

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 2004.

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 11 to the financial statements.

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

Results

	RM'000
Net loss for the year	(26,302)

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.

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

Ashari Ayub

Datin Azizah Bte. Mohd. Jaafar

Dato' Othman Abdullah

Datuk Mohd Khamil Jamil (Appointed on 20 April 2004)

Dr. Aziuddin Ahmad (Appointed on 24 August 2004)

Abdul Jabbar Abdul Majid (Appointed on 13 October 2004)

Datuk Ismail Haji Ahmad (Resigned on 1 April 2004)

Mohamed Ismail Mohamed Shariff (Resigned on 6 January 2005)

Fazlur Rahman Ebrahim (Resigned on 31 January 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 24 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

During the financial year, the Bank:

- (a) reduced its authorised ordinary share capital from RM4,000,000,000 to RM3,000,000,000 through the conversion of 1,000,000,000 ordinary shares of RM1 each into 1,000,000,000 Musharakah Irredeemable Non-Cumulative Convertible Preference Shares ("MINCCPS") of RM1 each; and

- (b) increased its issued and paid-up share capital from RM225,846,000 to RM397,275,000 by way of the issuance of 171,429,000 MINCCPS at a nominal amount of RM1 each for additional working capital purposes.

The terms of the MINCCPS are disclosed in Note 17 to the financial statements.

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 (Contd.)

- (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.

Prospects for 2005

The year 2004 was a much better year than 2003 for businesses. With average growth rate for the first three quarters of 2004 registered at 7.6%, Malaysia is in a comfortable position to achieve the target growth of 7.0% for the year. For 2005, however, the economic growth is expected to hover around 6% due to the downside risk expected in the year. This growth albeit slower compared to 2004 is expected to be broad-based, except for the construction industry, which would not be as robust as the other sectors.

Inflation rate, which is measured by the consumer price index, remained relatively low in the first eleven months of 2004 at an average rate of 1.4% although the rates were creeping up slightly in the third quarter of the year due to the rise of the global oil prices. In 2005, inflation rate could accelerate to between 1.8% and 2.0%.

With interest rate expected to be manageable, the banking industry in Malaysia would continue to record a healthy growth. This is supported by the higher expected private consumption in 2005.

Islamic banking continues to grow rapidly in Malaysia. At the end of November 2004, Islamic banking deposits totalled RM51.09 billion, while total financing stood at RM49.4 billion, up 29% and 56% respectively from a year ago.

Malaysian Islamic Banking System is expected to gain momentum in 2005, especially with the issuance of new Islamic banking licenses by Bank Negara Malaysia to three foreign parties namely, Kuwait Finance House, Saudi Arabia-based Ar-Rajhi Bank and a consortium led by Qatar Islamic bank. The move is expected to improve efficiency and strengthen global integration of domestic Islamic Banking System, as well as a step forward in developing Malaysia into a regional financial centre for Islamic banking and finance.

Business Plan 2005

The adjustments and programmes made in early 2004 to remodel the Bank's business have begun to bear fruits as reflected in the significant increase in consumer financing. The new business model underlines a target of 60% portfolio in consumer financing in 2005, while maintaining the Bank's share in corporate and commercial financing.

Programmes conducted in 2004 and continuing in 2005 are strategic measures to address the Bank's present high cost structure, increase the Bank's financing assets, improve deposits mix, and at the same time enhance customer service and image of the Bank.

Retail and Consumer financing which has been at the core of the Bank's activities for 2003, continued to be given emphasis in 2004. To increase the Bank's market share in Retail and Consumer financing, a change programme known internally as Muamalat Transformation Programme (MTP) was officially launched in 2004. The programme called for a re-look at best practices in structure, processes and systems that will ensure Retail and Consumer financing attain efficiency and speed in its delivery system comparable to the industry. In essence, MTP entails financing origination and marketing to be specialized at branches or delivery points while processing, approvals and credit administration are centralized at a specially dedicated Service Center at Bandar Tasik Selatan, manned by trained personnel.

The Bank will continue to focus on SMEs, corporate and commercial sectors including exposure in trade finance. At the same time origination, processing and monitoring activities will be reviewed to improve effectiveness and quality assets.

Investment Banking Department will continue to build name and niche in Islamic Private Debt Securities and it hopes to contribute towards increasing the Bank's fee-based income. It will expand into corporate finance, advisory services and other innovative products, with a dedicated staff force with the necessary skill already in place. The Bank's efforts through the Treasury Department to maximize profitability from investment activities would be enhanced further through short and long term investment activities in the market.

To alleviate the present high cost structure of the Bank, various activities are being taken to increase staff productivity, conduct austerity drive and realign job functions and staff skills to meet specific needs of the new business model. Branch network configuration will also be reviewed with the view to attain optimal efficiency.

Overall success of these efforts will be achieved through a personnel policy which will involve redesigning and communicating clearly the job functions, staff performance evaluation and improve skills in sales and marketing.

Rating by External Rating Agencies

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

Disclosure of Shariah Advisory Council

The Bank's business activities are subject to the Shariah compliance and conformation by the Shariah Advisory Council consisting of 7 members appointed by the Board for 2 year term. The role and authority of the Shariah Advisory Council 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.

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
29 March 2005

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 38 to 85 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, modified to comply with the principles of Shariah and Bank Negara Malaysia Guidelines, so as to give a true and fair view of the financial position of the Bank as at 31 December 2004 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

Kuala Lumpur, Malaysia
29 March 2005

Ismail Ibrahim

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 38 to 85 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 29 March 2005

Mohd Zafer Mohd Hashim

Before me,

Commissioner for Oaths
Kuala Lumpur, Malaysia
29 March 2005

report of the Shariah Advisory Council

We, the Shariah Advisory Council of Bank Muamalat Malaysia Berhad, do hereby confirm that in our opinion, the operations of the Bank for the year ended 31 December 2004 have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Advisory Council,

Prof. Madya Dr Abdul Halim Muhammad
Chairman

Mohd Hafiz Haji Fauzi
Secretary

Kuala Lumpur, Malaysia
29 March 2005

report of the auditors

to the member of Bank Muamalat Malaysia Berhad

We have audited the accompanying financial statements set out on pages 38 to 85. 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 and applicable MASB Approved Accounting Standards in Malaysia modified to comply with the principles of Shariah and Bank Negara Malaysia guidelines, so as to give a true and fair view of:
 - (i) the financial position of the Bank as at 31 December 2004 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

Kuala Lumpur, Malaysia

29 March 2005

Nik Rahmat Kamarulzaman bin Nik Ab. Rahman

No. 1759/02/06(J)

Partner

balance sheet

as at 31 December 2004 (19 Zulkaedah 1425)

	Note	2004 RM'000	2003 RM'000
ASSETS			
Cash and short term funds	3	43,332	31,813
Deposits and placements with financial institutions	4	3,171,211	2,042,600
Dealing securities	5	342,533	704,971
Investment securities	6	1,511,175	2,047,011
Financing of customers	7	2,703,321	2,140,966
Statutory deposits with Bank Negara Malaysia	8	162,427	205,127
Other assets	9	57,783	70,179
Property, plant and equipment	10	55,016	59,700
Investment in subsidiaries	11	5	5
Deferred tax asset (net)	12	14,611	13,570
Total assets		8,061,414	7,315,942
LIABILITIES			
Retirement benefit obligations	13	-	16,275
Deposits from customers	14	7,459,031	6,846,533
Bills and acceptances payable		40,413	59,125
Other liabilities	15	63,714	40,480
Provision for zakat		109	509
Total liabilities		7,563,267	6,962,922
SHAREHOLDERS' FUNDS			
Share capital	17	397,275	225,846
Reserves		100,872	127,174
		498,147	353,020
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		8,061,414	7,315,942
COMMITMENTS AND CONTINGENCIES	28	2,115,882	1,740,247
CAPITAL ADEQUACY			
Core capital ratio		13.4%	10.2%
Risk-weighted capital ratio		14.6%	11.2%

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

income statement

for the year ended 31 December 2004 (19 Zulkaedah 1425)

	Note	2004 RM'000	2003 RM'000
Income derived from investment of depositors' funds and others	18	306,523	282,750
Allowance for losses on financing	19	(76,601)	(34,585)
Transfer from profit equalisation reserves	16	-	477
Other expenses directly attributable to the investment of the depositors and shareholders' funds		(2,884)	(1,561)
Total distributable income		227,038	247,081
Income attributable to depositors	20	(154,780)	(148,538)
Income attributable to the shareholders		72,258	98,543
Income derived from investment of shareholders' funds	21	48,179	45,410
Total net income		120,437	143,953
Personnel expenses	22	(66,640)	(62,442)
Other overheads and expenditure	23	(80,616)	(67,066)
Retirement benefit settlement cost	13(a)	-	(7,178)
(Loss)/profit before zakat and taxation		(26,819)	7,267
Zakat	25	-	(410)
Taxation	26	517	(3,271)
Net (loss)/profit for the financial year		(26,302)	3,586
(Loss)/earnings per share (sen):	27	(11.65)	1.59

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

statement of changes in equity

for the year ended 31 December 2004 (19 Zulkaedah 1425)

	Musharakah Irredeemable Non-Cumulative Convertible	Share Capital RM'000	Preference Shares RM'000	Statutory Reserve* RM'000	General Reserve RM'000	Retained Profit RM'000	Total RM'000
At 1 January 2003		225,846	-	61,062	10,394	52,132	349,434
Net profit for the year		-	-	-	-	3,586	3,586
Transfer to statutory reserve		-	-	1,793	-	(1,793)	-
Transfer to retained profit		-	-	-	(10,394)	10,394	-
At 31 December 2003		225,846	-	62,855	-	64,319	353,020
At 1 January 2004		225,846	-	62,855	-	64,319	353,020
Issue of preference shares for cash		-	171,429	-	-	-	171,429
Net loss for the year		-	-	-	-	(26,302)	(26,302)
At 31 December 2004		225,846	171,429	62,855	-	38,017	498,147

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

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

cash flow statement

for the year ended 31 December 2004 (19 Zulkaedah 1425)

	2004 RM'000	2003 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Income from financing	163,814	156,514
Income/profit paid to depositors	(145,541)	(147,602)
Income from dealing securities	9,362	22,475
Operating fees and commission receipts	22,986	15,289
Guarantee fees receipts	5,145	6,229
Service charges receipts	2,237	4,590
Recoveries of non-performing financing	1,044	36
Cash payments to employees and others	(134,026)	(119,433)
Cash flow from operating profit before changes in operating assets and liabilities	(74,979)	(61,902)
(Increase)/Decrease in Operating Assets		
Dealing securities	362,438	(15,387)
Financing, advances and other loans	(588,701)	19,076
Other assets	13,003	(4,723)
Statutory deposits with Bank Negara Malaysia	42,700	(29,800)
Increase/(Decrease) in Operating Liabilities		
Deposits from customers	612,497	713,176
Retirement benefit obligations	(16,275)	9,735
Bills and acceptances payable	(18,712)	27,775
Other payables	23,235	(4,153)
Net cash from operating activities before zakat and taxation	355,206	653,797
Zakat paid	(410)	(356)
Taxes paid	(6,160)	(12,314)
Net cash generated from operating activities	348,636	641,127

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

	2004 RM'000	2003 RM'000
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment (net)	(13,609)	(13,483)
Proceeds from disposal of property, plant and equipment	27	29
Purchase of investment securities	(4,974,863)	(651,900)
Proceeds from disposal of investment securities	5,526,266	356,105
Dividend from investment securities	82,244	66,811
Net cash generated from/(used in) investing activities	620,065	(242,438)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of preference shares	171,429	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,140,130	398,689
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,074,413	1,675,724
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3,214,543	2,074,413
Cash and cash equivalents comprise:		
Cash and short term funds	43,332	31,813
Deposits and placements with financial institutions	3,171,211	2,042,600
	3,214,543	2,074,413

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

notes to the financial statements

31 December 2004 (19 Zulkaedah 1425)

1. Corporate Information

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing in accordance with Syariah 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 11 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. (formerly known as Hasrat Padu 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 employees at 31 December 2004 are 1,241 (31 December 2003: 1,244).

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 29 March 2005.

2. Significant Accounting Policies

(a) Basis of Preparation

The financial statements of the Bank have been prepared in accordance with the provision of the Companies Act, 1965, applicable MASB Approved Accounting Standards in Malaysia modified to comply with the principles of Shariah and Bank Negara Malaysia Guidelines.

2. Significant Accounting Policies (contd.)

(b) Basis of Accounting

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

(c) Financing of customers

Financing are stated after deducting the allowance for possible losses.

(d) Allowance for Bad and Doubtful Financing

Specific allowances are made for doubtful debt and 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.

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 management, there is no prospect of recovery.

Allowance for bad and doubtful financing has been made in full compliance with the revised BNM GP3 (September 1998). Any provision made during the year is charged to the income statement.

(e) Dealing Securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term, and are stated at the lower of cost and market value on a portfolio basis. Increases or decreases in the carrying amount of dealing securities are credited or charged to the income statement. On disposal of the dealing securities, the difference between the net disposal proceeds and their carrying amounts are charged or credited to the income statement.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

(f) Investment Securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 16 of the Islamic Banking Act 1983, and are usually held to maturity.

Malaysian Government Investment Certificates, Cagamas Islamic Bonds, other Government Islamic securities, and Islamic Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity dates. Other quoted investments are stated at the lower of cost and market value.

Unquoted investments are stated at cost and where applicable, adjusted for amortisation of premium or accretion of discount to maturity dates. Provision is made for permanent diminution in value where considered appropriate.

Increases or decreases in the carrying amount of investment securities are credited or charged to the income statement. On disposal of the investment securities, the differences between the net disposal proceeds and their carrying amounts are charged or credited to the income statement.

(g) 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 2 (r).

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)(i) 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.

2. Significant Accounting Policies (contd.)

(h) 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 2 (r). Freehold land and capital 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 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.

(i) 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:

	2004 RM'000	2003 RM'000
US Dollar (USD)	3.80	3.80
Great Britain Pound (GBP)	7.33	6.33
Euro Dollar (Euro)	5.18	4.38
Japanese Yen (JPY1000)	37.08	32.03
Singapore Dollar (SGD)	2.33	2.19
Australian Dollar (AUD)	2.96	2.56

(j) Bills and Acceptances Payable

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

(k) 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.

(iii) Defined benefit plan

In previous year, the Bank contributed to a funded, defined Retirement Benefit Scheme ("the Scheme") for its eligible employees. The Bank's obligations to the Scheme were determined based on triennial actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit was discounted using the Project Credit Method in order to determine its present value. Actuarial gain or losses were recognised as income or expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the Scheme exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Past service cost was recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet in prior year represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation are limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contribution to the plan.

As disclosed in Note 13, on 1 December 2003, the Bank entered into an agreement with its staff union to replace the Scheme with additional contribution to the EPF.

2. Significant Accounting Policies (contd.)

(l) 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 dealing and investment 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.

(m) 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.

(n) 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.

(o) 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 net asset method.

(p) 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.

(q) 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.

(r) 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.

2. Significant Accounting Policies (contd.)

(s) 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.

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.

3. Cash and Short Term Funds

	2004 RM'000	2003 RM'000
Cash and balances with banks and other financial institutions	43,332	31,813

4. Deposits and Placements with Financial Institutions

	2004 RM'000	2003 RM'000
Licensed banks	8	100
Licensed finance companies	-	20,000
Bank Negara Malaysia	3,171,203	2,022,500
	<u>3,171,211</u>	<u>2,042,600</u>

5. Dealing Securities

	2004	2003
	RM'000	RM'000
Unquoted securities in Malaysia		
Government papers	4,868	-
Others	337,665	704,971
	<hr/>	<hr/>
	342,533	704,971

6. Investment Securities

	2004	2003
	RM'000	RM'000
Unquoted securities in Malaysia		
Government papers	609,825	268,618
Islamic private debt securities	433,195	413,655
Others	443,994	1,343,392
	<hr/>	<hr/>
	1,487,014	2,025,665
Accretion of discounts less amortisation of premiums	25,719	27,648
Accumulated impairment loss	(1,558)	(6,302)
	<hr/>	<hr/>
	1,511,175	2,047,011
Indicative market value		
Government papers	629,110	280,298
Islamic private debt securities	436,656	412,109
Others	459,549	1,336,416
	<hr/>	<hr/>
	1,525,315	2,028,823

7. Financing of Customers

(i) By type

	2004	2003
	RM'000	RM'000
Cash line	193,528	45,550
Term financing:		
House financing	1,868,709	1,578,342
Syndicated financing	137,652	25,419
Hire purchase receivables	148,503	55,574
Leasing receivables	35,708	93,024
Other term financing	1,086,998	995,781
Trust receipts	61,468	59,058
Claims on customers under acceptance credits	381,013	302,095
Staff financing	109,430	93,772
Revolving credit	274,509	202,723
Others	9,131	9,589
	<hr/> 4,306,649	<hr/> 3,460,927
Less : Unearned income	(1,379,761)	(1,143,734)
	<hr/> 2,926,888	<hr/> 2,317,193
Less : Financing sold to Cagamas	(39,473)	(44,667)
	<hr/> 2,887,415	<hr/> 2,272,526
Less : Allowance for bad and doubtful financing:		
- General	(44,598)	(35,542)
- Specific	(139,496)	(96,018)
	<hr/> 2,703,321	<hr/> 2,140,966
Total net financing	<hr/> 2,703,321	<hr/> 2,140,966

7. Financing of Customers

(ii) By contract

	2004	2003
	RM'000	RM'000
Bai' Bithaman Ajil	1,329,272	1,097,291
Ijarah	155,435	150,485
Murabahah	600,830	542,219
Musarakah	318	495
Mudharabah	1,537	1,602
Istisna	259,032	354,255
Others	540,991	126,179
	<hr/>	<hr/>
	2,887,415	2,272,526

(iii) By type of customer

	2004	2003
	RM'000	RM'000
Domestic non-banking institution	36,624	17,189
Domestic business enterprise	804,196	633,206
Small medium industries	557,929	554,763
Government	83,816	56,891
Individuals	1,380,911	1,004,703
Other domestic entities	4,581	5,499
Foreign entities	19,358	275
	<hr/>	<hr/>
	2,887,415	2,272,526

7. Financing of Customers

(iv) By profit rate sensitivity

	2004 RM'000	2003 RM'000
Fixed rate		
House financing	954,482	751,497
Hire purchase receivables	147,945	55,574
Others	1,784,988	1,465,455
	<hr/> 2,887,415	<hr/> 2,272,526

(v) By sector

	2004 RM'000	2003 RM'000
Agriculture	39,739	35,704
Manufacturing	513,347	483,260
Electricity, gas and water	6,001	20,021
Construction	510,755	443,376
Purchase of landed property of which are:		
- Residential	938,126	772,994
- Non-residential	193,161	183,716
General commerce	112,561	95,059
Transport, storage and communication	63,453	18,530
Finance, insurance and business service	74,254	32,052
Purchase of securities	39,496	37,961
Purchase of transport vehicles	128,261	63,497
Consumption credit	255,571	65,961
Others	12,690	20,395
	<hr/> 2,887,415	<hr/> 2,272,526

7. Financing of Customers

(vi) Movements in the non-performing financing

	2004	2003
	RM'000	RM'000
As at 1 January	237,972	291,498
Classified as non-performing during the year	170,893	138,633
Reclassified as performing during the year	(75,349)	(94,109)
Recoveries during the year	(34,353)	(42,626)
Written off during the year	(26,491)	(55,424)
As at 31 December	272,672	237,972
Less : Specific allowance	(139,496)	(96,018)
Net non-performing financing	133,176	141,954
Ratio of net non-performing financing to total net financing	4.9%	6.6%

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

	2004	2003
	RM'000	RM'000
General allowance		
As at 1 January	35,542	32,895
Allowance made during the year	9,056	2,647
As at 31 December	44,598	35,542
As % of gross financing less specific allowance	1.6%	1.6%
Specific allowance		
As at 1 January	96,018	119,468
Allowance made during the year	90,816	52,255
Amount written back in respect of recoveries	(22,579)	(20,281)
Amount written off	(26,491)	(55,424)
Other adjustments	1,732	-
As at 31 December	139,496	96,018

7. Financing of Customers

(viii) Non-performing financing by sector

	2004 RM'000	2003 RM'000
Agriculture	941	1,806
Manufacturing	18,100	37,765
Electricity, gas and water	55	46
Construction	52,383	30,507
Purchase of landed property of which are:		
- Residential	99,492	80,472
- Non-residential	36,614	36,602
General commerce	23,616	14,806
Transport, storage and communication	345	345
Finance, insurance and business service	11,261	1,661
Purchase of securities	26,288	32,700
Purchase of transport vehicles	1,467	64
Consumption credit	2,110	1,198
	<hr/>	<hr/>
	272,672	237,972

8. 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.

9. Other Assets

	2004 RM'000	2003 RM'000
Deposits	1,833	1,686
Prepayments	3,181	1,608
Income receivable	7,072	18,737
Tax recoverable	10,226	2,706
Amount due from Bumiputera Commerce Bank Berhad ("BCB")	24,627	29,105
Other debtors	13,391	16,337
	60,330	70,179
Provision for doubtful debts	(2,547)	-
	57,783	70,179

10. Property, Plant and Equipment

	Long term leasehold land RM'000	Freehold land and building RM'000	Office building and long term leasehold land RM'000	Furniture, fixtures, fitting, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Cost						
At January 2004	303	3,163	14,092	81,803	3,345	102,706
Additions	-	-	-	7,915	5,694	13,609
Disposals	-	-	-	(286)	-	(286)
Reclassification				5,660	(5,660)	-
At 31 December 2004	303	3,163	14,092	95,092	3,379	116,029

10. Property, Plant and Equipment (Contd.)

	Long term leasehold land RM'000	Freehold land and building RM'000	Office building and long term leasehold land RM'000	Furniture, fixtures, fitting, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Accumulated Depreciation						
At January 2004	17	336	1,499	41,154	-	43,006
Charge for the year	4	79	353	17,783	-	18,219
Disposals	-	-	-	(212)	-	(212)
At 31 December 2004	21	415	1,852	58,725	-	61,013
Net Book Value						
At 31 December 2004	282	2,748	12,240	36,367	3,379	55,016
At 31 December 2003	286	2,827	12,593	40,649	3,345	59,700
Depreciation charge						
for 2003	4	87	345	15,592	-	16,028

11. Investment in Subsidiaries

	2004 RM'000	2003 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
			2004	2003	
Muamalat Nominees (Tempatan) Sdn Bhd	Dormant	Malaysia	100%	100%	31 December
Muamalat Nominees (Asing) Sdn Bhd	Dormant	Malaysia	100%	100%	31 December

12. Deferred Tax Asset (Net)

	2004 RM'000	2003 RM'000
At 1 January	13,570	4,287
Reversal of temporary differences	-	5,571
Recognised in the income statement	1,041	3,712
At 31 December	14,611	13,570

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 sheets:

	2004 RM'000	2003 RM'000
Deferred tax assets	21,333	17,391
Deferred tax liabilities	(6,722)	(3,821)
	14,611	13,570

12. Deferred Tax Asset (Net) (Contd.)

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

Deffered Tax Assets of the Bank:

	General allowance for bad and doubtful financing RM'000	Tax losses and unabsorbed capital allowances RM'000	Provision for liabilities RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2004	9,952	-	5,609	47	15,608
Recognised in the income statement	2,536	3,161	-	28	5,725
At 31 December 2004	12,488	3,161	5,609	75	21,333

Deffered Tax Liabilities of the Bank:

	Property, plant and equipment RM'000	Provision for diminution in value of investment securities RM'000	Total RM'000
At 1 January 2004	(3,802)	1,765	(2,037)
Recognised in the income statement	(2,028)	(2,657)	(4,685)
At 31 December 2004	(5,830)	(892)	(6,722)

13. Retirement Benefit Obligations

In prior year, 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).

The amounts recognised in the balance sheet were determined as follows:

	2004 RM'000	2003 RM'000
Vested benefits	-	28,564
Present value of funded defined benefit obligations	-	-
Fair value of Scheme assets	-	(12,289)
Net liability	-	16,275

The amounts recognised in the income statement were determined as follows:

Current service cost	-	1,263
Carrying cost	-	1,294
Settlement cost (Note 13(a))	-	7,178
Total included in other operating expenses	-	9,735

Movements in the net liability in the current year were as follows:

At 1 January	16,275	6,540
Amounts recognised in the income statement	-	9,735
Amounts paid to EPF (Note 13(a))	(16,275)	-
At 31 December	-	16,275

(a) Settlement Cost

On 1 December 2003, the Bank entered into an agreement with its staff union to replace the Scheme with additional contributions to EPF. In connection therewith, the Bank agreed to pay vested gratuity benefits entitled to the employees to EPF valued at RM28.56 million based on actuarial valuation as at 31 December 2003. The balance of the amount payable to EPF of RM16.2 million was paid on 31 December 2004.

14. Deposits from Customers

(i) By type of deposits

	2004 RM'000	2003 RM'000
Non-Mudharabah Fund		
Demand deposits	1,636,559	1,422,147
Savings deposits	450,616	399,031
Negotiable Islamic Debt Certificate	-	8,841
Others	45,025	33,604
	<hr/> 2,132,200	<hr/> 1,863,623
Mudharabah Fund		
General Investment Account	4,332,614	3,827,659
Special General Investment Deposits	994,217	1,155,251
	<hr/> 5,326,831	<hr/> 4,982,910
Total Deposits	<hr/> 7,459,031	<hr/> 6,846,533

(ii) By type of customer

	2004 RM'000	2003 RM'000
Government and statutory bodies	2,581,576	2,890,045
Business enterprises	3,020,004	2,506,642
Individuals	753,292	666,331
Others	1,104,159	783,515
	<hr/> 7,459,031	<hr/> 6,846,533

15. Other Liabilities

	2004	2003
	RM'000	RM'000
Sundry creditors	4,388	1,765
Income payable to depositors	29,430	25,977
Profit equalisation reserves (Note 16)	3,756	3,756
Inter branch balances	14,017	(1,573)
Other payables	12,123	10,555
	<hr/>	<hr/>
	63,714	40,480
	<hr/>	<hr/>

16. Profit Equalisation Reserves

	2004	2003
	RM'000	RM'000
At 1 January	3,756	4,233
Written back during the financial year	-	(477)
	<hr/>	<hr/>
At 31 December	3,756	3,756
	<hr/>	<hr/>

17. Share Capital

	Number of shares of RM1 each		Amount	
	2004	2003	2004 RM'000	2003 RM'000
(a) Authorised				
Ordinary shares of RM1 each				
At 1 January	4,000,000	4,000,000	4,000,000	4,000,000
Converted during the year	(1,000,000)	-	(1,000,000)	-
At 31 December	3,000,000	4,000,000	3,000,000	4,000,000
Musharakah Irredeemable Non-Cumulative				
Convertible Preference Shares of RM1 each				
At 1 January	-	-	-	-
Created during the year	1,000,000	-	1,000,000	-
At 31 December	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	-	-	-	-
Issued for cash during the year	171,429	-	171,429	-
At 31 December	171,429	-	171,429	-
Total	397,275	225,846	397,275	225,846

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.

18. Income Derived from Investment of Depositors' Funds and Others

	2004 RM'000	2003 RM'000
Income derived from investment of:		
(i) General investment deposits	177,113	158,081
(ii) Other deposits	129,410	124,669
	<u>306,523</u>	<u>282,750</u>

(i) Income derived from investment of general investment deposits

	2004 RM'000	2003 RM'000
Finance income and hibah		
Income from financing	89,738	87,208
Dealing securities	5,169	12,339
Investment securities	43,611	36,196
Money at call and deposit with financial institutions	29,479	15,781
	<u>167,997</u>	<u>151,524</u>
Amortisation of premium	(2,482)	(983)
	<u>165,515</u>	<u>150,541</u>
Other dealing income		
Net gain from sale of dealing securities	6,607	-
Other operating income		
Net gain from sale of investment securities	4,581	6,954
Gross dividend income from unquoted securities in Malaysia	410	586
	<u>4,991</u>	<u>7,540</u>
Total	<u>177,113</u>	<u>158,081</u>

	2004 RM'000	2003 RM'000
(ii) Income derived from investment of other deposits		
Finance income and hibah		
Income from financing	64,755	68,781
Dealing securities	3,730	9,732
Investment securities	31,470	28,548
Money at call and deposit with financial institutions	21,272	12,446
	121,227	119,507
Amortisation of premium	(1,791)	(776)
	119,436	118,731
Other dealing income		
Net gain from sale of dealing securities	4,767	-
	4,767	-
Other operating income		
Net gain from sale of investment securities	3,306	5,484
Gross dividend income from unquoted securities in Malaysia	295	454
	3,601	5,938
Fees and commission		
Others	1,606	-
Total	129,410	124,669

19. Allowance for Losses on Financing

	2004 RM'000	2003 RM'000
Allowance for bad and doubtful financing:		
(a) Specific allowance		
- Made during the financial year	90,816	52,255
- Written back during the financial year	(22,579)	(20,281)
	68,237	31,974
(b) General allowance		
- Made during the financial year	9,056	2,647
Bad debts and financing		
- Written off during the financial year	352	-
- Recovered during the financial year	(1,044)	(36)
	76,601	34,585

During the financial year, the Bank made an additional provision of RM17.4 million relating to non-performing financings which have been in default and remain uncollectible for a period of more than 4 years. An additional 50% provision is made for financings 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 financings which have been in default for more than 6 years as no value is assigned to their collateral.

20. Income Attributable to Depositors

	2004 RM'000	2003 RM'000
Deposits from customers		
- Mudharabah funds	127,528	124,327
- Non-Mudharabah funds	21,592	21,507
Deposits and placements of banks and other financial institutions		
- Mudharabah funds	4,733	2,209
- Non-Mudharabah funds	927	495
	154,780	148,538

21. Income Derived from Investment of Shareholders' Funds

	2004 RM'000	2003 RM'000
Finance income and hibah		
Income from financing	8,035	8,595
Dealing securities	463	1,174
Investment securities	4,108	3,133
Money at call and deposit with financial institutions	1,546	896
	14,152	13,798
Amortisation of premium	(39)	(97)
	14,113	13,701
Other dealing income		
Net gain from foreign exchange transaction	3,207	3,305
Other operating income		
Net gain from sale of investment securities	1,002	685
Gross dividend income from unquoted securities in Malaysia	37	55
	1,039	740
Fees and commission		
Processing fees	383	182
Guarantee fees	5,145	6,228
Corporate advisory fees	2,816	2,417
Service charges and fees	2,237	4,590
Others	14,397	9,291
	24,978	22,708
Other income		
Rental income	4,842	4,956
Total	48,179	45,410

22. Personnel Expenses

	2004	2003
	RM'000	RM'000
Salaries and wages	47,436	42,336
Pension costs - defined contribution plan	8,509	5,826
Social security costs	405	380
Allowance and bonuses	4,456	4,134
Others	5,834	9,766
	<hr/>	<hr/>
	66,640	62,442
	<hr/>	<hr/>

23. Other Overheads and Expenditure

	2004	2003
	RM'000	RM'000
Promotion		
Advertisement	4,344	2,120
Establishment		
Rental	5,825	5,097
Depreciation	18,219	16,028
ICT expenses	22,505	19,359
Hire of equipment	984	556
General expenses		
Auditors' fees		
- Statutory audit	80	80
- Others	6	26
Professional fees	584	678
Legal expenses	2,481	1,206
Repair and maintenance	2,061	2,770
Insurance	2,594	1,441
Utilities expenses	3,015	2,988
Security guard expenses	4,429	3,625
Provision for doubtful debts	2,547	-
Others	10,942	11,092
	<hr/>	<hr/>
	80,616	67,066
	<hr/>	<hr/>

24. CEO, Directors and Shariah Advisory Council Remuneration

	2004 RM'000	2003 RM'000
Executive Director/Chief Executive Officer		
Salaries and wages	420	371
Pension costs - defined contribution plans	47	43
Allowances	54	54
Gratuity and compensation	315	-
	836	468
Non Executive Directors		
- Fees	156	168
- Other remunerations	143	208
	1,135	844
Shariah advisory council	105	73
	1,240	917

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

	2004	2003
Executive Director/Chief Executive Officer		
RM450,001 - RM500,000	-	1
RM800,001 - RM850,000	1	-
	1	1
Non-Executive Directors		
RM50,000 and below	10	9
	10	9

25. Zakat

	2004 RM'000	2003 RM'000
Provision for zakat based on result for the year:		
- Current	-	410

26. Taxation

	2004 RM'000	2003 RM'000
Income tax:		
Tax charge for the year	-	6,983
Underprovision in prior year	524	-
	524	6,983
Deferred tax:		
Relating to origination and reversal of temporary differences	(4,526)	(3,712)
Underprovision in prior year	3,485	-
	(1,041)	(3,712)
	(517)	3,271

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

Profit before taxation	(26,819)	7,267
Taxation at Malaysian statutory tax rate 28% (2003: 28%)	(7,509)	2,035
Income not subject to tax	-	(167)
Expenses not deductible for tax purposes	2,983	1,403
Underprovision of income tax expense in prior year	524	-
Underprovision of deferred tax in prior year	3,485	-
(Tax credit)/expense for the year	(517)	3,271

27. (Loss)/Earnings Per Share

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

	2004 RM'000	2003 RM'000
Net (loss)/profit for the financial year	(26,302)	3,586
Weighted average number of ordinary shares in issue ('000)	225,846	225,846
(Loss)/earnings per share (sen)	(11.65)	1.59

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

28. 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 2004 are as follows :

	2004		2003	
	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	154,938	154,938	90,046	90,046
Trade-related contingencies	76,741	15,348	46,313	9,263
Transaction related contingencies	1,118,119	559,060	961,509	480,755
Housing financing sold directly and indirectly to Cagamas with recourse	39,473	39,473	44,667	44,667
Credit extension commitment:				
- Maturity within one year	318,058	-	243,714	-
- Maturity exceeding one year	298,453	149,227	242,087	121,044
Foreign exchange related contracts	110,100	-	111,911	-
	2,115,882	918,046	1,740,247	745,775

29. 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.

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.

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 President/Chief Executive Officer, with members comprising senior members of the management including the Chief Risk Officer, chairs the committee. 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.

30. 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 their 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 their 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.

30. Profit Rate Risk (Contd.)

2004	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
Assets							
Cash and short-term funds	-	-	-	-	43,332	43,332	-
Deposits and placements with financial institutions	3,171,211	-	-	-	-	3,171,211	2.90
Dealing securities	342,533	-	-	-	-	342,533	2.80
Investment securities	51,560	168,793	910,723	380,099	-	1,511,175	4.50
Financing of customers - performing	826,277	78,935	326,411	1,348,859	-	2,580,482	6.30
- non-performing*	-	-	-	-	122,839	122,839	-
Other assets	-	-	-	-	289,842	289,842	-
Total Assets	4,391,581	247,728	1,237,134	1,728,958	456,013	8,061,414	
Liabilities and Shareholders' equity							
Deposits from customers	4,806,012	920,569	1,732,450	-	-	7,459,031	2.30
Bills and acceptance 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	-	-	-	-	498,147	498,147	
Total Liabilities and Shareholders' equity	4,806,012	920,569	1,732,450	-	602,383	8,061,414	
On-balance sheet profit rate sensitivity gap	(414,431)	(672,841)	(495,316)	1,728,958			
Off-balance sheet profit rate sensitivity gap	(110,000)	-	-	-			
Total profit rate sensitivity gap	(524,431)	(672,841)	(495,316)	1,728,958			

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

	Principal Amount RM'000	Up to 6 Months RM'000	> 6 - 12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Margin Requirement RM'000
Foreign exchange related contracts:						
Forwards	110,100	110,100	-	-	-	-

2003	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
Assets							
Cash and short-term funds	-	-	-	-	31,813	31,813	-
Deposits and placements with financial institutions	2,042,600	-	-	-	-	2,042,600	2.80
Dealing securities	704,971	-	-	-	-	704,971	2.90
Investment securities	1,261,983	101,013	479,009	205,006	-	2,047,011	3.60
Financing of customers							
- performing	633,532	60,550	260,027	1,092,419	-	2,046,528	7.30
- non-performing*	-	-	-	-	94,438	94,438	-
Other assets	-	-	-	-	348,581	348,581	-
Total Assets	4,643,086	161,563	739,036	1,297,425	474,832	7,315,942	
Liabilities and Shareholders' equity							
Deposits from customers	4,700,342	598,749	1,547,442	-	-	6,846,533	2.40
Bills and acceptance payable	-	-	-	-	59,125	59,125	-
Other liabilities	-	-	-	-	57,264	57,264	-
Total Liabilities	4,700,342	598,749	1,547,442	-	116,389	6,962,922	
Shareholders' equity	-	-	-	-	353,020	353,020	
Total Liabilities and Shareholders' equity	4,700,342	598,749	1,547,442	-	469,409	7,315,942	

30. Profit Rate Risk (Contd.)

2003	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit	Total RM'000	Effective
					rate sensitive RM'000		profit rate %
On-balance sheet profit rate sensitivity gap	(57,256)	(437,186)	(808,406)	1,297,425			
Off-balance sheet profit rate sensitivity gap	(111,911)	-	-	-			
Total profit rate sensitivity gap	(169,167)	(437,186)	(808,406)	1,297,425			

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

	Principal Amount RM'000	Up to 6 Months RM'000	> 6 - 12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Margin Requirement RM'000
Foreign exchange related contracts:						
Forwards	111,911	111,911	-	-	-	-

31. Liquidity Risk

Maturities of assets and liabilities by behavioural maturity profile

2004	Up to 6 Months RM'000	> 6 - 12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Assets					
Cash and short-term funds	43,332	-	-	-	43,332
Deposits and placements with financial institutions	3,171,211	-	-	-	3,171,211
Dealing securities	342,533	-	-	-	342,533
Investment securities	51,560	168,793	910,723	380,099	1,511,175
Financing of customers	839,753	80,260	344,668	1,438,640	2,703,321
Other assets	25,290	264,552	-	-	289,842
Total Assets	4,473,679	513,605	1,255,391	1,818,739	8,061,414
Liabilities					
Deposits from customers	1,392,643	19,320	6,047,068	-	7,459,031
Bills and acceptance payable	40,413	-	-	-	40,413
Other liabilities	52,169	11,654	-	-	63,823
Total Liabilities	1,485,225	30,974	6,047,068	-	7,563,267
Off-balance sheet liabilities					
Credit and commitments	2,076,409	-	-	39,473	2,115,882
Net maturity mismatch	912,045	482,631	(4,791,677)	1,779,266	(1,617,735)

31. Liquidity Risk (Contd.)

Maturities of assets and liabilities by behavioural maturity profile

2003	Up to 6 Months RM'000	> 6 - 12 Months RM'000	>1 - 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Assets					
Cash and short-term funds	31,813	-	-	-	31,813
Deposits and placements with financial institutions	2,042,600	-	-	-	2,042,600
Dealing securities	704,971	-	-	-	704,971
Investment securities	1,261,983	101,013	479,009	205,006	2,047,011
Financing of customers	666,440	63,752	292,945	1,117,829	2,140,966
Other assets	38,367	310,214	-	-	348,581
Total Assets	4,746,174	474,979	771,954	1,322,835	7,315,942
Liabilities					
Deposits from customers	1,180,810	278,122	5,387,601	-	6,846,533
Bills and acceptance payable	59,125	-	-	-	59,125
Other liabilities	29,081	28,183	-	-	57,264
Total Liabilities	1,269,016	306,305	5,387,601	-	6,962,922
Off-balance sheet liabilities					
Credit and commitments	1,695,580	-	-	44,667	1,740,247
Net maturity mismatch	1,781,578	168,674	(4,615,647)	1,278,168	(1,387,227)

32. Capital Adequacy

The capital adequacy ratio of the Bank is as follows:

	2004 RM'000	2003 RM'000
Tier-1 capital		
Paid-up share capital	225,846	225,846
Musharakah Irredeemable Non-Cumulative Convertible Preference shares	171,429	-
Statutory reserve	62,855	62,855
Retained profit	38,017	64,319
Less: Deferred tax asset	(14,611)	(13,570)
Total Tier-1 capital	483,536	339,450
Tier-II capital		
General allowance for bad and doubtful financing	44,598	35,542
Less: Investment in subsidiary companies	(5)	(5)
Capital base	528,129	374,987
Core capital ratio	13.4%	10.2%
Risk-weighted capital ratio	14.6%	11.2%

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

	2004		2003	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0%	4,764,043	-	3,813,157	-
10%	50,000	5,000	82,670	8,267
20%	637,002	127,400	979,520	195,904
50%	963,898	481,949	772,714	386,357
100%	3,007,579	3,007,579	2,752,736	2,752,736
	9,422,522	3,621,928	8,400,797	3,343,264

33. Segment Information

Primary reporting format - business segments

As at 31 December 2004

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer/ Retail RM'000	Investment and Treasury RM'000	Others RM'000	Total 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)
Profit from operation						(26,819)
Zakat and taxation						517
Net loss for the financial year						(26,302)
Other information						
Segment assets	1,117,903	331,903	1,436,426	5,057,591		7,943,823
Unallocated corporate assets	-	-	-	-		117,591
Total assets	1,117,903	331,903	1,436,426	5,057,591		8,061,414
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		
Depreciation	511	334	1,251	367		

Primary reporting format - business segments (Contd.)

As at 31 December 2003

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer/ Retail RM'000	Investment and Treasury RM'000	Others RM'000	Total RM'000
Total income	50,205	23,390	90,755	156,035	7,811	328,196
Result						
Segment result	11,023	(9,725)	(25,507)	78,291	7,811	61,893
Unallocated corporate expenses						(54,626)
Profit from operation						7,267
Zakat and taxation						(3,681)
Net profit for the financial year						3,586
Other information						
Segment assets	783,200	333,100	1,186,500	4,794,582		7,097,382
Unallocated corporate assets	-	-	-	-		218,560
Total assets	783,200	333,100	1,186,500	4,794,582		7,315,942
Segment liabilities	755,519	321,327	1,144,564	4,625,123		6,846,533
Unallocated corporate liabilities	-	-	-	-		116,389
Total liabilities	755,519	321,327	1,144,564	4,625,123		6,962,922
Other segment items						
Capital expenditure	950	745	2,218	689		
Depreciation	361	236	701	281		

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

34. Subsequent Events

On 25 January 2005, the Board of Directors of the Bank had approved a provision of approximately RM42 million for the proposed Voluntary Separation Scheme ("VSS") which is expected to be offered during the second quarter of 2005. The VSS will be made as part of the implementation of the Muamalat Transformation Programme ("MTP"). The MTP will enable the Bank to reduce its cost structure in the future.

35. 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 followings:

	Note	2004		2003	
		Carrying	Fair Value	Carrying	Fair Value
		Amount	RM'000	Amount	RM'000
Assets					
Investment securities	6	1,511,175	1,525,315	2,047,011	2,028,823
Financing of customers	7	2,703,321	2,795,795	2,140,966	2,228,285
Total Assets		4,214,496	4,321,110	4,187,977	4,257,108

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.

Cash and short term funds

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

Deposits and placements with other financial institutions

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

Investment and dealing securities

The market value of these securities represents its fair value. The Bank has no intention to dispose off its investment securities for amounts below their costs. Provision for impairment is provided for when there is a permanent impairment loss.

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.

Statutory deposits with Bank Negara Malaysia, other receivables, due from related company, deposits and placements of other financial institutions, bills and acceptances payable and other payables.

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

36. Comparative Figures

The presentation and classification of items in the current year financial statements has been changed to adopt the format as prescribed by Bank Negara Malaysia's Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks ("GP8-i"). Comparative figures have been reclassified to conform with this presentation, where necessary.

37. Currency

All amounts are stated in Ringgit Malaysia.

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Fax : 03-7875 5623

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Bandar Baru Rawang
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Perak

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