal control over annual and interim financial reporting, including information technology security and control.
- To review the internal audit function with the Management and Chief Internal Auditor.
- To review the external auditor audit scope and approach, including the coordination of audit efforts with the Internal Audit Department.
- To review the performance of the external auditor, and exercise final approval on the appointment or discharge of the auditor. On a regular basis, meet separately with the external auditor to discuss matters that the Committee or auditor believe should be discussed in the absence of Management.
- To review the effectiveness of the internal control system.
- To regularly report to the Board of Directors about Committee activities, issues and related recommendations.

In 2005, there were five (5) Audit Committee meetings and two (2) Special Audit Committee meetings. Details of attendance of the Committee members are as follows:

Encik Ashari Ayub	4/7
Encik Ismail Ibrahim	7/7
Datin Azizah Mohd Jaafar	7/7
Encik Abdul Jabbar Abdul Majid	4/7

internal audit function

The Audit Committee is supported by the Internal Audit Department. The Department forms an important part of the Management team. It will assist the Bank in its effective discharge of responsibilities by providing reasonable assurance and value-added service.

The Internal Audit Department undertakes internal audit functions based on an audit plan that is reviewed by the Audit Committee. The audit plan will take into consideration the internal controls, risk environment, strategic

direction and objectives of the operating units of the Bank. The Audit Committee of the Board deliberates on the internal audit reports prepared by the Department and Management duly acts upon audit recommendations.

The Department will further enhance its risk-based auditing techniques and benchmark it against the best practices in internal auditing for financial services entities.

statement on internal control

The Audit Committee of the Board recognises the need for, and the value of, a strong system of internal control. Internal control is a process designed to provide reasonable assurance regarding the achievement of the Bank's objectives in the following categories:

- Effectiveness and Efficiency of Operations
- Reliability of Financial Reporting
- Compliance with Applicable Laws and Regulations

As a process, internal control is a series of actions that permeate the Bank's activities and culture. It has five major components; namely,

- Control Environment;
- Risk Assessment;
- Control Activities;
- Information and Communication; and
- Monitoring



audit committee (cont'd)

Senior Management defines and communicates the internal control environment, i.e., the “tone-at-the-top,” by their commitment to competence, integrity, and ethical values. These choices pervade the structure of all Bank activities, including day-to-day policies and the attitude of employees.

Management identifies and analyses risk in association with their operational, financial reporting and compliance objectives. They develop control activities, i.e., policies and procedures, to identify risk and ensure that their reporting and compliance objectives are met. They arrange information and communication systems so that all personnel receive a clear message regarding their role in the internal control system.

The Internal Audit Department is charged with the responsibility for ascertaining that the on-going processes for controlling operations throughout the Bank are adequately designed and are functioning in an effective manner. Internal Audit Department is also responsible for reporting to Management and the Audit Committee of the Board on the adequacy and effectiveness of the Bank’s systems of internal control, together with ideas, counsel, and recommendations to improve the systems.

The Audit Committee of the Board is responsible for monitoring, overseeing, and evaluating the duties and responsibilities of Management, the Internal Audit Department, and the external auditors as those duties and responsibilities relate to the Bank’s processes for controlling its operations.

The Audit Committee of the Board is also responsible for determining that all major issues reported by the internal auditor, external auditor and other outside advisors have been satisfactorily resolved. Finally, the Committee is responsible for reporting to the full Board of Directors all-important matters pertaining to the Bank are controlling processes.

risk management

introduction

As risk-taking is an integral part of the Bank's business activities, an appropriate risk management framework has been established to balance between the level of risk and the level of return desired. In essence, the Bank's risk management effort can be described as strategies and techniques of managing risks by taking a holistic approach towards risk identification, measurement and management; integrating the control and optimisation of the principal risk areas of market risk, asset-liability management, credit risk, operational risk and shariah compliance risk; and building the requisite risk management organisation, infrastructure, process and technology with the objective of advancing the organisation towards value protection and creation.

risk management organisation structure

A stable enterprise-level organisational structure for risk management is necessary to ensure a uniform view of risk across the Bank. It is also important to have clear roles and responsibilities defined for each function.

The Board of Directors has the overall responsibility for understanding the risk undertaken by the Bank and ensuring that these risks are properly managed.

While the Board of Directors is ultimately responsible for risk management of the Bank, it has entrusted the Board Risk Management Committee (BRMC) to carry out its functions. Although the responsibilities have been delegated, the Board still remains accountable. BRMC, which is chaired by an independent director of the Board, oversees the overall management of all risks, covering Market Risk Management, Asset Liability Management, Credit Risk Management, Operational Risk Management and Shariah Compliance Risk Management.

Execution of the Board's risk strategies and policies is the responsibility of the Bank's Management and the conduct of these functions are being exercised under a committee structure, namely Executive Risk Management Committee (ERMC). The Chief Executive Officer chairs ERMC. The Committee focuses on the overall business strategies and daily business operations of the Bank in respect of risk management.

risk management (cont'd)

To carry out the day-to-day risk management function, a dedicated Risk Management Department (RMD) that is independent of profit and volume targets, supports the Committee. RMD reports functionally to the BRMC and administratively to the Chief Executive Officer.

credit risk management

Credit risk is defined as risk due to uncertainty in customers' or counterpartys' ability to meet their obligations or failure to perform according to the terms and conditions of the credit-related contract.

The primary objective of Credit Risk Management is to maximise the Bank's returns by maintaining credit risk exposure within acceptable parameters. In addition, it is the Bank's objective to ensure that exposure to credit risk is always kept within its capability and financial capacity to withstand potential future losses. Credit Risk Management encompasses all credit areas including business financing, consumer financing, investments and capital market.

The Bank has established an appropriate Credit Risk Management process and environment that covers the measurement and management of risk which includes the delegation structure in respect of credit approvals, well-defined credit granting processes, effective monitoring including problem credit, credit review mechanism, counterparty exposure limit structure, product/activities assessment and portfolio management.

market risk management

Market Risk is defined as potential loss arising from adverse movements in market variables such as rate of return, foreign exchange rate, equity price and commodity price.

The main objectives of Market Risk Management are to ensure the implementation of an effective Market Risk Management in the Bank; assume an appropriate balance between the level of risk and the level of return desired in order to maximise the return to shareholder's funds; and ensure prudent management of the Bank's resources to support the growth of the Bank's economic value.

The essential elements of the Bank's Market Risk Management process includes, classification of trading and banking book, limit structure, approving authority, risk measurement and valuation, allocation of capital and internal controls.

asset liability management

Asset Liability Management (ALM) refers to the coordinated management of the Bank's balance sheet, which includes assets, liabilities and capital. The main focus of ALM is on the Bank's overall performance that can be measured in terms of net income.

The primary objective of ALM is to proactively manage the Bank's balance sheet in order to maximise earnings and attain its strategic goal, within the overall risk and return preference.

The Bank's ALM process requires, on an on-going basis, continuous assessment on the rates and terms of assets and liabilities. Adjustment to the balance sheet structure would be made to ensure that an adequate margin is available to maintain a sound capital base. Funding of assets with liabilities, to the extent possible, is based on matching principle in which maturity and repricing period of assets correlate to those of the underlying funding sources. In addition, pricing considerations are used to stimulate demand for products and services and to manage the net income margin.

Liquidity Risk Management is also part of the Bank's ALM process. In order to ensure the availability of sufficient liquidity to honour all financial obligations and meet any stressful events, the Bank will manage its liquidity under both normal and crisis conditions.

operational risk management

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This definition includes legal risk, which is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlement.

risk management (cont'd)

The objective of Operational Risk Management is to ensure that appropriate actions are taken to identify and effectively manage the operational risk. The operational risk management safeguards the interests and meets the expectations of the Bank's shareholders by safeguarding valuable resources and assets; maintaining integrity and confidence of the Bank's stakeholders, business community and public at large; meeting regulatory requirements for operational risk, minimising unexpected consequences on earnings and return to shareholders; and enhancing strategic competitiveness and operational efficiency.

In order to address the nature and complexity of the Bank's activities, an operational risk management process has been established that addresses the aspects of risk identification, assessment and evaluation, mitigation and control, monitoring and reporting, awareness and communication and risk management assurance.

shariah compliance risk management

Shariah compliance risk is the risk that arises from the Bank's failure to comply with the Shariah rules and principles embodied in the Qu'ran and Sunnah and determined by the Shariah Committee members through their exercise of Ijtihad.

The objectives of Shariah Compliance Risk Management are to ensure the overall banking activities and operations are in line with the Shariah tenets; ensure the income received by the Bank is free from Syubhat elements; protect the image of the bank as an Islamic Institution; and ensure that the bank's personnel manifest and perform the recommended behaviours and ethics as advocated by Shariah.

The Bank is in the process of developing its Shariah compliance risk management process which in-line with the Islamic Financial Services Board risk management standards.

financial statements

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directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Bank for the financial year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and related financial services.

The principal activity of the Bank's subsidiaries are as disclosed in Note 12 to the financial statements.

There have been no significant changes in these activities during the financial year.

RESULTS

	RM'000
Net profit for the year	32,328

In the opinion of the directors, the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except for the payment of RM34.0 million for the voluntary separation scheme costs.

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

DIVIDEND

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

DIRECTORS

The names of the directors of the Bank in office since the date of the last report and at the date of this report are:

Dato' Ismail Shahudin

Ismail Ibrahim

Datin Azizah Mohd. Jaafar

Dr. Aziuddin Ahmad

Abdul Jabbar Abdul Majid

Dato' Othman Abdullah (retired on 22 January 2006)

Ashari Ayub (retired on 24 July 2005)

Datuk Mohd Khamil Jamil (resigned on 20 July 2005)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive benefits (other than directors' remuneration as disclosed 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 of which the director is a member, or with a company in which the director has a substantial financial interest.

DIRECTORS' INTEREST

None of the directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act, 1965, an interest in shares of the Bank or its related corporations.

ISSUE OF SHARES

There were no changes in the issued and paid-up capital of the Bank during the financial year.



directors' report

OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Bank were made out, the directors took reasonable steps:
 - (i) to ascertain that proper actions had been taken in relation to the writing off of bad financing and the making of provisions for doubtful financing and have satisfied themselves that all known bad financing had been written off and that adequate provisions had been made for bad and doubtful financing; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) the amount written off for bad financing, or the amount of the provision for bad and doubtful financing in the financial statements of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuations of assets or liabilities of the Bank misleading or inappropriate.
- (d) 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 which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Bank which has arisen since the end of the financial year.

OTHER STATUTORY INFORMATION (CONT'D.)

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

BUSINESS REVIEW 2005

The record performance of Bank Muamalat in 2005 reflected the enhanced delivery from its streamlined operations, reversing the RM28.7 million net losses made in 2004 to realise a net profit of RM32.3 million in the year under review, its highest level since inauguration in 1999. The net profit was after taking into account the voluntary separation scheme costs of RM34.0 million, which are non-recurring.

The enhanced focus to develop and strengthen relationships with consumers, enterprises, institutions and governments and simultaneously, the streamlined banking operations of consumer, enterprise and investment as well as treasury and capital market services characterised the turnaround achieved in 2005.

The performance in 2005 were also underpinned by improved asset quality, of which the net non-performing ratio vis-à-vis total net financing strengthened to 4.2 percent in 2005 compared to 4.9 percent as at the end of 2004 and the banking system average of 4.6 percent.

The turnaround was broadly realised against the backdrop of moderating economic momentum. While the general economy had remained steady, the pace of growth, as measured by the Gross Domestic Product (GDP), had eased in 2005 at an estimated 5.3 percent compared to the 7.1 percent growth recorded in the preceding year.



directors' report

BUSINESS REVIEW 2005 (CONT'D.)

The year under review was also mired in an environment of rising costs, triggered by the spiralling prices of primary commodities, in particular, the price of crude oil that soared to historical highs in 2005. Consequently, inflation indicator, as measured by the Consumer Price Index (CPI), edged higher as the rising prices of petroleum-based products found its way to the core consumer prices. The increase in CPI averaged an estimated 3.0 percent in 2005 as compared to 1.4 percent in the preceding year.

Similarly, the cost of funds was higher in 2005 with the benchmark Overnight Policy Rate (OPR) increasing 30 basis points to end the year at 3.0 percent, of which the rate hike in November 2005 was its first since the implementation of the new interest rate framework introduced in April 2004. Still, the financial system continued to thrive during the period under review with financing growth sustained at robust levels, increasing to RM553 billion as at November 2005, reflecting a 9.0 percent growth from a year ago. Total financing grew 8.5 percent in 2004.

PROSPECTS FOR 2006

Economic environment characterised by the broadening world growth portends positively for prospects in 2006. Global output is envisaged to sustain its steady pace in 2006, projected to expand by 4.3 percent for the year 2006, ahead of the 3.9 percent average growth realised in the preceding 10 years.

The catalyst looking ahead is global trade with indicators such as the demand for electronic components and from the industrialised economies pointing to strengthening momentum. The trend augurs well for trading economies such as Malaysia where the quantum of total trade accounted for some two-fold the size of its GDP. The nation's total trade reached record levels in 2005, estimated at about one trillion ringgit, increasing almost 12.0 percent from a year ago.

Prospects ahead, however, are not without challenges. Leading concern is the level of prices, chiefly attributed to the high energy cost. Crude oil prices spiralled for most of 2005 and while it has softened from the record highs reached in the third quarter of 2005 prices have broadly remained at exorbitant levels. Essentially, consumer inflation, as gauged by CPI, is expected to remain little change in the immediate term although projected annual rise of about three percent for 2006.

BUSINESS PLAN 2006

The enhanced macro environment and the strengthened foundation of the Bank augurs positively for prospects in 2006, providing platform for further advancement in the increasingly competitive financial industry. The Bank is strategically positioned, in an environment of a broadening economy that demands greater financial products and services, especially for competitive Shariah compliant financial products and services.

The forthcoming period is expected to see the Bank build on the progress realised in streamlining its core operations, towards greater focus and synergy via cross selling of its products and services, across its multiple business channel to serve the growing reach of its customers, from consumer to retail and commercial, including the rapidly growing Small Medium Enterprises as well as the corporate and capital markets.

The prospects for greater growth will also underpin the Bank's commitment to quality and productivity, of which the Bank will continue to garner growth while sustaining improvement in efficiency and high asset quality. Broadly, the Bank expects to build on the momentum realised in the preceding period and sustain such performance in the forthcoming financial year.

RATING BY EXTERNAL RATING AGENCIES

No rating has been conducted by external agencies on the Bank.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation by the Shariah Committee consisting of 4 members appointed by the Board for a 2-year term. The role and authority of the Shariah Committee are as follows:

- (a) To advise the Bank in ensuring that all aspects of the operations are in accordance with Shariah principles;
- (b) To review the compatibility of new Islamic financial products proposed by the Bank; and
- (c) To give views and decisions on the issues of banking operations pertaining to Shariah matters.



directors' report

ZAKAT OBLIGATIONS

The Bank pays zakat only on its business. The Bank does not pay zakat on behalf of the shareholders or depositors.

AUDITORS

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

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

Dato' Ismail Shahudin

Ismail Ibrahim

Kuala Lumpur, Malaysia
28 February 2006

statement by directors pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Ismail Shahudin and Ismail Ibrahim, being two of the directors of Bank Muamalat Malaysia Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 44 to 104 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965, so as to give a true and fair view of the financial position of the Bank as at 31 December 2005 and of the results and cash flows of the Bank for the year then ended.

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

Dato' Ismail Shahudin

Ismail Ibrahim

Kuala Lumpur, Malaysia
28 February 2006

statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, Mohd Zafer Mohd Hashim, being the officer primarily responsible for the financial management of Bank Muamalat Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 44 to 104 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 Mohd Zafer Mohd Hashim
at Kuala Lumpur in Federal Territory
on 28 February 2006.

Mohd Zafer Mohd Hashim

Before me,

Commissioner for Oaths
Kuala Lumpur, Malaysia



report of the Shariah Committee

We, the Shariah Committee of Bank Muamalat Malaysia Berhad, do hereby confirm that in our opinion, the operations of the Bank for the year ended 31 December 2005 have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee,

Azizi Che Seman

Kuala Lumpur, Malaysia
28 February 2006

Mohamad Sabri Haron

report of the auditors to the members of Bank Muamalat Malaysia Berhad (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 44 to 104. These financial statements are the responsibility of the Bank's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Bank as at 31 December 2005 and of the results and the cash flows of the Bank for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Bank; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Nik Rahmat Kamarulzaman bin Nik Ab. Rahman
No. 1759/02/08(J)
Partner

Kuala Lumpur, Malaysia
28 February 2006



balance sheet as at 31 December 2005 (29 Zulkaedah 1426)

		2005	2004
	Note	RM'000	RM'000
ASSETS			
Cash and short-term funds	4	3,638,392	3,214,535
Deposits and placements with banks and other financial institutions	5	31,000	8
Securities:			
– Held-to-maturity	6(a)	33,114	33,114
– Available-for-sale	6(b)	2,253,569	1,832,429
Financing of customers	7	3,962,527	2,703,321
Statutory deposits with Bank Negara Malaysia	9	242,995	162,427
Other assets	10	36,987	57,783
Property, plant and equipment	11	50,202	55,016
Investment in subsidiaries	12	5	5
Deferred tax assets (net)	13	20,856	12,193
Total assets		10,269,647	8,070,831
LIABILITIES			
Deposits from customers	15	9,373,971	7,455,010
Deposits and placements of banks and other financial institutions	16	232,362	4,021
Bills and acceptances payable		65,043	40,413
Other liabilities	17	68,782	63,714
Provision for zakat and taxation	19	5,806	109
Total liabilities		9,745,964	7,563,267

		2005	2004
	Note	RM'000	RM'000
SHAREHOLDERS' EQUITY			
Share capital	20	397,275	397,275
Reserves	21	126,408	110,289
Total shareholders' equity		523,683	507,564
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,269,647	8,070,831
COMMITMENTS AND CONTINGENCIES			
	34	2,834,722	2,115,882
CAPITAL ADEQUACY*			
	38		
Core capital ratio		9.7%	13.4%
Risk-weighted capital ratio		11.1%	14.6%
Core capital ratio net of proposed dividends		9.7%	13.4%
Risk-weighted capital ratio net of proposed dividends		11.1%	14.6%

* The capital adequacy ratios are computed after taking into account the credit and market risks.

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



income statement for the year ended 31 December 2005 (29 Zulkaedah 1426)

		2005	2004
	Note	RM'000	RM'000
Income derived from investment of depositors' funds and others	22	345,830	306,523
Income derived from investment of shareholders' funds	23	126,039	48,179
Allowance for losses on financing	24	(67,893)	(76,601)
Provision for commitments and contingencies		(2,809)	-
Impairment loss	25	(10,000)	-
Profit equalisation reserve	18	3,756	-
Other expenses directly attributable to the investment of the depositors and shareholders' funds		(8,953)	(2,884)
Total distributable income		385,970	275,217
Income attributable to depositors	26	(151,077)	(154,780)
Total net income		234,893	120,437
Personnel expenses	27	(80,668)	(67,429)
Other overheads and expenditures	29	(78,995)	(79,827)
Profit/(loss) before voluntary separation scheme costs		75,230	(26,819)
Voluntary separation scheme costs		(33,979)	-
Profit/(loss) before zakat and taxation		41,251	(26,819)
Zakat	30	(200)	-
Taxation	31	(8,723)	(1,901)
Net profit/(loss) for the financial year		32,328	(28,720)
Earnings/(loss) per share (sen):			
Basic	32(a)	14.3	(12.7)
Diluted	32(b)	8.1	N/A

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

statement of changes in equity for the year ended 31 December 2005 (29 Zulkaedah 1426)

	Ordinary share capital RM'000	Musharakah irredeemable non- cumulative preference shares RM'000	Non-distributable		Distributable retained profits RM'000	Total RM'000
			Statutory reserve RM'000	Net unrealised gains/ (losses) on available- for-sale securities RM'000		
At 1 January 2004	225,846	–	62,855	–	64,319	353,020
Prior year adjustments (Note 42)	–	–	–	(18,188)	–	(18,188)
At 1 January 2004 (restated)	225,846	–	62,855	(18,188)	64,319	334,832
Issue of preference shares for cash	–	171,429	–	–	–	171,429
Net gains and losses not recognised in the income statement	–	–	–	30,023	–	30,023
Net loss for the year	–	–	–	–	(28,720)	(28,720)
At 31 December 2004	225,846	171,429	62,855	11,835	35,599	507,564
At 1 January 2005	225,846	171,429	62,855	–	38,017	498,147
Prior year adjustments (Note 42)	–	–	–	11,835	(2,418)	9,417
At 1 January 2005 (restated)	225,846	171,429	62,855	11,835	35,599	507,564
Net gains and losses not recognised in the income statement	–	–	–	(16,209)	–	(16,209)
Net profit for the year	–	–	–	–	32,328	32,328
Transfer to statutory reserve	–	–	16,164	–	(16,164)	–
At 31 December 2005	225,846	171,429	79,019	(4,374)	51,763	523,683

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



cash flow statement for the year ended 31 December 2005 (29 Zulkaedah 1426)

	2005	2004
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Income from financing	201,954	163,814
Income/profit paid to depositors	(150,078)	(145,541)
Operating fees and commission receipts	24,767	22,986
Guarantee fees receipts	4,879	5,145
Service charges receipts	2,411	2,237
Recoveries of non-performing financing	22,809	23,623
Cash payments to employees and others	(270,512)	(156,605)
Cash flow from operating profit before changes in operating assets and liabilities	(163,770)	(84,341)
(Increase)/Decrease in Operating Assets		
Financing, advances and other loans	(1,246,268)	(588,701)
Other assets	10,570	13,003
Statutory deposits with Bank Negara Malaysia	(80,568)	42,700
Increase/(Decrease) in Operating Liabilities		
Deposits from customers	1,918,961	612,497
Deposits and placements of banks and other financial institutions	228,341	–
Retirement benefit obligations	–	(16,275)
Bills and acceptances payable	24,630	(18,712)
Other payables	6,742	23,235
Net cash from operating activities before zakat and taxation	698,638	(16,594)
Zakat paid	–	(410)
Taxes paid (net)	(1,352)	(6,160)
Net cash generated/(used in) from operating activities	697,286	(23,164)

	2005	2004
	RM'000	RM'000
CASH FLOW FROM INVESTING ACTIVITIES		
Dividend from available-for-sale securities	100,838	82,244
Proceeds from disposal of available-for-sale securities	1,817,429	5,535,628
Purchase of available-for-sale securities	(2,171,583)	(4,612,425)
Proceeds from disposal of property, plant and equipment	91	27
Purchase of property, plant and equipment	10,788	(13,609)
Net cash (used in)/generated from investing activities	(242,437)	991,865
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of preferences shares	-	171,429
NET INCREASE IN CASH AND CASH EQUIVALENTS	454,849	1,140,130
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,214,543	2,074,413
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3,669,392	3,214,543
Cash and cash equivalents comprise:		
Cash and short-term funds	3,638,392	3,214,535
Deposits and placements with financial institutions	31,000	8
	3,669,392	3,214,543

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



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

1. CORPORATE INFORMATION

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related services in accordance with Shariah principles.

There have been no significant changes in the nature of these activities during the financial year.

The principal activities of the subsidiaries are as disclosed in Note 12 to the financial statements.

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 28th Floor, Menara Bumiputra, Jalan Melaka, 50100, Kuala Lumpur.

The holding company and ultimate holding company of the Bank are Bukhary Capital Sdn. Bhd. and Albukhary Corporation Sdn. Bhd. respectively. Both are private limited liability companies incorporated in Malaysia. The registered office of the holding company is located at Level 16, Menara Tun Razak, Jalan Raja Laut, 50350, Kuala Lumpur.

The total number of branches are 42 at 31 December 2005 (31 December 2004: 41) while the total number of employees are 1,145 (31 December 2004: 1,241).

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 February 2006.

2. BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with the provision of the Companies Act, 1965, Bank Negara Malaysia (BNM) Guidelines, applicable MASB Approved Accounting Standards and Shariah requirements.

2. BASIS OF PREPARATION (CONT'D.)

During the financial year ended 31 December 2005, the Bank has adopted the revised Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i) issued by BNM in June 2005 for the first time.

The adoption of GP8-i has given rise to adjustments to the opening balances of reserves of the prior and current year and comparatives have been restated, as disclosed in Note 42 to conform to the changes required by the GP8-i.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Bank are prepared under the historical cost convention, unless otherwise indicated in the respective accounting policies.

(b) Financing of Customers

Financing are stated after deducting the allowance for possible losses.

(c) Allowances for Impaired Financing

Specific allowances are made for impaired financing, which have been individually reviewed and specifically identified as substandard, doubtful or bad.

A general allowance based on a percentage of the financing portfolio is also made. These percentages are reviewed annually in light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowances, if necessary. In addition, additional general provision is also made for certain high risk accounts.

Any 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 the directors, there is no prospect of recovery.

Specific allowance provided for impaired financing had been made in full compliance with the BNM/GP3. Additional allowances for impaired financing are provided when the recoverable amount is lower than the net book value of financing (outstanding amount of financing, net of specific allowances). Any allowance made during the year is charged to the income statement.



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(d) Securities

The holding of securities of the Bank are segregated based on the 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 will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement.

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

(e) Investment in Subsidiaries

Investment in subsidiaries is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(p).

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

As permitted by paragraph 5(4)(b)(l) of the Ninth Schedule of the Companies Act, 1965, the financial statements of the subsidiaries are not consolidated as the directors are of the opinion that it would be of no real value to members of the Bank, in view of the insignificant amounts involved.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3(p). Freehold land and renovation work in progress is not depreciated. Depreciation of other assets is calculated to write off the cost on a straight line basis over the estimated useful lives of the assets concerned.

The principal annual rates of depreciation are:

Buildings	3%
Long term leasehold land	3%
Office furniture and equipment	15%
Building improvements and renovations	20%
Motor vehicles	20%
Computer equipment	20% – 33.3%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(g) Foreign Currency

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the date of transaction or at contracted rates where applicable. Foreign currency monetary assets and liabilities at the balance sheet date are stated at the rate of exchange ruling at the balance sheet date. Gains or losses arising from foreign currency transactions are only recognised when realised to comply with the principles of Shariah.

The principal closing rates used at the end of the year are:

	2005	2004
	RM	RM
US Dollar (USD)	3.78	3.80
Great Britain Pound (GBP)	6.52	7.33
Euro Dollar (Euro)	4.47	5.18
Japanese Yen (JPY1000)	32.39	37.08
Singapore Dollar (SGD)	2.29	2.33
Australian Dollar (AUD)	2.77	2.96



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(h) Bills and Acceptances Payable

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

(i) 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.

(ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(j) Income Recognition

Income is recognised on an accrual basis.

Income from financing of customers are recognised based on the constant rate of return method. Income includes the amortisation of premium and accretion of discount. Income from securities are recognised on an effective yield basis.

Where a customer's financing account is classified as non-performing, income is suspended until it is realised on a cash basis. Financing income recognised prior to the non-performing classification is treated as uncollectible, thus an additional amount of specific provision is made. Customers' accounts are classified as non-performing where repayments are in arrears for more than six months from the first day of default for financing; and three months from the first day of default for trade bills, bankers acceptances, trust receipts and other instruments of similar nature.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Fee and Other Income Recognition

Financing arrangement, management and participation fees, underwriting commissions and brokerage fees are recognised as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Dividend income from dealing and investment securities are recognised when the Bank's right to receive payment is established.

(l) Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(m) 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 the shareholders' funds growth method.

(n) Profit Equalisation Reserve ("PER")

PER refers to the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors in conformity with Bank Negara Malaysia's "The Framework of the Rate of Return". PER is reflected under other liabilities of the Bank.

(o) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances and short-term funds and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(p) Impairment of Assets

At each balance sheet date, the Bank reviews the carrying amounts of its assets, other than deferred tax assets and financial assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(q) Financial Instruments

Financial instruments are recognised in the balance sheet when the Bank has become a party to the contractual provisions of the instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(q) Financial Instruments (Cont'd.)

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

4. CASH AND SHORT-TERM FUNDS

	2005	2004
	RM'000	RM'000
Cash and balances with banks and other financial institutions	60,392	43,332
Interbank placements with remaining maturity not exceeding one month	3,578,000	3,171,203
	3,638,392	3,214,535

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005	2004
	RM'000	RM'000
Licensed banks	–	8
Bank Negara Malaysia	31,000	–
	31,000	8



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

6. SECURITIES

	2005	2004
	RM'000	RM'000
(a) Held-to-maturity		
At amortised cost		
Corporate bonds	34,672	34,672
Accumulated impairment loss	(1,558)	(1,558)
Total held-to-maturity securities	33,114	33,114
(b) Available-for-sale		
At fair value		
Quoted securities:		
Malaysian government investment certificate	399,631	629,110
Cagamas bonds	124,496	90,019
Khazanah bonds	332,417	291,056
Islamic private debt securities	1,168,632	391,956
Sukuk	132,264	83,600
Negotiable instrument of deposit certificate	91,974	337,665
Malaysian Islamic treasury bill	–	4,868
	2,249,414	1,828,274
Unquoted securities:		
Shares	4,155	4,155
Total available-for-sale securities	2,253,569	1,832,429

7. FINANCING OF CUSTOMERS

(i) By type

	2005	2004
	RM'000	RM'000
Cash line	332,886	193,528
Term financing:		
House financing	2,591,178	1,868,709
Syndicated financing	60,038	137,652
Hire purchase receivables	875,384	148,503
Leasing receivables	95,371	35,708
Other term financing	1,171,493	1,086,998
Trust receipts	96,404	61,468
Claims on customers under acceptance credits	421,629	381,013
Staff financing	104,157	109,430
Revolving credit	399,304	274,509
Others	-	9,131
	6,147,844	4,306,649
Less: Unearned income	(1,956,822)	(1,379,761)
	4,191,022	2,926,888
Less: Financing sold to Cagamas	(37,001)	(39,473)
	4,154,021	2,887,415
Less: Allowance for bad and doubtful financing:		
– General	(75,948)	(44,598)
– Specific	(115,546)	(139,496)
Total net financing	3,962,527	2,703,321



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

7. FINANCING OF CUSTOMERS (CONT'D.)

(ii) By contract

	2005	2004
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	1,691,088	1,349,372
Ijarah (lease)	65,400	35,709
Ijarah Thumma Al-Bai (lease ended with ownership)	706,269	119,726
Inah (sale and buyback)	621,209	423,462
Murabahah (cost-plus)	905,345	693,745
Musharakah (profit and loss sharing)	156	318
Mudharabah (profit sharing)	1,223	1,537
Istisna' (sale order)	156,242	259,032
Qard Hasan (benevolent loan)	7,089	4,514
	4,154,021	2,887,415

(iii) By type of customer

Domestic non-banking institution	50,721	36,624
Domestic business enterprise		
– Small business enterprise	748,468	557,929
– Others	917,084	804,196
Government and statutory bodies	59,210	83,816
Individuals	2,353,284	1,380,911
Other domestic entities	4,290	4,581
Foreign entities	20,964	19,358
	4,154,021	2,887,415

7. FINANCING OF CUSTOMERS (CONT'D.)

(iv) By profit rate sensitivity

	2005	2004
	RM'000	RM'000
Fixed rate:		
– House financing	1,132,164	954,482
– Hire purchase receivables	706,269	147,945
– Others	2,210,818	1,784,988
Variable rate:		
– House financing	104,770	–
	4,154,021	2,887,415

(v) By sector

Agriculture	39,808	39,739
Manufacturing	697,544	513,347
Electricity, gas and water	79,677	6,001
Construction	533,616	510,755
Purchase of landed property of which are:		
– Residential	1,279,587	938,126
– Non-residential	206,906	193,161
General commerce	101,609	112,561
Transport, storage and communication	62,699	63,453
Finance, insurance and business service	98,835	74,254
Purchase of securities	32,332	39,496
Purchase of transport vehicles	706,155	128,261
Consumption credit	267,952	255,571
Others	47,301	12,690
	4,154,021	2,887,415



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

8. NON-PERFORMING FINANCING

(i) Movements in the non-performing financing

	2005	2004
	RM'000	RM'000
As at 1 January	272,672	237,972
Classified as non-performing during the year	180,009	170,893
Reclassified as performing during the year	(78,725)	(75,349)
Recovered during the year	(37,514)	(34,353)
Written off during the year	(54,970)	(26,491)
As at 31 December	281,472	272,672
Less: Specific allowance	(115,546)	(139,496)
Net non-performing financing	165,926	133,176
Ratio of net non-performing financing to total net financing	4.2%	4.9%

(ii) Movements in the allowance for bad and doubtful financing

General allowance

As at 1 January	44,598	35,542
Allowance made during the year	31,350	9,056
As at 31 December	75,948	44,598
As % of gross financing less specific allowance	1.9%	1.6%

8. NON-PERFORMING FINANCING (CONT'D.)

(ii) Movements in the allowance for bad and doubtful financing (Cont'd.)

	2005	2004
	RM'000	RM'000
Specific allowance		
As at 1 January	139,496	96,018
Allowance made during the year	58,671	90,816
Amount written back in respect of recoveries	(21,298)	(22,579)
Amount written off	(54,970)	(26,491)
Transfer to provision for commitments and contingencies	(6,353)	–
Other adjustments	–	1,732
As at 31 December	115,546	139,496

(iii) Non-performing financing by sector

Agriculture	111	941
Manufacturing	17,134	18,100
Electricity, gas and water	787	55
Construction	35,242	52,383
Purchase of landed property of which are:		
– Residential	129,630	99,492
– Non-residential	44,499	36,614
General commerce	7,749	23,616
Transport, storage and communication	621	345
Finance, insurance and business service	11,407	11,261
Purchase of securities	20,773	26,288
Purchase of transport vehicles	4,132	1,467
Consumption credit	9,387	2,110
	281,472	272,672



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined at set percentages of total eligible liabilities.

10. OTHER ASSETS

	2005	2004
	RM'000	RM'000
Deposits	1,935	1,833
Prepayments	3,084	3,181
Income receivable	21,403	7,072
Tax recoverable	–	10,226
Amount due from Bumiputera-Commerce Bank Berhad	–	24,627
Other debtors	13,884	13,391
	40,306	60,330
Provision for doubtful debts	(3,319)	(2,547)
	36,987	57,783

11. PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land	Freehold land and building	Office building and long term leasehold land	Furniture, fixtures, fitting, motor vehicle and equipment	Renovation work in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At January 2005	303	3,163	14,092	95,092	3,379	116,029
Additions	–	–	–	6,795	3,993	10,788
Disposals	–	–	–	(166)	–	(166)
Reclassification	–	–	–	5,571	(5,571)	–
At 31 December 2005	303	3,163	14,092	107,292	1,801	126,651
Accumulated Depreciation						
At January 2005	21	415	1,852	58,725	–	61,013
Charge for the year	5	79	352	15,154	–	15,590
Disposals	–	–	–	(154)	–	(154)
At 31 December 2005	26	494	2,204	73,725	–	76,449
Net Book Value						
At 31 December 2005	277	2,669	11,888	33,567	1,801	50,202
At 31 December 2004	282	2,748	12,240	36,367	3,379	55,016
Details at 1 January 2004						
Cost	303	3,163	14,092	81,803	3,345	102,706
Accumulated depreciation	17	336	1,499	41,154	–	43,006
Depreciation charge for 2004	4	79	353	17,783	–	18,219



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

12. INVESTMENT IN SUBSIDIARIES

	2005	2004
	RM'000	RM'000
Unquoted shares at cost – in Malaysia	5	5

Details of the subsidiaries of the Bank are as follows:

Name	Principal activity	Place of incorporation	Effective equity interest		Financial year end
			2005	2004	
Muamalat Nominees (Tempatan) Sdn. Bhd.	Dormant	Malaysia	100%	100%	31 December
Muamalat Nominees (Asing) Sdn. Bhd.	Dormant	Malaysia	100%	100%	31 December

13. DEFERRED TAX ASSETS (NET)

	2005	2004
	RM'000	RM'000
At 1 January	12,193	13,570
Recognised in the income statement	8,663	(1,377)
At 31 December	20,856	12,193

13. DEFERRED TAX ASSETS (NET) (CONT'D.)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2005	2004
	RM'000	RM'000
Deferred tax assets	25,327	18,915
Deferred tax liabilities	(4,471)	(6,722)
	20,856	12,193

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred Tax Assets of the Bank:

	General allowance for bad and doubtful financing	Tax losses and unabsorbed capital allowances	Provision for liabilities	Provision for retirement benefits	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2005	12,488	3,161	1,052	4,557	75	21,333
Prior year adjustment	-	-	-	(2,418)	-	(2,418)
As restated	12,488	3,161	1,052	2,139	75	18,915
Recognised in the income statement	8,778	(3,161)	3,009	(2,139)	(75)	6,412
At 31 December 2005	21,266	-	4,061	-	-	25,327



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

13. DEFERRED TAX ASSETS (NET) (CONT'D.)

Deferred Tax Liabilities of the Bank:

	Property, plant and equipment	Provision for diminution in value of securities	Total
	RM'000	RM'000	RM'000
At 1 January 2005	(5,830)	(892)	(6,722)
Recognised in the income statement	1,359	892	2,251
At 31 December 2005	(4,471)	–	(4,471)

14. RETIREMENT BENEFIT OBLIGATIONS

In prior years, the Bank contributes to a funded, defined benefit Retirement Benefit Scheme (“the Scheme”) for its eligible employees. Contributions to the Scheme were made to a separately administered fund. Under the Scheme, eligible employees were entitled to retirement benefits calculated by the Bank on attainment of the retirement age of 55 (female) and 60 (male). On 1 December 2003, the Bank entered into an agreement with its staff union to replace the Scheme with additional contributions to Employees Provident Fund (EPF). In connection therewith, the Bank agreed to pay vested gratuity benefits entitled to the employees to EPF valued at RM28.6 million based on actuarial valuation as at 31 December 2003. The balance of the amount payable to EPF of RM16.3 million was paid on 31 December 2004.

During the year, the Bank paid an additional amount of RM0.6 million to EPF being the dividend portion attributable on the amount transferred.

14. RETIREMENT BENEFIT OBLIGATIONS (CONT'D.)

Movements in the net liability during the year are as follows:

	2005	2004
	RM'000	RM'000
At 1 January	–	16,275
Amounts recognised in the income statement	629	–
Amounts paid to EPF	(629)	(16,275)
At 31 December	–	–

15. DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	2005	2004
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits	2,070,895	1,636,559
Savings deposits	468,130	450,616
Negotiable Islamic debt certificate	1,655,673	–
Others	32,939	41,004
	4,227,637	2,128,179
Mudharabah Fund		
General investment deposits	4,568,636	4,332,614
Special general investment deposits	577,698	994,217
	5,146,334	5,326,831
Total deposits	9,373,971	7,455,010



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

15. DEPOSITS FROM CUSTOMERS (CONT'D.)

(ii) By type of customer

	2005	2004
	RM'000	RM'000
Government and statutory bodies	2,424,462	2,577,555
Business enterprises	5,133,138	3,020,004
Individuals	822,511	753,292
Others	993,860	1,104,159
	9,373,971	7,455,010

16. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005	2004
	RM'000	RM'000
Mudharabah		
Licensed banks	18,900	–
Licensed Islamic banks	209,996	–
	228,896	–
Non-Mudharabah		
Bank Negara Malaysia	3,466	4,021
	232,362	4,021

17. OTHER LIABILITIES

	2005	2004
	RM'000	RM'000
Sundry creditors	7,852	4,388
Income payable to depositors	27,319	29,430
Profit equalisation reserve [Note 18]	–	3,756
Provision for commitments and contingencies [Note 17(a)]	9,162	–
Inter branch balances	6,683	14,017
Provision for bonus	11,570	–
Other payables	6,196	12,123
	68,782	63,714

(a) Movement in provision for commitments and contingencies

	2005	2004
	RM'000	RM'000
At 1 January	–	–
Provision made during the year	2,809	–
Transfer from specific allowance for bad and doubtful financing	6,353	–
At 31 December	9,162	–

The provision relates to bank guarantees issued by the Bank that have a high likelihood to result in claims from the beneficiaries.



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

18. PROFIT EQUALISATION RESERVE

	2005	2004
	RM'000	RM'000
At 1 January	3,756	3,756
Written back during the financial year	(3,756)	–
At 31 December [^]	–	3,756

[^] Profit equalisation reserve at the end of the financial year of which the shareholders' portion is RM Nil (2004: RM1,127,000).

19. PROVISION FOR ZAKAT AND TAXATION

	2005	2004
	RM'000	RM'000
Zakat	309	109
Taxation	5,497	–
	5,806	109

20. SHARE CAPITAL

	Number of shares of RM1 each		Amount	
	2005 '000	2004 '000	2005 RM'000	2004 RM'000
(a) Authorised				
Ordinary shares of RM1 each				
At 1 January	3,000,000	4,000,000	3,000,000	4,000,000
Converted during the year	–	(1,000,000)	–	(1,000,000)
At 31 December	3,000,000	3,000,000	3,000,000	3,000,000
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares of RM1 each				
At 1 January	1,000,000	–	1,000,000	–
Created during the year	–	1,000,000	–	1,000,000
At 31 December	1,000,000	1,000,000	1,000,000	1,000,000
Total	4,000,000	4,000,000	4,000,000	4,000,000
(b) Issued and fully paid				
Ordinary shares of RM1 each				
At 1 January/31 December	225,846	225,846	225,846	225,846
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares of RM1 each				
At 1 January	171,429	–	171,429	–
Issued for cash during the year	–	171,429	–	171,429
At 31 December	171,429	171,429	171,429	171,429
Total	397,275	397,275	397,275	397,275



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20. SHARE CAPITAL (CONT'D.)

On 31 December 2004, the Bank issued 171,429,000 of Musharakah Irredeemable Non-Cumulative Convertible Preference Shares (“MINCCPS”) at a nominal amount of RM1 each for additional working capital purposes. The terms of the MINCCPS are as follows:

- (a) The dividend rate for the MINCCPS will be decided by the Board of Directors upon management's recommendation based on the preceding year's profit after tax after the annual results have been presented.
- (b) The MINCCPS holders have the same rights as ordinary shareholders with regards to receiving notices, reports and audited financial statements and attending general meetings of the Bank. The MINCCPS holders however is not entitled to vote except in the following circumstances:
 - (i) on a proposal to reduce the Bank's share capital;
 - (ii) on a proposal for the disposal of the whole of the Bank's property, business and undertaking;
 - (iii) on a proposal that affects rights attached to the MINCCPS;
 - (iv) on a proposal to wind up the Bank; and
 - (v) during the winding up of the Bank.
- (c) The MINCCPS have a three year maturity date and is convertible into ordinary shares of the Bank at the conversion ratio of 1:1 without premium.
- (d) The MINCCPS are transferable and assignable subject to the regulatory and the Board of Directors' approvals.

21. RESERVES

Details of the reserves of the Bank are as follows:

	2005	2004
	RM'000	RM'000
Statutory reserve	79,019	62,855
Retained profit	51,763	35,599
Net unrealised (losses)/gains on available-for-sale securities	(4,374)	11,835
	126,408	110,289

- (a) Statutory reserve
The statutory reserve is maintained in compliance with Section 15 of the Islamic Banking Act 1983 and are not distributable as cash dividends.
- (b) Retained profit
The accumulated profits retained by the Bank and are distributable.
- (c) Net unrealised (losses)/gains on available-for-sale securities
The net unrealised (losses)/gains on revaluation of the securities classified under available-for-sale category to its fair value.

Movement of the unrealised gains or (losses) on available-for-sale securities is as follow:

	2005	2004
	RM'000	RM'000
At 1 January	–	–
Prior year adjustments (Note 42)	11,835	(18,188)
Unrealised (losses)/gains on available-for-sale securities during the year	(16,209)	30,023
At 31 December [^]	(4,374)	11,835

[^] Net unrealised losses on available-for-sale securities at end of the financial year of which depositors' portion is RM2,497,400 [2004: unrealised gain of RM8,284,500].



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

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

	2005	2004
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	169,458	178,044
(ii) Other deposits	176,372	128,479
	345,830	306,523

(i) Income derived from investment of general investment deposits

	2005	2004
	RM'000	RM'000
Finance income and hibah		
Income from financing	97,901	89,738
Available-for-sale securities	18,733	48,780
Money at call and deposit with financial institutions	28,360	29,479
	144,994	167,997
Amortisation of premium less accretion of discounts	12,035	(2,482)
	157,029	165,515
Other operating income		
Net gain from sale of available-for-sale securities	8,332	11,188
Gross dividend income from unquoted securities in Malaysia	–	410
	8,332	11,598

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

(i) Income derived from investment of general investment deposits (Cont'd.)

	2005	2004
	RM'000	RM'000
Fees and commission		
Guarantee fees	2,549	–
Processing fees	1,036	931
Commission	512	–
	4,097	931
Total	169,458	178,044

(ii) Income derived from investment of other deposits

Finance income and hibah		
Income from financing	101,896	64,755
Available-for-sale securities	19,497	35,200
Money at call and deposit with financial institutions	29,518	21,272
	150,911	121,227
Amortisation of premium less accretion of discounts	12,526	(1,791)
	163,437	119,436
Other operating income		
Net gain from sale of available-for-sale securities	8,672	8,073
Gross dividend income from unquoted securities in Malaysia	–	295
	8,672	8,368



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

(ii) **Income derived from investment of other deposits (Cont'd.)**

	2005	2004
	RM'000	RM'000
Fees and commission		
Guarantee fees	2,653	–
Processing fees	1,078	675
Commission	532	–
	4,263	675
Total	176,372	128,479

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2005	2004
	RM'000	RM'000
Finance income and hibah		
Income from financing	21,498	8,035
Held-to-maturity securities	304	304
Available-for-sale securities	10,853	4,267
Money at call and deposit with financial institutions	11,024	1,546
	43,679	14,152
Amortisation of premium less accretion of discounts	6,569	(39)
	50,248	14,113
Other operating income		
Net gain from foreign exchange transaction	2,953	3,207
Net gain from sale of available-for-sale securities	44,385	1,002
Gross dividend income from unquoted securities in Malaysia	1,111	37
	48,449	4,246

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS (CONT'D.)

	2005	2004
	RM'000	RM'000
Fees and commission		
Guarantee fees	403	5,145
Processing fees	235	383
Corporate advisory fees	7,610	2,816
Service charges and fees	2,345	2,237
Commission	5,284	5,623
Others	6,513	8,689
	22,390	24,893
Other income		
Rental income	4,873	4,842
Profit on sale of fixed assets	79	85
Total	126,039	48,179

24. ALLOWANCE FOR LOSSES ON FINANCING

	2005	2004
	RM'000	RM'000
Allowance for bad and doubtful financing:		
(a) Specific allowance		
– Made during the year	58,671	90,816
– Written back during the year	(21,298)	(22,579)
	37,373	68,237
(b) General allowance		
– Made during the year	31,350	9,056
Bad debts on financing:		
– Written off during the year	682	352
– Recovered during the year	(1,512)	(1,044)
	67,893	76,601



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

24. ALLOWANCE FOR LOSSES ON FINANCING (CONT'D.)

In the previous financial year, the Bank made an additional provision of RM17.4 million relating to non-performing financing which have been in default and remain uncollectible for a period of more than 4 years. An additional 50% provision is made for financing which have been in default for more than 4 years but less than 6 years as the collateral value is discounted by a further 50%. In addition, a full provision is made for financing which have been in default for more than 6 years as no value is assigned to its collateral. There are no such additional provision made during the year.

25. IMPAIRMENT LOSS

The impairment loss of RM10.0 million relates to the full provision made for the outstanding amount relating to a defaulted corporate bond which was classified under the available-for-sale securities.

26. INCOME ATTRIBUTABLE TO DEPOSITORS

	2005	2004
	RM'000	RM'000
Deposits from customers		
– Mudharabah funds	121,165	127,528
– Non-Mudharabah funds	26,868	21,592
Deposits and placements of banks and other financial institutions		
– Mudharabah funds	1,116	4,733
– Non-Mudharabah funds	1,928	927
	151,077	154,780

27. PERSONNEL EXPENSES

	2005	2004
	RM'000	RM'000
Salaries and wages	48,178	47,856
Pension costs – defined contribution plan	8,350	8,509
Social security costs	452	405
Allowances and bonuses	17,040	4,510
Others	6,648	6,149
	80,668	67,429

Included in personnel expenses of the Bank are executive director's remuneration amounting to RM64,000 (2004: RM836,000) as further disclosed in Note 28.

28. CEO, DIRECTORS AND SHARIAH COMMITTEE REMUNERATION

	2005	2004
	RM'000	RM'000
Executive Director/Chief Executive Officer		
Salaries and wages	35	420
Pension costs – defined contribution plans	4	47
Allowances	5	54
Gratuity and compensation	–	315
Others – paid unutilised annual leave	20	–
	64	836



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

28. CEO, DIRECTORS AND SHARIAH COMMITTEE REMUNERATION (CONT'D.)

	2005	2004
	RM'000	RM'000
Non-Executive Directors		
– Fees	188	156
– Other remunerations	120	143
	308	299
Shariah committee	100	105
	472	1,240

The number of directors of the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

	2005	2004
Executive Director/Chief Executive Officer		
RM450,001 – RM500,000	1	–
RM800,001 – RM850,000	–	1
Non-Executive Directors		
RM50,000 and below	8	10

29. OTHER OVERHEADS AND EXPENDITURES

	2005	2004
	RM'000	RM'000
Promotion		
Advertisement and publicity	1,038	4,344
Establishment		
Rental	6,145	5,825
Depreciation	15,590	18,219
EDP expenses	25,045	22,505
Hire of equipment	1,499	984
General expenses		
Auditors' fees		
– audit work	120	80
– non-audit work	53	6
Professional fees	270	584
Legal expenses	1,684	2,481
Repair and maintenance	1,955	2,061
Insurance	4,071	2,594
Utilities expenses	2,950	3,015
Security guard expenses	4,571	4,429
Provision for doubtful debts	772	2,547
Others	13,232	10,153
	78,995	79,827



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

30. ZAKAT

	2005	2004
	RM'000	RM'000
Provision for zakat based on result for the year:		
– Current	200	–

31. TAXATION

	2005	2004
	RM'000	RM'000
Malaysian income tax:		
Tax charge for the year	22,494	–
(Over)/underprovision in prior years	(5,108)	524
	17,386	524
Deferred tax:		
Relating to origination and reversal of temporary differences	(10,802)	(4,526)
Underprovision in prior years	2,139	5,903
	(8,663)	1,377
Tax expense for the year	8,723	1,901

31. TAXATION (CONT'D.)

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

	2005	2004
	RM'000	RM'000
Profit/(loss) before taxation	41,251	(26,819)
Taxation at Malaysian statutory tax rate 28% (2004: 28%)	11,550	(7,509)
Income not subject to tax	(2,724)	–
Expenses not deductible for tax purposes	2,866	2,983
(Over)/underprovision of income tax in prior years	(5,108)	524
Underprovision of deferred tax in prior years	2,139	5,903
Tax expense for the year	8,723	1,901

32. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares in issue during the financial year.

	2005	2004
Net profit/(loss) for the year (RM'000)	32,328	(28,720)
Weighted average number of ordinary shares in issue ('000)	225,846	225,846
Basic earnings/(loss) per share (sen)	14.3	(12.7)



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

32. EARNINGS/(LOSS) PER SHARE (CONT'D.)

(b) Diluted

For the purpose of calculating diluted earnings/(loss) per share, the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. MINCCPS.

	2005	2004
Net profit/(loss) for the year (RM'000)	32,328	(28,720)
Weighted average number of ordinary shares in issue ('000)	225,846	225,846
Effect of dilution of MINCCPS ('000)	171,429	171,429
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	397,275	397,275
Diluted earnings per share (sen)	8.1	N/A

For the financial year ended 31 December 2004, no disclosure was made with respect to diluted loss per share as the conversion of the MINCCPS to ordinary shares would be anti-dilutive.

33. RELATED PARTY TRANSACTIONS

(a) Related parties and relationships

The related parties of and their relationship with the reporting institution are as follows:

Related parties	Relationship
Malakoff Berhad and its subsidiaries	Common directors at its holding company
Gas Malaysia Sdn Bhd	Common directors

33. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) Related party transactions

The significant transactions of the Bank with the companies due to common directorship are as follows:

	2005	2004
	RM'000	RM'000
Income		
Fee income	25	–
Expenditure		
Income/profit on deposits and placements		
– to companies due to common directorship	40	–
– to subsidiaries of a group due to common directorship at its holding company	4,668	982
Amounts due to		
– to companies due to common directorship	18,000	–
– to subsidiaries of a group due to common directorship at its holding company	710,103	77,000



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

34. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Risk weighted exposures of the Bank as at 31 December 2005 are as follows:

	2005		2004	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000
The commitments and contingencies constitute the following:				
Direct credit substitutes	132,807	132,807	154,938	154,938
Trade-related contingencies	70,955	14,191	76,741	15,348
Transaction related contingencies	1,437,819	718,910	1,118,119	559,060
Housing financing sold directly and indirectly to Cagamas with recourse	37,001	37,001	39,473	39,473
Credit extension commitment:				
– Maturity within one year	567,562	–	318,058	–
– Maturity exceeding one year	305,537	152,769	298,453	149,227
Foreign exchange related contracts	283,041	–	110,100	–
	2,834,722	1,055,678	2,115,882	918,046

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's risk management strategy seeks to ensure that risks undertaken are well managed within the boundaries of its risk appetite. With the approval by the Board, the Bank is in the process of putting in place an integrated risk management capability that would enable the Bank to achieve a single view of risks across its various business operations and to gain strategic competitive advantage from its management capabilities. This is in line with the BASEL II recommendation.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Market Risk

Market risk is the potential loss arising from adverse movements in market variables such as rate of return, foreign exchange rate, equity prices and commodity prices.

Credit Risk

Credit risk arises from the possibility that a customer or counterparty may be unable to meet its financial obligations to the Bank, either from a facility granted or a contract in which the Bank has a gain position.

Liquidity Risk

Liquidity risk refers to the inability for the Bank to meet its funding requirements arising from cash flow mismatches and its inability to liquidate position quickly and in sufficient volumes.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank manages risks strategically through the following risk committees.

Board Risk Management Committee (“BRMC”)

BRMC is primarily responsible for effective functioning of the integrated risk management function within the Bank. As a committee of the Board, it acts with the delegated authority to decide or make recommendations to the Board of Directors on risk management issues. Its members comprise three independent non-executive directors and two non-independent non-executive directors, of which one of the independent non-executive director act as the committee chairman.

The key functions of the BRMC includes to review and recommend risk management strategies to the Board; to review and approve risk management policies; to oversee the overall management of all risks covering market risk, asset and liability management, credit risk and operational risk; to approve risk methodologies for measuring and managing risks and to approve contingency plan for dealing with various extreme internal/external events and disasters.



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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

Executive Risk Management Committee (“ERMC”)

The Board and BRMC have the overall responsibility for establishing the risk strategies and the policies of the Bank. Execution of these strategies and policies are the responsibilities of the ERMC. The committee consists of senior members of the management and the Chief Risk Officer. The committee focuses on the overall business strategies and daily business operations of the Bank in respect of risk management.

Among the responsibilities of ERMC includes overall responsibility for management of risks from a day-to-day business and operational perspective; to execute risk management strategies and policies as set by the Board and BRMC and ensure compliance thereof; to review risk management policies, controls and systems; to cultivate a proactive risk management culture within the Bank; to provide advisory to the BRMC and Risk Management Department on impact of risk measures on business strategies.

36. PROFIT RATE RISK

The Bank is exposed to the risk associated with the effects of fluctuations in the prevailing levels of profit rate on the financial position and cash flows of its portfolio. The fluctuations in profit rate can be influenced by changes in interest rates that affect the value of financial instruments under its portfolio. Profit rate risk is monitored and managed by the Risk Management Department to protect the income from operations.

The table below summarises the Bank’s exposure to profit rate risk for its operations. The table indicates effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

36. PROFIT RATE RISK (CONT'D.)

2005	Non-trading book					Total	Effective profit rate
	← Up to 6 months	>6 – 12 months	>1 – 5 years	Over 5 years	→ Non-profit rate sensitive		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets							
Cash and short-term funds	3,578,000	–	–	–	60,392	3,638,392	2.7
Deposits and placements with banks and other financial institutions	31,000	–	–	–	–	31,000	2.7
Securities							
– held-to-maturity	–	–	4,739	28,375	–	33,114	1.0
– available-for-sale	225,131	81,840	1,258,833	664,714	23,051	2,253,569	4.5
Financing of customers							
– performing	824,378	13,787	1,396,271	1,638,113	–	3,872,549	6.6
– non-performing*	–	–	–	–	89,978	89,978	–
Other assets	–	–	–	–	351,045	351,045	–
Total assets	4,658,509	95,627	2,659,843	2,331,202	524,466	10,269,647	
Liabilities and shareholders' equity							
Deposits from customers	6,681,698	652,337	2,006,997	–	32,939	9,373,971	2.1
Deposits and placements of banks and other financial institutions	228,896	–	3,466	–	–	232,362	3.1
Bills and acceptances payable	10,704	–	–	–	54,339	65,043	–
Other liabilities	–	–	–	–	74,588	74,588	–
Total liabilities	6,921,298	652,337	2,010,463	–	161,866	9,745,964	
Shareholders' equity	–	–	–	–	523,683	523,683	–
Total liabilities and shareholders' equity	6,921,298	652,337	2,010,463	–	685,549	10,269,647	

* This is arrived at after deducting general and specific allowances from gross non-performing financing outstanding.



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36. PROFIT RATE RISK (CONT'D.)

2005	Non-trading book				Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
	Up to 6 months RM'000	>6 – 12 months RM'000	>1 – 5 years RM'000	Over 5 years RM'000			
On-balance sheet profit rate sensitivity gap	(2,262,789)	(556,710)	649,380	2,331,202			
Off-balance sheet profit rate sensitivity gap	104,413	18,750	–	–			
Total profit rate sensitivity gap	(2,158,376)	(537,960)	649,380	2,331,202			
2004							
Assets							
Cash and short-term funds	3,171,203	–	–	–	43,332	3,214,535	2.9
Deposits and placements with banks and other financial institutions	8	–	–	–	–	8	2.9
Securities							
– held-to-maturity	–	–	4,739	28,375	–	33,114	1.0
– available-for-sale	471,065	221,631	925,019	193,459	21,255	1,832,429	4.5
Financing of customers							
– performing	830,098	80,305	332,075	1,372,265	–	2,614,743	6.3
– non-performing*	–	–	–	–	88,578	88,578	–
Other assets	–	–	–	–	287,424	287,424	–
Total assets	4,472,374	301,936	1,261,833	1,594,099	440,589	8,070,831	

36. PROFIT RATE RISK (CONT'D.)

2004	Non-trading book					Total	Effective profit rate
	Up to 6 months	>6 – 12 months	>1 – 5 years	Over 5 years	Non-profit rate sensitive		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Liabilities and shareholders' equity							
Deposits from customers	4,806,012	920,569	1,728,429	–	–	7,455,010	2.3
Deposits and placements of banks and other financial institutions	–	–	4,021	–	–	4,021	
Bills and acceptances payable	–	–	–	–	40,413	40,413	–
Other liabilities	–	–	–	–	63,823	63,823	–
Total liabilities	4,806,012	920,569	1,732,450	–	104,236	7,563,267	
Shareholders' equity	–	–	–	–	507,564	507,564	
Total liabilities and shareholders' equity	4,806,012	920,569	1,732,450	–	611,800	8,070,831	
On-balance sheet profit rate sensitivity gap	(333,638)	(618,633)	(470,617)	1,594,099			
Off-balance sheet profit rate sensitivity gap	(110,000)	–	–	–			
Total profit rate sensitivity gap	(443,638)	(618,633)	(470,617)	1,594,099			

* This is arrived at after deducting the general and specific allowances from gross non-performing financing outstanding.



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37. LIQUIDITY RISK

Maturities of assets and liabilities by behavioural maturity profile

2005	Up to 6 months	>6-12 months	>1-5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3,638,392	–	–	–	3,638,392
Deposits and placements with banks and other financial institutions	31,000	–	–	–	31,000
Securities					
– Held-to-maturity	–	–	4,739	28,375	33,114
– Available-for-sale	248,182	81,840	1,258,833	664,714	2,253,569
Financing of customers	914,356	13,787	1,396,271	1,638,113	3,962,527
Other assets	20,931	–	279,912	50,202	351,045
Total assets	4,852,861	95,627	2,939,755	2,381,404	10,269,647
Liabilities					
Deposits from customers	6,714,637	652,337	2,006,997	–	9,373,971
Deposits and placements of banks and other financial institutions	228,896	–	3,466	–	232,362
Bills and acceptances payable	65,043	–	–	–	65,043
Other liabilities	3,617	70,971	–	–	74,588
Total liabilities	7,012,193	723,308	2,010,463	–	9,745,964
Off-balance sheet liabilities					
Credit and commitments	2,492,184	–	305,537	37,001	2,834,722
Net maturity mismatch	(4,651,516)	(627,681)	623,755	2,344,403	(2,311,039)

37. LIQUIDITY RISK (CONT'D.)

Maturities of assets and liabilities by behavioural maturity profile (Cont'd.)

2004	Up to 6 months	>6-12 months	>1-5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	3,214,535	–	–	–	3,214,535
Deposits and placements with banks and other financial institutions	8	–	–	–	8
Securities					
– Held-to-maturity	–	–	4,739	28,375	33,114
– Available-for-sale	492,320	221,631	925,019	193,459	1,832,429
Financing of customers	918,676	80,305	332,075	1,372,265	2,703,321
Other assets	22,872	264,552	–	–	287,424
Total assets	4,648,411	566,488	1,261,833	1,594,099	8,070,831
Liabilities					
Deposits from customers	4,806,012	920,569	1,728,429	–	7,455,010
Deposits and placements of banks and other financial institutions	–	–	4,021	–	4,021
Bills and acceptances payable	40,413	–	–	–	40,413
Other liabilities	52,169	11,654	–	–	63,823
Total liabilities	4,898,594	932,223	1,732,450	–	7,563,267
Off-balance sheet liabilities					
Credit and commitments	1,777,956	–	298,453	39,473	2,115,882
Net maturity mismatch	(2,028,139)	(365,735)	(769,070)	1,554,626	(1,608,318)



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

38. CAPITAL ADEQUACY

The capital adequacy ratio of the Bank is as follows:

	2005	2004
Core capital ratio:		
Credit risk	10.0%	13.4%
Credit and market risks	9.7%	13.3%

Risk-weighted capital ratio:		
Credit risk	11.5%	14.6%
Credit and market risks	11.1%	14.5%

	2005	2004
	RM'000	RM'000
Tier-I capital		
Paid-up ordinary share capital	225,846	225,846
Paid-up Musharakah irredeemable non-cumulative convertible preference shares	171,429	171,429
Statutory reserve	79,019	62,855
Retained profits	51,763	35,599
Less: Deferred tax assets (net)	(20,856)	(12,193)
Total Tier-I Capital	507,201	483,536
Tier-II capital		
General allowance for bad and doubtful financing	75,948	44,598
Total Tier-II Capital	75,948	44,598
Less: Investment in subsidiary companies	(5)	(5)
Capital Base	583,144	528,129

38. CAPITAL ADEQUACY (CONT'D.)

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

	2005		2004	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0%	5,301,746	–	4,764,043	–
10%	50,000	5,000	50,000	5,000
20%	413,605	82,721	637,002	127,400
50%	1,237,769	618,885	963,898	481,949
100%	4,374,912	4,374,912	3,007,579	3,007,579
Risk-weighted assets for credit risk	11,378,032	5,081,518	9,422,522	3,621,928
Risk-weighted assets for market risk		159,116		24,142
Total risk-weighted assets for credit and market risks		5,240,634		3,646,070

39. SEGMENT INFORMATION

(a) Business segments

The bank is organised into four major business segments:

- (i) Corporate banking – provision of banking and related services for corporate customers.
- (ii) Commercial banking – provision of banking and related services for commercial and retail customers.
- (iii) Consumer banking – provision of banking and related services for individual customers.
- (iv) Investment and Treasury – provision of corporate advisory, consultancy, underwriting services, sale and trading of various instruments/products.

Other business segments include rental services, none of which are of a sufficient size to be reported separately.



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

39. SEGMENT INFORMATION (CONT'D.)

31 December 2005

	Corporate Banking	Commercial Banking	Consumer Banking	Investment and Treasury	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total income	74,851	25,795	212,875	153,732	4,897	472,150
Result						
Segment result	4,357	(18,780)	32,093	99,570	4,897	122,137
Unallocated corporate expenses	–	–	–	–	–	(80,886)
Profit from operation						41,251
Zakat and taxation						(8,923)
Net profit for the financial year						32,328
Other information						
Segment assets	1,483,249	374,146	6,003,020	2,295,442		10,155,857
Unallocated corporate assets	–	–	–	–		113,790
Total assets	1,483,249	374,146	6,003,020	2,295,442		10,269,647
Segment liabilities	1,391,267	350,944	5,630,752	2,233,371		9,606,334
Unallocated corporate liabilities	–	–	–	–		139,630
Total liabilities	1,391,267	350,944	5,630,752	2,233,371		9,745,964
Other segment items						
Capital expenditure	70	15	6,583	1,087	3,033	10,788
Depreciation	1,547	776	7,036	661	5,570	15,590

39. SEGMENT INFORMATION (CONT'D.)

31 December 2004

	Corporate Banking	Commercial Banking	Consumer Banking	Investment and Treasury	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Total income	54,419	25,353	98,373	168,893	8,708	355,746
Result						
Segment result	6,262	(28,430)	(18,782)	67,857	8,708	35,615
Unallocated corporate expenses	–	–	–	–	–	(62,434)
Loss from operation						(26,819)
Taxation						(1,901)
Net loss for the financial year						(28,720)
Other information						
Segment assets	1,117,903	331,903	1,436,426	5,069,426		7,955,658
Unallocated corporate assets	–	–	–	–		115,173
Total assets	1,117,903	331,903	1,436,426	5,069,426		8,070,831
Segment liabilities	1,055,392	313,347	1,353,709	4,735,245		7,457,693
Unallocated corporate liabilities	–	–	–	–		105,574
Total liabilities	1,055,392	313,347	1,353,709	4,735,245		7,563,267
Other segment items						
Capital expenditure	1,129	822	4,781	725	6,152	13,609
Depreciation	511	334	1,251	367	15,756	18,219



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

39. SEGMENT INFORMATION (CONT'D.)

(b) Geographical segment

No segmental reporting in respect of geographical segment is presented as the Bank operates only in Malaysia.

40. SUBSEQUENT EVENTS

On 12 January 2006, the Bank had completed its acquisition of 60% equity in Muamalat Avenue Sdn Bhd (formerly known as Avenue Asset Management Services Sdn Bhd) from Avenue Capital Resources Berhad for a cash consideration of RM6,300,000. The acquisition is part of the Bank's expansion and diversification plans to enhance its future earnings.

41. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities of the Bank at the balance sheet date approximated their fair values except for the following:

	Note	2005		2004	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financing of customers	7	3,962,527	4,015,606	2,703,321	2,795,795

Fair value is the estimated amount at which a financial asset or liability can be exchanged between two parties under normal market conditions. However, for certain assets such as financing and deposits, fair values are not readily available as there is no open market where these instruments are traded. The fair values for these instruments are estimated based on the assumptions below. These methods are subjective in nature therefore the fair values presented may not be indicative of the actual realisable value.

41. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

Cash and short-term funds, deposits and placements with banks and other financial institutions, statutory deposits with Bank Negara Malaysia, other assets, deposits and placements of banks and other financial institutions, bills and acceptances payable and other liabilities.

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

The “held-to-maturity” securities are stated at amortised cost. Provision for impairment is provided for when there is a permanent impairment loss and the fair values are deemed to approximate the carrying values.

Financing to customers

The fair values of financing to customers are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing financing, the fair values are deemed to approximate the carrying values, which are net of specific allowance for bad and doubtful financing.

Deposits from customers

The fair value of deposits from customers are estimated to approximate their carrying values as the profit rates are determined at the end of their holding periods based on the actual profits generated from the assets invested.

42. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

(a) Adoption of revised GP8-i

During the financial year, the Bank adopted the revised GP8-i as disclosed in Note 3(d). The guideline requires investment in securities to be classified as either held-for-trading, available-for-sale or held-to-maturity. Held-for-trading and available-for-sale securities are carried at fair value, with the changes in the carrying amount of the securities being reflected in the income statement and statement of changes in equity respectively, while held-to-maturity securities are carried at amortised cost.

Previously, investment in securities are classified as either dealing or investment securities. Dealing securities are stated as the lower of cost and market value on a portfolio basis and any changes in the carrying amount are credited or charged to income statement. Investment securities are stated at cost adjusted for amortisation of premium or accretion of discount to maturity dates.



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

42. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (CONT'D.)

(a) Adoption of revised GP8-i (Cont'd.)

This change in accounting policy has been accounted for retrospectively and the effects are as follows:

	2005	2004
	RM'000	RM'000
Effects on net unrealised gains/(losses) on available-for-sale securities		
At 1 January, as previously stated	–	–
Effects of change in accounting policy	11,835	(18,188)
At 1 January, as restated	11,835	(18,188)

The following comparative figures of the Bank as at 31 December 2004 have been restated as follows:

	As previously reported	Adjustments	As restated
	RM'000	RM'000	RM'000
Dealing securities	342,533	(342,533)	–
Investment securities	1,511,175	(1,511,175)	–
Securities			
– Available-for-sale	–	1,832,429	1,832,429
– Held-to-maturity	–	33,114	33,114
	1,853,708	11,835	1,865,543

42. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (CONT'D.)

(b) Deferred tax assets

The prior year adjustment relates to the reversal of deferred tax asset over recognised in respect of the retirement benefit obligation. The effects of this adjustment are as follows:

	2005
	RM'000
Effects on retained profit	
At 1 January, as previously stated	38,017
Reversal of over recognition of deferred tax assets	(2,418)
	<hr/>
At 1 January, as restated	35,599
	<hr/>
	2004
	RM'000
Effects on net loss for the year	
Net loss before reversal of deferred tax assets	(26,302)
Reversal of over recognition of deferred tax assets	(2,418)
	<hr/>
Net loss for the year	(28,720)
	<hr/>



notes to the financial statements – 31 December 2005 (29 Zulkaedah 1426)

42. CHANGE IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (CONT'D.)

(b) Deferred tax assets (Cont'd.)

The following comparative figures as at 31 December 2004 have been restated as follows:

	As previously reported	Adjustments	As restated
	RM'000	RM'000	RM'000
Balance Sheet			
Deferred tax assets (net)	14,611	(2,418)	12,193
Income Statement			
Taxation	517	(2,418)	(1,901)

43. COMPARATIVE FIGURES

The presentation and classification of items in the current year's financial statements have been consistent with the previous financial year except that certain comparative amounts have been adjusted or reclassified as disclosed in Note 3(d) and Note 42.

44. CURRENCY

All amounts are stated in Ringgit Malaysia.

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addresses

Registered office

Menara Bumiputra, Jalan Melaka, 50100 Kuala Lumpur
Tel: 03-2698 8787

Branches/Service Centres

Wilayah Persekutuan

JALAN MELAKA

1st Floor, Podium Block, Menara Bumiputra
21, Jalan Melaka, 50100 Kuala Lumpur
Tel : 03-2691 9616
Fax : 03-2032 5997

TAMAN SEGAR

No. 30, Jalan Manis 4, Taman Segar Off Jln Cheras
56100 Kuala Lumpur
Tel : 03-9130 2426
Fax : 03-9130 2007

JALAN IPOH

Ground Floor, Wisma TCT, No. 516-1, Batu 3, Jalan
Iph, 51200 Kuala Lumpur
Tel : 03-4041 1885
Fax : 03-4043 1467

WISMA BANDAR

Ground Floor, Wisma Bandar, No.18,
Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur
Tel : 03-2697 7077
Fax : 03-2697 8020

SELAYANG

No. 53, 53 (M), 51 & 51 (M)
Jalan SBC 1, Taman Sri Batu Caves, 68100
Batu Caves, Selangor
Tel : 03-6187 8235
Fax : 03-6186 2387

TAMAN MELAWATI

268, 269 & 270, Jalan Bandar 12
Taman Melawati, 53100 Kuala Lumpur
Tel : 03-4108 1160
Fax : 03-4107 4625

BANDAR TASIK SELATAN

No. 14, Ground & 1st Floor, Jalan 4/146,
Metro Centre, Bandar Tasik Selatan
57000 Kuala Lumpur
Tel: 03-90513100
Fax: 03-90581476

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Universiti Islam Antarabangsa Central Complex,
Jalan Gombak, 53100 Kuala Lumpur
Tel : 03-6185 8102
Fax : 03-6187 8579

Selangor

KAJANG

No. 3 & 4, Jalan Dato' Seri P. Alagendra 1,
43000 Kajang
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Fax : 03-8734 7332

KELANG

Ground & Mezzanine Floor, Bangunan Pantai Baru
Lot 227-1 Batu 1, Jalan Meru, 41050 Kelang
Tel : 03-3344 4148
Fax : 03-3344 4146

PETALING JAYA

45, Jalan SS 2/64, 47300 Petaling Jaya
Tel : 03-7874 5722
Fax : 03-7875 5623

SHAH ALAM SEK 9

28, Jalan Tengku Ampuan Zabedah D9/D
40000 Shah Alam
Tel : 03-5512 8830
Fax : 03-5512 8836

RAWANG

No. 9 & 11, Jalan Rawang 1
Bandar Baru Rawang, 48000 Rawang
Tel : 03-6092 1680
Fax : 03-6092 1677

SHAH ALAM, PKNS

G-1, 2 & 3, Ground Floor, Kompleks PKNS
40000 Shah Alam
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Fax : 03-5512 5730

SUBANG JAYA

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43600 Bangi
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Fax : 03-8925 6029

PUTRAJAYA

G-3, Block 2, Menara PJH, The Boulevard Precinct 2
Pusat Pentadbiran Kerajaan Persekutuan
62000 Wilayah Persekutuan Putrajaya
Tel : 03-8888 9778
Fax : 03-8889 2053

Negeri Sembilan

SEREMBAN

Lot 1522 & 1523, Jalan Tun Dr. Ismail
70200 Seremban
Tel : 06-765 1500
Fax : 06-762 7218

Melaka

395, Taman Sinn, Jalan Semabuk, 75050 Melaka
Tel : 06-282 8464
Fax : 06-282 7191

Perak

IPOH

Ground & Mezzanine Floor, Wisma Maju UMNO
Jalan Sultan Idris Shah, 30000 Ipoh
Tel : 05-249 8800
Fax : 05-243 4997

PARIT BUNTAR

No. 17 & 19, Jalan Perwira, Pusat Bandar Baru
34200 Parit Buntar
Tel : 05-716 7201
Fax : 05-716 7204

SITIAWAN

Ground & First Floor, No. 392, Taman Samudera
32040 Seri Manjung, Perak
Tel : 05-6884915
Fax : 05-6884931

TAIPING

18-20, Ground & Mezzanine Floor
Jalan Taming Sari, 34000 Taiping
Tel : 05-807 8372
Fax : 05-807 8375

Kedah

ALOR SETAR

Lot T-1, Ground & Mezzanine Floor, Wisma PKNK
Jalan Sultan Badlishah, 05000 Alor Setar
Tel : 04-731 5722
Fax : 04-731 5724

KULIM

No. 6, Bangunan Al-Ikhwan, Pusat Perniagaan
Putera, Jalan Kilang Lama, 09000 Kulim
Tel : 04-496 3500
Fax : 04-490 7825

SUNGAI PETANI

No : 1 & 2, Ground & First Floor Wisma OIB,
Jalan Bank, 08000 Sungai Petani
Tel : 04-420 4300
Fax : 04-421 5007

SERVICE CENTRE

Lembah Keriang, Lot No. 195, Jalan Chengal
Kg Tradisi Lembah Keriang Off Jalan Sintok
06010 Changlun
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Penang**BAYAN BARU**

No 24, 26 & 28, Taman Seri Tunas
11950 Bayan Baru
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3012 Off Jalan Lebuah Tenggiri 2
13700 Seberang Jaya, Perai, Pulau Pinang
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KEPALA BATAS

Pusat Budi Penyayang
Jalan Bertam 2, Kepala Batas,
13200 Seberang Perai Utara, Pulau Pinang
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Fax: 04-575 5703

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Universiti Sains Malaysia Bangunan D12
11800 Minden, Pulau Pinang
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Fax : 04-658 5945

Perlis**KANGAR**

No. 11 & 13, Jalan Bukit Lagi, 01000 Kangar
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Terengganu**KUALA TERENGGANU**

1, Jalan Air Jerneh, 20300 Kuala Terengganu
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Kelantan**KOTA BHARU**

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Besar Kelantan (PMBK), Jalan Kuala Krai,
15150 Kota Bharu
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Johor**JOHOR BAHRU**

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80000 Johor Bahru
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83000 Batu Pahat
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86000 Kluang
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KULAI

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Ismail, 25000 Kuantan
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Sarawak**KUCHING**

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