

Company No: 709506-V

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

Reports and financial statements
for the financial year ended 31 December 2009

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

**Reports and financial statements
for the financial year ended 31 December 2009**

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Company No: 709506-V

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) (Chairman)
Dato' Zulkiflee Abbas bin Abdul Hamid
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)
Tan Sri Mohamed Jawhar
En. Mohd Suffian bin Haji Haron
En. Kamarul Ariffin bin Mohd Jamil (Chief Executive Officer)
Dato' Sri Abdul Hamidy bin Abdul Hafiz (*Resigned as Director w.e.f 16 March 2009*)
Tan Sri Dato' Lodin bin Wok Kamaruddin (*Directorship expired on 1 April 2008*)

JOINT COMPANY SECRETARIES

Nimma Safira Khalid
Azizah Shukor

REGISTERED OFFICE

17th Floor, Menara Affin
80, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

AUDITORS

PricewaterhouseCoopers (No. AF : 1146)

AFFIN Islamic Bank Berhad

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DIRECTORS' REPORT

for the financial year ended 31 December 2009

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

FINANCIAL RESULTS

The Bank/Economic Entity RM'000

Profit before zakat and taxation	47,005
Zakat and taxation	(14,221)
Net profit after zakat and taxation	<u>32,784</u>

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial period ended 31 December 2009.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

During the financial year, 100 million ordinary shares of RM1.00 each were issued by the Bank. This is in line to Bank Negara Malaysia's requirement for minimum capital funds unimpaired by losses for Islamic banks is set at RM300 million.

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DIRECTORS' REPORT
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BAD AND DOUBTFUL FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing and the making of allowances for doubtful financing, and have satisfied themselves that all known bad financing had been written off and adequate allowances had been made for bad and doubtful financing.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

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

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DIRECTORS' REPORT

for the financial year ended 31 December 2009

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are as disclosed in Note 37 to the financial statements.

SUBSEQUENT EVENTS

There were no material events subsequent to the balance sheet date that require disclosure or adjustments to the financial statements.

AFFIN Islamic Bank Berhad
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DIRECTORS' REPORT
for the financial year ended 31 December 2009

DIRECTORS

The Directors of the Bank who have held office during the period since the date of the last report are:

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)
Chairman / Non-Independent Non-Executive Director

En. Kamarul Ariffin bin Mohd Jamil
Chief Executive Officer
Non-Independent Executive Director

Dato' Zulkiflee Abbas bin Abdul Hamid
Non-Independent Non-Executive Director

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

Tan Sri Mohamed Jawhar
Independent Non-Executive Director

En. Mohd Suffian bin Haji Haron
Independent Non-Executive Director

Dato' Sri Abdul Hamidy bin Abdul Hafiz
Non-Independent Non-Executive Director
(Resigned as Director w.e.f 16 March 2009)

Tan Sri Dato' Lodin bin Wok Kamaruddin
Non-Independent Non-Executive Director
(Directorship expired on 1 April 2008)

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DIRECTORS' REPORT
for the financial year ended 31 December 2009

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at end of the financial year in shares, warrants and options of related corporations are as follows:

	Ordinary shares of RM1 each			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
AFFIN Holdings Berhad				
Tan Sri Dato' Lodin bin Wok Kamaruddin	* 808,714	-	-	* 808,714
Dato' Sri Abdul Hamidy bin Abdul Hafiz	200,000	-	-	200,000
Boustead Heavy Industries Corporation Berhad				
Tan Sri Dato' Lodin bin Wok Kamaruddin	2,000,000	-	-	2,000,000
Boustead Petroleum Sdn Bhd				
Tan Sri Dato' Lodin bin Wok Kamaruddin	5,466,465	^ 300,000	-	5,766,465
Al-Hadharah Boustead REIT				
Tan Sri Dato' Lodin bin Wok Kamaruddin	200,000	-	-	200,000

* Shares held in trust by nominee company

^ Pursuant to Members' Resolution dated 30 December 2009

AFFIN Islamic Bank Berhad
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DIRECTORS' REPORT
for the financial year ended 31 December 2009

DIRECTORS' INTERESTS (continued)

	<u>Number of warrants 2000/2010</u>			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
AFFIN Holdings Berhad				
Tan Sri Dato' Lodin bin Wok Kamaruddin	1,500	-	-	1,500

Each warrant of the holding company ('AFFIN Warrants 2000/2005') entitles the registered holder to subscribe one new ordinary share of RM1.00 each in AFFIN Holdings Berhad at any time from the date of issue of 8 July 2000 at the exercise price of RM3.10 per share. The original exercise period of the AFFIN Warrants 2000/2005 was to expire on 7 July 2005. During the financial year 2005, the AFFIN Warrants 2000/2005 was extended for another five years and will expire on 7 July 2010 ('AFFIN Warrants 2000/2010').

	<u>Ordinary shares of RM10 each; RM5 uncalled</u>			
	As at 1.1.2009	Bought	Transfer	As at 31.12.2009
ABB Trustee Berhad ***				
Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)	20,000	-	-	20,000
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)	20,000	-	-	20,000

*** Shares held in trust for the Bank

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DIRECTORS' REPORT
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DIRECTORS' INTERESTS (continued)

	<u>Ordinary shares of 50 sen each</u>			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
Boustead Holdings Berhad				
Tan Sri Dato' Lodin bin Wok Kamaruddin	19,816,000	14,218,199	7,911,600	26,122,599

	<u>Redeemable preference shares of RM1 each</u>			
	As at 1.1.2009	Bought	Sold	As at 31.12.2009
Boustead Petroleum Sdn Berhad				
Tan Sri Dato' Lodin bin Wok Kamaruddin	-	^^ 50	-	50

^^ Pursuant to Members' Resolution dated 21 December 2009

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Neither at the end of the financial period, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Since the date of incorporation, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 27 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 he is a member or with a company in which he has a substantial financial interest except that certain Directors received remuneration as directors/executives of related corporations, share options granted to Directors of the Bank pursuant to the holding company's Employee Share Option Scheme and share options granted by the ultimate holding corporate body and Boustead Holdings Berhad.

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DIRECTORS' REPORT

for the financial year ended 31 December 2009

CORPORATE GOVERNANCE

The Board of Directors is committed to ensure the highest standards of corporate governance throughout the organisation with the objectives of safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices as set out in the Malaysian Code of Corporate Governance throughout the financial year. The Bank is also required to comply with BNM's Guidelines on Directorship in the Islamic Banks ('BNM/GP1-i').

(i) Board of Directors Responsibility and Oversight

The Board of Directors

The direction and control of the Bank rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Bank. The Board exercises independent oversight on the management and bears the overall accountability for the performance of the Bank and compliance with the principle of good governance.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the longer-term strategic plans of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines.

Whilst the Management Committee, headed by the Chief Executive Officer, is responsible for the implementation of the strategies and internal control as well as monitoring performance, the Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

The Board Meetings

Throughout the financial year, 13 Board meetings were held. All Directors have complied with the minimum number of attendances for Board meetings as stipulated by Bank Negara Malaysia. All Directors review Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

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DIRECTORS' REPORT
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CORPORATE GOVERNANCE (continued)

(i) Board of Directors Responsibility and Oversight (continued)

Board Balance

Currently the Board has 6 members, comprising 3 Non-Independent Non-Executive Directors (including the Chairman), 2 Independent Non-Executive Directors and 1 Non-Independent Executive Director. The Board of Directors Meetings are presided by Non-Independent Non-Executive Chairman whose role is clearly separated from the role of Chief Executive Officer. The composition of the Board and the number of meetings attended by each Director are as follows:

<u>Name of Directors</u>	<u>Total Meetings Attended</u>
1. Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara) <i>Non-Independent Non-Executive Chairman</i>	13 out of 13
2. En. Kamarul Ariffin bin Mohd Jamil Chief Executive Officer <i>Non-Independent Executive Director</i>	13 out of 13
3. Dato' Sri Abdul Hamidy bin Abdul Hafiz <i>Non-Independent Non-Executive Director</i> <i>(Resigned as Director w.e.f 16 March 2009)</i>	3 out of 3 [*]
4. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) <i>Non-Independent Non-Executive Director</i>	13 out of 13
5. Tan Sri Mohamed Jawhar <i>Independent Non-Executive Director</i>	13 out of 13
6. En. Mohd Suffian bin Haji Haron <i>Independent Non-Executive Director</i>	13 out of 13
7. Dato' Zulkiflee Abbas bin Abdul Hamid <i>Non-Independent Non-Executive Director</i>	12 out of 13

* Number of meetings up to date of resignation.

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DIRECTORS' REPORT
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CORPORATE GOVERNANCE (continued)

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees

The Board is assisted by four committees with specific terms of reference. This enables the committees to focus on areas or issues of critical importance to the operations of Bank. Compositions, functions and terms of reference of these committees are highlighted below:

(i) *Nomination Committee*

The Nomination Committee was established to provide a formal and transparent procedure for the appointment of Directors and Chief Executive Officer. The Committee also assesses the effectiveness of the Board as a whole, contribution of each director, contribution of the board's various committees and the performance of Chief Executive Officer and key senior management officers.

No meeting was held during the financial year ended 31 December 2009.

(ii) *Remuneration Committee*

The Remuneration Committee was established to evaluate and recommend to the Board the framework of remuneration and the remuneration package for Directors, Chief Executive Officer and key senior management officers. The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters.

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CORPORATE GOVERNANCE (continued)

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees (continued)

(ii) Remuneration Committee (continued)

There were 6 meetings held during the financial year ended 31 December 2009. The Remuneration Committee comprises the following members:

<u>Composition of the Remuneration Committee</u>	<u>Total Meetings Attended</u>
1. Tan Sri Mohamed Jawhar <i>Chairman/Independent Non-Executive Director</i>	6 out of 6
2. Dato' Sri Abdul Hamidy bin Abdul Hafiz <i>Non-Independent Non-Executive Director</i> <i>(Resigned as Director w.e.f 16 March 2009)</i>	2 out of 3 [*]
4. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) <i>Non-Independent Non-Executive Director</i>	6 out of 6

* Number of meetings up to date of resignation.

(iii) Shariah Committee

The Bank's business activities are subject to Shariah compliance and conformation by the Shariah Committee. The Shariah Committee is formed as legislated under Section 3(5)(b) of the Islamic Banking Act, 1983 and as per Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions ('BNM/GPS-i').

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DIRECTORS' REPORT
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CORPORATE GOVERNANCE (continued)

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees (continued)

(iii) Shariah Committee (continued)

The duties and responsibility of the Shariah Committee are as follows:

- (i) To advise the Board on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- (ii) To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shariah principles; and
- (iii) To advise the Bank on matters to be referred to the Shariah Advisory Council.

During the financial year ended 31 December 2009, a total of 16 meetings were held. The Shariah Committee comprises the following members and the details of attendance of each member at the Shariah Committee meetings held during the financial year are as follows:

<u>Composition of the Shariah Committee</u>	<u>Total Meetings Attended</u>
1. Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki <i>Chairman (Appointed w.e.f April 2009)</i>	16 out of 16
2. Associate Professor Dato' Dr. Hailani bin Muji Tahir <i>Chairman (contract expired on March 2009)</i>	2 out of 3
3. Maj Jen Dato' Haji Jamil Khir bin Baharom <i>Member (contract expired on May 2009)</i>	1 out of 4
4. Associate Professor Dr. Md Khalil bin Ruslan <i>Member</i>	10 out of 16
5. Associate Professor Dr. Said Bouheraoua <i>Member</i>	16 out of 16

* Number of meetings up to date of expiry of contract.

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DIRECTORS' REPORT

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CORPORATE GOVERNANCE (continued)

(ii) Risk Management

The Risk Management function, operating in an independent capacity, is part of the Bank's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

The Risk Management function provides support to the Board Risk Management Committee ('BRMC'). Committees namely Board Loan Recovery Committee ('BLRC'), Management Loan Committee ('MLC'), Asset and Liability Management Committee ('ALCO') and Operational Risk Management Committee assist the BRMC in managing credit, liquidity and operational risk respectively.

Responsibilities of these committees include:

- (i) risk identification
- (ii) risk assessment and measurement
- (iii) risk control and migration
- (iv) risk monitoring

Board Risk Management Committee ('BRMC')

The main function of Board Risk Management Committee is to assist the Board in its supervisory role in the management of risk in the Bank. It has responsibility for approving and reviewing the credit risk strategy, credit risk framework and credit policies of the Bank.

BRMC was established to provide oversight and management of all risks in the Bank. The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively. The Bank's risk management framework is set out in Note 2 to the the financial statements.

The BRMC meetings for the Bank were jointly held with AFFIN Bank Berhad and during the financial year ended 31 December 2009, a total of 6 meetings were held and the following Independent Non-Executive Director of the Bank sits in the meeting:

En. Mohd Suffian bin Haji Haron
Member/Independent Non-Executive Director

Total Meetings
Attended

6 out of 6

AFFIN Islamic Bank Berhad
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DIRECTORS' REPORT
for the financial year ended 31 December 2009

CORPORATE GOVERNANCE (continued)

(ii) Risk Management (continued)

Board Loan Review and Recovery Committee ('BLRC')

Board Loan Review Committee critically reviews loans and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto loan applications that have been accepted by the Management Loan Committee. The Committee is also responsible to review on the non-performing loans presented by Management.

Management Loan Committee ('MLC')

Management Loan Committee approves complex and larger loans and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of the Bank.

Individual Approvers

For the delegated authority, a dual sign-off approval system is in place, independent of business imperatives.

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DIRECTORS' REPORT
for the financial year ended 31 December 2009

CORPORATE GOVERNANCE (continued)

(ii) Risk Management (continued)

Asset and Liability Management Committee ('ALCO')

Responsibilities of these committees include:

- (i) Manage the asset liability of the Bank through coordination of the Bank's overall planning process including strategic planning, budgeting and asset liability management process;
- (ii) Direct the Bank's overall acquisition and allocation of Funds;
- (iii) Prudently manage the Bank's interest rate exposure;
- (iv) Determine the overall Balance Sheet strategy and ensuring policy compliance;
- (v) Determine the type and scope of derivative activities, approve individual derivative transactions as well as control over the level of exposure in derivatives; and
- (vi) Review of market risks in Bank's trading portfolios.

Operational Risk Management Committee

Responsibilities of these committees include:

- (i) To evaluate operational risks issues on escalating importance/strategic risk exposure;
- (ii) To review and recommend on broad operational risks management policies best practices for adoption by the Bank's operating units;
- (iii) To review the effectiveness of broad internal controls and making recommendation on changes if necessary;
- (iv) To review/approve recommendation on operational risk management groups section up to address specific issue;
- (v) To take the lead in inculcating an operational risks awareness culture;
- (vi) To approve operational risk management methodologies/measurements tools; and
- (vii) To review and approve the strategic operational risk management initiatives/plans and to endorse for BRMC's approval if necessary.

AFFIN Islamic Bank Berhad
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DIRECTORS' REPORT
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CORPORATE GOVERNANCE (continued)

(iii) Internal Audit and Internal Control Activities

Relationship with the Auditors

The Bank has established appropriate relationship with both internal and external auditors in conducting the audit function of the Bank.

Internal Controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investments, Bank's assets, and the need to review the adequacy and integrity of those systems regularly.

In accordance with BNM's Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions ('BNM/GP10'), the Group Internal Audit Division ('GIA') conducts continuous reviews on auditable areas within the Bank. The continuous reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the Audit and Examination Committee ('AEC'). The risk highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at AEC and Management meetings on bi-monthly basis. The AEC also conduct annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

At present, GIA consists of Operational Audit, IS Audit, Credit Review, Investigation and Compliance. Audit activities include these key components:

- (a) Conduct audit on all auditable entities (Head Office, branches and subsidiaries) processes, services, products, system and provide an independent assessment to the Board of Directors, AEC and Management that appropriate control environment is maintained with clear authority and responsibility with sufficient staff and resources to carry out control responsibilities.
- (b) Perform risk assessments to identify control risk and evaluate actions taken to provide reasonable assurance that procedures and controls exist to contain those risks.
- (c) Maintain strong control activities including documented processes and system incorporating adequate controls to produce accurate financial data and provide for the safeguarding of assets, and a documented review of reported results.

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DIRECTORS' REPORT
for the financial year ended 31 December 2009

CORPORATE GOVERNANCE (continued)

(iii) Internal Audit and Internal Control Activities (continued)

Internal Controls (continued)

- (d) Ensure effective information flows and communication, including:
 - (i) Training and the dissemination of standards and requirements;
 - (ii) An information system to produce and convey complete, accurate and timely data including financial data; and
 - (iii) The upward communication of trends, developments and emerging issues.

- (e) Monitor controls, including procedures to verify that controls are in place and functioning, follow up on corrective action on control findings till its full resolution. Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity.

The AEC comprises members of the Bank's Board of Directors whose primary function is to assist the Board in its supervision over:

- (i) The reliability and integrity of accounting policies and financial reporting and disclosure practise,
- (ii) The provision of advice to the Board with regards to the financial statements and business risks to enable the Board to fulfill its fiduciary duties and obligations, and
- (ii) The establishment and maintenance of processes to ensure that they:
 - are in compliance with all applicable laws, regulations and company policies; and
 - have adequately addressed the risk relating to internal controls and system, management of inherent and business risks, and ensuring that the assets are properly managed and safeguarded.

The AEC meetings for the Bank were jointly held with AFFIN Bank Berhad during the financial year ended 31 December 2009 and the following Independent Non-Executive Director of the Bank sits in the meeting:

Tan Sri Mohamed Jawhar
Member/Independent Non-Executive Director

Total Meetings
Attended

9 out of 9

AFFIN Islamic Bank Berhad (Incorporated in Malaysia)

DIRECTORS' REPORT *for the financial year ended 31 December 2009*

CORPORATE GOVERNANCE (continued)

(iv) Management Reports

Before each Board meeting, Directors are provided with a complete set of Board papers itemised in the agenda for Board's review/approval and/or notation.

The Board monitors the Bank's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the Bank's operations and financial issues. In addition, the minutes of the Board Committees and Management Committees meetings and other issues are also tabled and considered by the Board.

Procedures are in place for Directors to seek both independent professional advice at the Bank's expense and the advice and services of the Company Secretary in order to fulfil their duties and specific responsibilities.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 AND FUTURE OUTLOOK

From the time it started operations as an Islamic banking window under AFFIN Bank to inception as a standalone entity in 2006, AFFIN ISLAMIC has been growing steadily. Its business prospects are good and the Bank is optimistic about the opportunities and growth that are available in the domestic Islamic banking market.

In 2009, the Bank embarked on a four-pronged approach to enhance and strengthen its business model to ensure that its Islamic banking franchise will remain a strong, credible and dynamic entity in the domestic banking community. The four-pronged approaches are:

- To grow the Islamic banking business further that will provide and create sustainable long term revenues for the Bank
- To develop new and innovative Shariah-based products that are acceptable to Muslim and non-Muslim customers in Malaysia and the region
- To introduce a wide-range of globally-accepted Islamic products and advisory services whose intrinsic values have comparable measured worth, and
- To internationalise AFFIN ISLAMIC business into new markets and products where it will be readily accepted.

AFFIN Islamic Bank Berhad **(Incorporated in Malaysia)**

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 AND FUTURE OUTLOOK (CONTINUED)

Despite the challenging economic conditions arising from the 2008-2009 financial crisis in the West, 2009 proved to be a promising year for the Bank.

- Profit before tax for year 2009 was RM47.0 million, higher against 2008 by 13.6%.
- Total net financing grew 17.6% to RM2.9 billion but net NPF was slightly higher against 2008 at 1.6%
- Total customer deposits (excluding treasury deposits) increased 37.5% to RM3.6 billion in 2009 as against RM2.6 billion the year previously.
- The Bank also increased its client base by 13% to about 150,000 customers coming from both retail and business enterprise sectors.

During the year, AFFIN ISLAMIC enhanced and strengthened its core banking system to enable the Bank to offer more globally accepted Shariah-based products using Shariah concepts such as Istisna', Murabahah, Ijarah and Musharakah Mutanaqisah. Moving forward, this is an important strategy because the Bank will progressively move away from questionable products, in particular products using Bai Inah, Bai al Dayn and Bai Bithaman Ajil Shariah concepts. In doing so, AFFIN ISLAMIC hopes to set the standards for local and international financial institutions.

On November 18, 2009, the Bank signed a Memorandum of Understanding with International Shariah Research Academy (ISRA) where the latter was engaged to undertake research on alternative Shariah concepts to replace Bai Inah and Bai Al Dayn.

While the Bank focuses its much of its efforts on its core business, it is also aware of its role towards the wider community at large. The Bank capitalises on its role as a responsible corporate citizen by giving back to the community in areas where it can make significant and meaningful differences.

The Bank's CSR efforts are focused on building homes for the hard-core poor and contributing to the education needs of the disadvantaged and underprivileged in society.

AFFIN ISLAMIC is honoured to play major roles in several CSR events in 2009. One of the most meaningful events was the handing over of 50 houses for the hardcore poor to the Melaka state government.

In 2010, AFFIN ISLAMIC will continue to focus on the following areas to grow its business:

- create new wealth through new business opportunities, new globally accepted Shariah based products as well as new business segments
- continue to improve its asset quality

AFFIN Islamic Bank Berhad (Incorporated in Malaysia)

DIRECTORS' REPORT

for the financial year ended 31 December 2009

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 AND FUTURE OUTLOOK (CONTINUED)

- improve its processes and services efficiencies through technology implementation
- raise quality and capability of its human capital

AFFIN ISLAMIC faces a challenging business climate notwithstanding the fact that its resources are limited. Nevertheless, the Bank feels that its small size does not hinder its ability to be innovative, agile and responsive to the needs of the market.

As a wholly-owned subsidiary of AFFINBANK, AFFIN ISLAMIC believes that its complementary role to conventional banking will act as a catalyst to increase market share and create new business opportunities. While there are synergistic and tangible benefits from the sharing of resources, branches as well as people, the unity that is demonstrated by close collaboration will ensure that AFFIN ISLAMIC will have the opportunity to be a meaningful contributor to the Group. This is reflected in the growth of Islamic banking services and products in Malaysia and the region.

Furthermore, the strength and capabilities of the Bank in promoting its Islamic banking products and services will place the bank in good standing not only in Malaysia but in the region.

AFFIN ISLAMIC anticipates that 2010 will provide growth opportunities in various business segments. The Bank will seek to leverage on these opportunities and will play a catalytic role to ensure that it remains a significant and relevant partner to the growth of Islamic banking in Malaysia.

RATING BY EXTERNAL RATING AGENCIES

The Bank was not rated by any external rating agencies during the financial year.

ZAKAT OBLIGATIONS

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

HOLDING COMPANY AND ULTIMATE HOLDING CORPORATE BODY

The holding company of the Bank is AFFIN Bank Berhad and the ultimate holding company is AFFIN Holdings Berhad.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2009

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 February 2010.

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)
Chairman

Kamarul Ariffin bin Mohd Jamil
Chief Executive Officer

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

BALANCE SHEETS as at 31 December 2009

	Note	The Bank/ Economic Entity	
		2009 RM'000	2008 RM'000
ASSETS			
Cash and short-term funds	3	2,211,477	2,358,150
Available-for-sale securities	4	1,383,903	1,071,326
Held-to-maturity securities	5	575	575
Financing, advances and other loans	6	2,880,708	2,449,939
Other assets	8	34,232	52,585
Tax recoverable		-	5,187
Statutory deposits with Bank Negara Malaysia	9	-	106,400
Investment in jointly controlled entity	10	500	500
Amount due from jointly controlled entity		1,057	750
Property and equipment	11	4,159	3,247
Land held for sale	12	-	15,000
Intangible assets	13	727	1,392
Deferred tax assets	14	8,431	4,552
TOTAL ASSETS		6,525,769	6,069,603
LIABILITIES			
Deposits from customers	15	4,627,330	4,252,119
Deposits and placements of banks and other financial institutions	16	1,238,459	1,261,205
Other liabilities	17	30,951	39,234
Amount due to holding company	18	229,364	254,374
Provision for taxation		1,594	-
TOTAL LIABILITIES		6,127,698	5,806,932
EQUITY			
Share capital	19	260,000	160,000
Reserves	20	138,071	102,671
TOTAL EQUITY		398,071	262,671
TOTAL LIABILITIES AND EQUITY		6,525,769	6,069,603
COMMITMENTS AND CONTINGENCIES	31	2,157,508	6,994,462

The accounting policies on pages 27 to 44 and the notes on pages 45 to 99 form an integral part of these financial statements.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

INCOME STATEMENTS for the financial year ended 31 December 2009

	Notes	The Bank/ Economic Entity	
		2009 RM'000	2008 RM'000
Income derived from investment of depositors' funds and others	21	242,605	278,588
Income derived from investment of shareholders' funds	22	14,284	12,062
Allowance for losses on financing	23	(29,995)	(27,113)
Transfer from profit equalisation reserve	17 (a)	-	-
Total distributable income		226,894	263,537
Income attributable to the depositors	24	(103,262)	(155,195)
Total net income		123,632	108,342
Personnel expenses	25	(42,344)	(33,845)
Other overheads and expenditures	26	(34,283)	(33,136)
Profit before zakat and taxation		47,005	41,361
Zakat		(3,308)	(2,359)
Taxation	28	(10,913)	(11,000)
Net profit after zakat and taxation		32,784	28,002
Attributable to:			
Equity holders of the Bank		32,784	28,002
Earnings per share			
- basic/fully diluted (sen)	29	15.4	17.5

The accounting policies on pages 27 to 44 and the notes on pages 45 to 99 form an integral part of these financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY for the financial year ended 31 December 2009

	<u>Non-Distributable</u>			<u>Distributable</u>	Total RM'000
	Share capital RM'000	Statutory reserves RM'000	Investment fluctuation reserves RM'000	Retained profits RM'000	
The Bank/Economic Entity					
At 1 January 2009	160,000	52,005	(1,339)	52,005	262,671
Net fair value change in available-for-sale securities	-	-	3,488	-	3,488
Deferred tax (Note 14)	-	-	(872)	-	(872)
Income and expenses recognised directly in equity	-	-	2,616	-	2,616
Net profit for the financial year	-	-	-	32,784	32,784
Total recognised income and expense for the financial year	-	-	2,616	32,784	35,400
Transfer to statutory reserves	-	16,392	-	(16,392)	-
Issued during the financial year	100,000	-	-	-	100,000
At 31 December 2009	260,000	68,397	1,277	68,397	398,071
The Bank/Economic Entity					
At 1 January 2008	160,000	38,004	(401)	38,004	235,607
Net fair value change in available-for-sale securities	-	-	(1,244)	-	(1,244)
Deferred tax (Note 14)	-	-	306	-	306
Income and expenses recognised directly in equity	-	-	(938)	-	(938)
Net profit for the financial year	-	-	-	28,002	28,002
Total recognised income and expense for the financial year	-	-	(938)	28,002	27,064
Transfer to statutory reserves	-	14,001	-	(14,001)	-
At 31 December 2008	160,000	52,005	(1,339)	52,005	262,671

The accounting policies on pages 27 to 44 and the notes on pages 45 to 99 form an integral part of these financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

CASH FLOW STATEMENT for the financial year ended 31 December 2009

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before zakat and taxation	47,005	41,361
Adjustments for items not involving the movement of cash and cash equivalents:		
Income from securities		
- available-for-sale securities	(28,441)	(13,259)
Amortisation of premium less accretion of discount		
- available-for-sale securities	(7,879)	(18,570)
Gain on sale from securities		
- held-for-trading securities	(22)	(44)
- available-for-sale securities	(590)	(57)
Gain on unrealised foreign exchange	(6,516)	(18,361)
Depreciation of property and equipment	704	609
Amortisation of intangible asset	503	491
Net specific allowance for bad and doubtful financing	23,455	16,183
Income suspended	2,206	1,668
Charge of general allowances	6,758	10,824
Bad debt on financing written-off	100	220
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	37,283	21,065
(Increase)/decrease in operating assets:-		
Held-for-trading securities	23	43
Foreign exchange transaction	6,229	15,761
Financing, advances and other loans	(463,288)	(744,678)
Other assets	18,349	83,091
Amount due from holding company	(25,010)	-
Statutory deposits with Bank Negara Malaysia	106,400	(24,100)
Amount due from jointly controlled entity	(307)	(750)
Increase/(decrease) in operating liabilities:-		
Deposits from customers	375,211	543,506
Deposits and placements of banks and other financial institutions	(22,746)	(817,717)
Amount due to holding company	-	46,763
Other liabilities	(9,205)	5,502
Cash generated from/(used in) operations	22,939	(871,514)
Tax paid	(8,884)	(17,819)
Zakat paid	(2,223)	(1,299)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	11,832	(890,632)

AFFIN Islamic Bank Berhad
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CASH FLOW STATEMENT for the financial year ended 31 December 2009 (continued)

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investment in jointly controlled entity	-	(500)
Income received from securities		
- available-for-sale securities	28,441	13,259
Net purchase of available-for-sale securities	(300,619)	(279,695)
Net purchase of held-to-maturity securities	-	(575)
Purchase of property and equipment	(1,613)	(3,620)
Disposal/(purchase) of land held for sale	15,000	(15,000)
Purchase of intangible assets	-	(237)
NET CASH USED IN INVESTING ACTIVITIES	(258,791)	(286,368)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in share capital	100,000	-
NET CASH GENERATED FROM FINANCING ACTIVITIES	100,000	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(146,959)	(1,177,000)
NET INCREASE IN FOREIGN EXCHANGE	286	2,600
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	2,358,150	3,532,550
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2,211,477	2,358,150
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and short-term funds (Note 3)	2,211,477	2,358,150

The accounting policies on pages 27 to 44 and the notes on pages 45 to 99 form an integral part of these financial statements.

AFFIN Islamic Bank Berhad
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Malaysian Accounting Standards Board ('MASB') Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, Bank Negara Malaysia ('BNM') Guidelines, Shariah requirements and the provisions of the Companies Act, 1965. The Bank has adopted the revised Guidelines on Financial Reporting for Licensed Islamic Banks ('BNM/GP8-i') issued by BNM in June 2005.

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

The preparation of financial statements in conformity with MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and BNM Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. It also requires Directors to exercise judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (U).

(a) Standards, amendments to published standards and interpretations that are applicable to the Bank and are effective

There is no new accounting standards, amendments to published standards and interpretations to existing standards effective for the Bank's financial period ended 31 December 2009.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

- FRS 8 Operating Segments (effective for accounting periods beginning on or after 1 July 2009). FRS 8 replaces FRS 114 2004 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

- The revised FRS 101 “Presentation of financial statements” (effective from 1 January 2010) prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity. ‘Non-owner changes in equity’ are to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.
- FRS 123 "Borrowing costs" (effective from 1 January 2010) which replaces FRS 123₂₀₀₄, requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The improvement to FRS 123 clarifies that the definition of borrowing costs includes interest expense calculated using the effective interest method defined in FRS 139.
- FRS 139 “Financial Instruments: Recognition and Measurement” (effective from 1 January 2010) establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted under strict circumstances. The amendments to FRS 139 provide further guidance on eligible hedged items. The amendment provides guidance for two situations. On the designation of a one-sided risk in a hedged item, the amendment concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. The improvement to FRS 139 clarifies that the scope exemption in FRS 139 only applies to forward contracts but not options for business combinations that are firmly committed to being completed within a reasonable timeframe.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

- IC Interpretation 9 "Reassessment of Embedded Derivatives" (effective from 1 January 2010) requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
- FRS 7 "Financial instruments: Disclosures" (effective from 1 January 2010) provides information to users of financial statements about an entity's exposure to risks and how the entity manages those risks. The improvement FRS 7 clarifies that entities must not present total interest income and expense as a net amount within finance costs on the face of the income statement.

The Bank has applied the transitional provision in the respective standards which exempts entities from disclosing the possible impact arising from the initial application of the following standards and interpretations on the financial statements of the Bank.

- FRS 139, Amendments to FRS 139 on eligible hedged items, Improvement to FRS 139 and IC Interpretation 9
- FRS 7 and Improvement to FRS 7

Nevertheless, the accounting policies of the Bank incorporate revised BNM/GP8-i which include selected principles of FRS 139.

For banking institutions, BNM may prescribe the use of an alternative basis for collective assessment of impairment for a transitional period for purpose of complying with the collective assessment of impairment requirement in FRS 139.

- The amendment to FRS 1 "First-time adoption of financial reporting standards" and FRS 127 "Consolidated and separate financial statements: Cost of an investment in a subsidiary, jointly controlled entity or associate" (effective from 1 January 2010) allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate

AFFIN Islamic Bank Berhad
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

financial statements. The amendment also removes the definition of the cost method from FRS 127 and requires investors to present dividends as income in the separate financial statements.

- The amendments to FRS 132 “Financial instruments: Presentation” and FRS 101(revised) “Presentation of financial statements” - “Puttable financial instruments and obligations arising on liquidation” (effective from 1 January 2010) require entities to classify puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, if they have particular features and meet specific conditions.
- IC Interpretation 10 "Interim Financial Reporting and Impairment" (effective from 1 January 2010) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.
- IC Interpretation 11 "FRS 2 Group and treasury share transactions" (effective from 1 January 2010) provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

The following amendments are part of the Malaysian Accounting Standards Board’s (“MASB”) improvements project issued in September 2009. They are effective for annual period beginning on or after 1 January 2010:

- FRS 5 “Non-current assets held for sale and discontinued operations” clarifies that FRS 5 disclosures apply to non-current assets or disposal groups that are classified as held for sale and discontinued operations.
- FRS 107 “Statement of cash flows” clarifies that only expenditure resulting in a recognised asset can be categorised as a cash flow from investing activities.
- FRS 110 “Events after the balance sheet date” reinforces existing guidance that a dividend declared after the reporting date is not a liability of an entity at that date given that there is no obligation at that time.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

- FRS 116 “Property, plant and equipments” (consequential amendment to FRS 107 “Statement of cash flows”) requires entities whose ordinary activities comprise of renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to FRS 107 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.
- FRS 117 “Leases” clarifies that the default classification of the land element in a land and building lease is no longer an operating lease. As a result, leases of land should be classified as either finance or operating, using the general principles of FRS 117.
- FRS 118 “Revenue” provides more guidance when determining whether an entity is acting as a ‘principal’ or as an ‘agent’.
- FRS 127 “Consolidated & separate financial statements” clarifies that where an investment in a subsidiary that is accounted for under FRS 139 is classified as held for sale under FRS 5, FRS 139 would continue to be applied.
- FRS 128 “Investments in associates” clarifies that an investment in an associate is treated as a single asset for impairment testing purposes. Reversals of impairment are recorded as an adjustment to the carrying amount of the investment to the extent that the recoverable amount of the associate increases.
- FRS 128 “Investments in associates” and FRS 131 “Interests in joint ventures” (consequential amendments to FRS 132 “Financial instruments: Presentation” and FRS 7 “Financial instruments: Disclosure” clarify that where an investment in associate or joint venture is accounted for in accordance with FRS 139, only certain, rather than all disclosure requirements in FRS 128 or FRS 131 need to be made in addition to disclosures required by FRS 132 and FRS 7.
- FRS 134 “Interim financial reporting” clarifies that basic and diluted earnings per share (“EPS”) must be presented in an interim report only in the case when the entity is required to disclose EPS in its annual report.

AFFIN Islamic Bank Berhad
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(A) BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

- FRS 136 “Impairment of assets” clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics. The improvement also clarifies that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value in use should be made.
- FRS 138 “Intangible Assets” clarifies that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for mail order catalogues when the entity has access to the catalogues and not when the catalogues are distributed to customers. It confirms that the unit of production method of amortisation is allowed.

The Bank will apply these standards when effective. The adoption of these standards and amendments will not have significant impact on the results of the Bank except for FRS 139.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(B) JOINTLY CONTROLLED ENTITIES

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Bank with one or more parties where the strategic financial and operating decisions relating to the entities require unanimous consent of the parties sharing control.

Investment in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost.

The Bank's share of the post-acquisition profits or losses of the jointly controlled entities are recognised in the income statement, and its share of the post-acquisition movements in reserves are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Where necessary, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Bank.

Dilution gains and losses in jointly controlled entities are recognised in the income statement.

For incremental interest in a jointly controlled entity, the date of acquisition is purchase date at each stage and goodwill is calculated at each purchase date based on the fair value of assets and liabilities identified. There is no "step up to fair value" of net assets of previously acquired stake and the share of profits and equity movements for the previously acquired stake is recorded directly through equity.

In the Bank's financial statements, jointly controlled entity is stated at cost less impairment losses. At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the investment is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement (refer to accounting policy D for impairment of non-financial assets).

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(C) INTANGIBLE ASSETS

Computer software

Acquired computer software are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years). Computer software classified as intangible asset are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

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

(D) IMPAIRMENT ON NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognized in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(E) SECURITIES PORTFOLIO

The Bank classifies securities portfolio into held-for-trading securities, available-for-sale securities and held-to-maturity securities. Classification of the securities is determined at initial recognition.

Securities are initially recognised at fair value. Securities are derecognised when the rights to receive cash flows from the securities have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Subsequent measurement for each type of securities is as follows:

(a) *Held-for-trading securities*

Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing it in the near term or they are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Held-for-trading securities are stated at fair value. Any unrealised gain or loss arising from the change in fair value or arising from sale of such securities are recognised in the income statement.

Securities classified as held-for-trading are not reclassified to securities held-to-maturity or securities available-for-sale while they are held. However, for the period from 1 July 2008 to 31 December 2009, BNM's circular dated 20 October 2008 allows the reclassification of securities held-for-trading to securities available-for-sale and securities held-to-maturity under certain limited circumstances.

(b) *Available-for-sale securities*

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified as held-for-trading or held-to-maturity securities. Investments in equity instruments where there is no quoted market price in an active market and whose fair value cannot be reliably measured, will be stated at cost.

Any gains or losses arising from the change in fair value adjustments are recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised, the cumulative gains or loss previously in equity shall be transferred to the income statement.

AFFIN Islamic Bank Berhad
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(E) SECURITIES PORTFOLIO (continued)

(b) Available-for-sale securities (continued)

Impairment of available-for-sale securities is assessed when there is an objective evidence of impairment. Cumulative unrealised losses that had been recognised directly in equity shall be removed and recognised in income statement even though the securities have not been derecognised. Impairment losses in addition to the above unrealised losses is also recognised in the income statement. Subsequent reversal of impairment on debt instrument in the income statement is allowed when the decrease in impairment can be related objectively to an event accruing after the impairment was recognised.

Impairment losses recognised in income statement for an investment in an equity instrument shall not be reversed.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, as well as those instruments allowed by BNM. In accordance with Guidelines on Financial Reporting for Licensed Islamic Banks ('BNM/GP8-i') issued by BNM on June 2005, the following instruments may be classified as held-to-maturity securities and measured at cost:

- (i) equity securities held as investment in organisations which are set up for socio-economic reasons; and
- (ii) equity instruments received as a result of financing restructuring or financing conversion, where there is no quoted market price in an active market and whose fair value cannot be reliably measured.

Held-to-maturity securities are measured at amortised cost using the effective profit method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(E) SECURITIES PORTFOLIO (continued)

(c) Held-to-maturity securities (continued)

Any sale or reclassification of a significant amount of held-to-maturity securities before maturity during the current financial year or last two preceding financial years will “taint” the entire category and result in the remaining held-to-maturity securities being reclassified to available-for-sale. However, the “tainting” rules will not apply under the conditions stated in the BNM/GP8-i and provided that prior approval from the Board of Directors is obtained.

Impairment of held-to-maturity securities is assessed when there is an objective evidence of impairment, at the following basis:

(i) Securities carried at amortised cost

The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the Bank's original effective profit rate. Subsequent reversal of impairment is allowed in the event of an objective decrease in impairment. Recognition of impairment losses and its reversal is made through the income statement.

(ii) Securities carried at cost

The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

(F) BILLS AND ACCEPTANCES PAYABLE

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

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for the financial year ended 31 December 2009

(G) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the placed part is derecognised. All the repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on the straight line basis to write-off the cost of the assets, to their residual values over their estimated useful lives summarised as follows:

Office equipment and furniture	10 years
Computer equipment and software	5 years
Motor vehicles	5 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in the recoverable amount is recognised in the income statement (refer to accounting policy D on impairment of non-financial asset).

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

(H) LAND HELD FOR SALE

Land held for sale is stated at cost less accumulated impairment losses. Where an indication of impairment exists, an analysis is performed to assess whether the carrying amount of the land is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in recoverable amount is recognised in the income statement.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(I) FOREIGN CURRENCY TRANSLATIONS

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(J) RECOGNITION OF FINANCING INCOME AND HIBAH

Islamic financing income is recognised on an accrual basis in accordance with the Shariah principles and BNM/GP8-i. Al-Ijarah Thumma Al-Bai ('AITAB') financing income recognised using the "sum-of-digit" method over the lease terms, whilst Al-Bai Bithaman Ajil ('BBA'), Al-Murabahah, Al-Istisna' and Bai'-Inah financing income is recognised on a monthly basis over the period of the financing contracts, based on an agreed profit at the inception of such contracts.

Income accrued and recognised prior to the date the financing is classified as non-performing shall be reversed out of income by debiting the income account in the income statement and crediting the accrued income receivable account in the balance sheet. Subsequently, income earned on non-performing financing shall be recognised on a cash basis.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(J) RECOGNITION OF FINANCING INCOME AND HIBAH (continued)

Customers' accounts are generally classified as non-performing when repayments are in arrears for three months or more from first day of default for financing and cash line-i, and after three months or more from maturity date for trade bills, trust receipts, bankers' acceptances and other instruments of similar nature.

Hibah from securities portfolio is recognised on an accrual basis using the effective profit method. The hibah includes coupons earned and accrued discount and amortisation of premium on these securities.

(K) RECOGNITION OF FEES AND OTHER INCOME

Fees and other profit from Islamic Banking business are recognised on an accrual basis in accordance with the principles of Shariah.

(L) FINANCING AND RELATED EXPENSE RECOGNITION

Profit payable on deposits and borrowings are expensed as incurred.

Dealers' handling fees on hire purchase are charged to income statement in the period when they are incurred in accordance with Bank Negara Malaysia circular dated 8 August 2003.

(M) FINANCING, ADVANCES AND OTHER LOANS

Financing, advances and other loans are recognised when cash is advanced to the borrowers.

Specific allowances are made for bad and doubtful financing based on management's evaluation of the collectibility and the status of the financing and their related underlying securities.

A general allowance based on a percentage of the financing portfolio is also made to cover possible losses which are not specifically identified.

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

The policy on allowances for losses on financing is generally more stringent than that laid down in revised BNM's Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ('BNM/GP3').

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2009

(M) FINANCING, ADVANCES AND OTHER LOANS (continued)

In addition, Bank Negara Malaysia has granted indulgence to the Bank from complying with the requirement on the measurement of impaired credit facilities at their estimated recoverable amounts using present value of estimated future cash flows discounted at original effective profit rate under the revised BNM/GP3.

(N) FINANCIAL LIABILITIES

All non-trading financial liabilities are initially recognised at fair value, being the consideration received at transaction date.

(O) TAXATION

(i) Current tax

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and include all taxes based upon the taxable profits for the financial year.

(ii) Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising principally arising from depreciation of property and equipment, amortisation of intangible assets, general allowances for loans, advances and financing, unrealised gains/(losses) on revaluation of securities, foreign exchange and derivatives, provision for other liabilities and unused tax losses carried forward.

Deferred tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(O) TAXATION (continued)

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

(P) ZAKAT

The Bank pays zakat based on 2.5% of prior year's net asset method, to comply with the principles of Shariah. The Bank does not pay zakat on behalf of the shareholders or depositors. The Bank made provision for zakat amounting to RM4.38 million for the financial year ended 31 December 2009.

(Q) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible to cash without significant risk of changes in value.

(R) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

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for the financial year ended 31 December 2009

(S) OTHER PROVISIONS

Provisions are recognised by the Bank when all of the following conditions have been met:

- (i) the Bank has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources to settle the obligation will be required; and
- (iii) a reliable estimate of the amount of obligation can be made.

(T) EMPLOYEE BENEFITS

Short term employee benefits

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

Defined contribution plan

The defined contribution plan is a pension plan under which the Group pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without any possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2009

(U) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and judgements

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(i) Allowance for losses on financing, advances and other loans and securities

The Bank makes allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM Guidelines, judgement is made about the future and other key factors in respect of the recovery of financing, advances and other loans and securities. Among the factors considered are the Bank's aggregate exposure to the borrower or issuer, the net realisable value of the underlying collateral value, the viability of customer's or issuer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

(V) SEGMENT REPORTING

Segment reporting is presented for enhanced assessment of the Bank's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment.

(W) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of cost and net realisable value.

AFFIN Islamic Bank Berhad (Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009*

1 GENERAL INFORMATION

The Bank, a wholly-owned subsidiary of AFFIN Bank Berhad, was incorporated on 13 September 2005 and commenced operations on 1 April 2006. The net assets of AFFIN Bank's Islamic Division was transferred to AFFIN Islamic Bank on 1 April 2006.

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

The number of employees in the Bank at the end of financial year was 165 (2008: 149) employees.

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(i) Market risk

Market risk is defined as the risk to the Bank's financial condition resulting from adverse price or volatility moves of the balance sheet contained in the Bank's portfolio. The Bank is mainly exposed to risk on rate of return or profit rate. The rate of return risk arises mainly from differences in timing between the maturities or repricing of assets and liabilities. The Bank is also exposed to basis risk, when the pricing characteristics of two instruments change at different times or by different amounts.

One of the key objectives of market risk management is to balance the level of risk against the rate of return required.

For the asset liability mismatch position in the Balance Sheet, the risk is measured using Net Gap Income simulations involving various profit rate scenarios and an Overall Risk Tolerance Limit approved by the Asset Liability Management Committee ('ALCO').

The Bank's management, ALCO and Board Risk Management Committee ('BRMC') are regularly kept informed of the risk profile of the balance sheet.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(ii) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligation to the Bank. Credit risk arises mainly from the Bank's financing activities.

The management of credit in the Bank is governed by a set of credit policies approved by the Board of Directors. Approval authorities are delegated to Senior Management and the Group Management Loan Committee to implement the credit policies and ensure sound credit granting standards.

A credit scoring solution using statistically developed application scorecards has been deployed for consumer mass market products since 2008. The scorecard is applied during credit evaluation to assess the risks associated with a financing application.

A credit risk grading system is implemented for corporate and business financing. The grading is based on credit worthiness of the borrower, i.e. the ability to service and repay debt obligations based on the borrower's current condition, with regard to its management capacity and its market position. The credit risk grading system is being revised to make it more robust and risk sensitive.

Group Risk Management commenced an Internal Credit Certification Programme for both Business Banking and Consumer Credit in July 2009 and August 2009 respectively. It is envisaged that the core credit related group of personnel across the entire Affin Banking Group would be certified within 2 to 3

(iii) Liquidity risk

Liquidity risk is the risk of loss due to failure to access funds at reasonable cost to fund the Bank's operations and meet its liabilities when they fall due. Liquidity risk arises from the Bank's funding activities and the management of its assets.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioral cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets.

The Bank employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. The risk is measured monthly using internal and external qualitative and quantitative liquidity risk indicators. The Bank also conducts liquidity stress tests to gauge the Bank's resilience in the event of a funding crisis. In addition, the Bank has in place the Contingency Funding Plan to deal with liquidity crisis and emergencies.

The BRMC is responsible for the Bank's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is informed regularly of the liquidity situation in the Bank.

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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such risks may result in omissions, errors and breakdowns that can potentially lead to financial loss or other indirect losses to the Bank.

The Bank manages such risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the environment and market in which it is operating and any regulatory requirement in force. Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standard, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Group Internal Audit to ensure adequacy and effectiveness of the Operational Risk Management process.

The Bank gathers and reports operational risk loss and "near misses" events to the Group Operational Risk Management Committee and Board Risk Management Committee. Appropriate remedial actions are reviewed and implemented to minimize the recurrence of such events.

Group Risk Management commenced an internal operational risk (including anti-money laundering/counter financing of terrorism and business continuity management) Certification Program in November this year. Workshops which were followed by assessments, were conducted to measure the risk coordinators' skills and knowledge to enable the prescription of appropriate training and development activities.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

3 CASH AND SHORT-TERM FUNDS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	3,947	3,000
Money at call and interbank placements with remaining maturity not exceeding one month	<u>2,207,530</u>	<u>2,355,150</u>
	<u>2,211,477</u>	<u>2,358,150</u>

4 AVAILABLE-FOR-SALE SECURITIES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
<u>At fair value</u>		
Malaysian Government treasury bills	57,706	178,956
Malaysian Government investment certificates	642,154	80,212
Bank Negara Malaysia Monetary Notes	230,476	424,227
Negotiable Islamic Debt Certificates	-	29,970
Bankers' acceptances and Islamic accepted bills	36,580	28,753
Khazanah bonds	<u>24,961</u>	<u>24,078</u>
	<u>991,877</u>	<u>766,196</u>
Unquoted securities:		
Private debt securities		
- in Malaysia	364,084	290,831
- outside Malaysia	<u>27,942</u>	<u>14,299</u>
	<u>1,383,903</u>	<u>1,071,326</u>

5 HELD-TO-MATURITY SECURITIES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
<u>At cost</u>		
Unquoted shares in Malaysia	575	575
	<u>575</u>	<u>575</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

6 FINANCING, ADVANCES AND OTHER LOANS

(i) **By type**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Cash line	218,213	193,632
Term financing		
- House financing	2,404,644	2,121,908
- Hire purchase receivables	1,050,395	874,759
- Syndicated financing	913,988	896,342
- Other term financing	818,981	606,786
Bills receivables	7,899	6,275
Trust receipts	77,390	83,763
Claims on customers under acceptance credits	95,431	88,092
Staff financing (of which RM Nil to Directors)	14,524	11,780
Revolving credit	121,112	99,486
	<u>5,722,577</u>	<u>4,982,823</u>
Less: Unearned income	<u>(2,770,998)</u>	<u>(2,488,795)</u>
Gross financing, advances and other loans	<u>2,951,579</u>	<u>2,494,028</u>
Less: Allowance for bad and doubtful financing:		
- General	(44,067)	(37,309)
- Specific	(26,804)	(6,780)
Total net financing, advances and other loans	<u>2,880,708</u>	<u>2,449,939</u>

Included in other term financing as at balance sheet date is RM13.5 million (2008: Nil) of term financing disbursed by the Bank to jointly controlled entity, AFFIN-i Goodyear Sdn Bhd.

(ii) **By contract**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	1,379,661	1,165,941
AITAB	863,225	712,090
Murabahah (cost-plus)	163,884	144,761
Others	544,809	471,236
	<u>2,951,579</u>	<u>2,494,028</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

6 FINANCING, ADVANCES AND OTHER LOANS (CONTINUED)

(iii) **By type of customer**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Domestic non-bank financial institutions		
- Others	185,304	151,711
Domestic business enterprises		
- Small medium enterprises	511,820	459,519
- Others	383,090	227,352
Government and statutory bodies	8,941	20,818
Individuals	1,718,409	1,467,299
Other domestic entities	820	1,181
Foreign entities	143,195	166,148
	<u>2,951,579</u>	<u>2,494,028</u>

(iv) **By profit rate sensitivity**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Fixed rate:		
- House financing	193,430	257,205
- Hire purchase receivables	863,225	712,090
- Other fixed rate financing	570,817	697,199
Variable rate:		
- BFR plus	1,193,356	822,279
- Cost plus	130,751	5,255
	<u>2,951,579</u>	<u>2,494,028</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

6 FINANCING, ADVANCES AND OTHER LOANS (CONTINUED)

(v) **By sector**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Primary agriculture	117,659	89,667
Mining and quarrying	199	61
Manufacturing	110,551	147,260
Electricity, gas and water	273	342
Construction	482,284	302,547
Real estate	41,525	50,623
Wholesale & retail trade and restaurants & hotels	75,751	52,611
Transport, storage and communication	26,723	34,042
Finance, insurance and business services	282,128	227,693
Education, health & others	76,022	102,380
Household	1,732,845	1,485,290
Others	5,619	1,512
	<u>2,951,579</u>	<u>2,494,028</u>

(vi) **By purpose**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Purchase of securities	21,012	24,468
Purchase of transport vehicles	867,357	719,464
Purchase of landed property of which:		
- Residential	894,578	794,237
- Non-residential	175,105	179,819
Fixed assets other than land and building	4,509	1,379
Personal use	24,580	26,716
Consumer durable	41	49
Construction	133,817	84,467
Working capital	790,557	607,185
Others	40,023	56,244
	<u>2,951,579</u>	<u>2,494,028</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

7 NON-PERFORMING FINANCING

(i) Movements in non-performing financing, advances and other loans

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Balance at beginning of the financial year	40,102	37,779
Classified as non-performing during the financial year	83,346	61,712
Reclassified as performing during the financial year	(43,440)	(38,442)
Amount recovered	(16,120)	(4,250)
Amount written-off	(3,432)	(16,697)
Balance at end of the financial year	<u>60,456</u>	<u>40,102</u>
Less: Specific allowance	(26,804)	(6,780)
- on non-performing loans	(13,804)	(6,780)
- on performing loans	(13,000)	-
Net non-performing financing, advances and other loans	<u>33,652</u>	<u>33,322</u>
Ratio of net non-performing financing, advances and other loans to gross financing, advances and other loans less specific allowance		
- excluding specific allowance on performing loans	1.60%	1.34%
- including specific allowance on performing loans	1.15%	1.34%

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

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
General allowance		
Balance at beginning of the financial year	37,309	26,485
Allowance made during the financial year	6,758	10,824
Balance at end of the financial year	<u>44,067</u>	<u>37,309</u>
As % of gross financing, advances and other loans less specific allowance	1.51%	1.50%
Specific allowance		
Balance at beginning of the financial year	6,780	7,170
Allowance made during the financial year	24,939	17,562
Amount recovered	(1,484)	(1,379)
Amount written-off	(3,431)	(16,573)
Balance at end of the financial year	<u>26,804</u>	<u>6,780</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

7 NON-PERFORMING FINANCING (CONTINUED)

(iii) Non-performing financing by sector

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Primary agriculture	98	-
Manufacturing	24,683	7,198
Electricity, gas and water supply	29	-
Construction	165	276
Wholesale and retail trade, restaurant and hotels	1,843	1,759
Finance, insurance and business services	587	564
Household	33,051	30,305
	60,456	40,102

(iv) Non-performing financing by economic purposes

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Purchase of securities	-	1
Purchase of transport vehicles	6,195	5,524
Purchase of landed property of which:		
- Residential	27,072	24,696
- Non-residential	3,280	3,673
Fixed assets other than land & building	448	-
Personal use	19	20
Working capital	21,204	4,686
Others	2,238	1,502
	60,456	40,102

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

8 OTHER ASSETS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Other debtors, deposits and prepayments	306	282
Clearing accounts	23,861	45,462
Accrued income receivable	9,651	6,427
Foreclosed properties (a)	414	414
	34,232	52,585

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
(a) Foreclosed properties		
At beginning of the financial year	414	-
Amount arising during the financial year	-	414
At end of the financial year	414	414

9 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The 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.

The appointment of the Bank as an Islamic principal dealer from 1 July 2009 to 31 December 2012 by Bank Negara Malaysia has in turn accorded the Bank to maintain the 1% Statutory Reserve Requirement ('SRR') balances in the form of Malaysian Government securities and/or Government Investment issues holdings instead of cash. As at balance sheet date, RM30,000,000 (2008: Nil) of Malaysian Government securities and/or Government Investment issues has been maintained by the Bank to comply with the SRR.

AFFIN Islamic Bank Berhad**(Incorporated in Malaysia)****NOTES TO THE FINANCIAL STATEMENTS***for the financial year ended 31 December 2009***10 INVESTMENT IN JOINTLY CONTROLLED ENTITY**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Unquoted shares at cost	500	500
Economy Entity's share of post acquisition retained losses	-	-
	500	500

The summarised financial information of jointly controlled entity are as follows:

Revenue	1	2
(Loss)/profit after tax	(3)	2
Total assets	16,813	2,508
Total liabilities	15,820	1,514

The Bank/Economy Entity did not account for the share of post acquisition retained losses as it is immaterial.

The jointly controlled entity was incorporated on 1 April 2008 and the details are as follows:

Name	Principal activities	Issued and paid up share capital RM'000	Percentage of equity held	
			2009	2008
			%	%
AFFIN-i Goodyear Sdn Bhd	Land development project	1,000	50	50

On 1 April 2008, the Bank and Jurus Positif Sdn Bhd, a subsidiary of Mutiara Goodyear Development Berhad, entered into a joint venture agreement under the Shariah principles ('Musharakah Agreement') to develop a land into a housing scheme at Bukit Gambir, Penang.

The agreement also includes an arrangement where Jurus Positif Sdn Bhd may acquire the Bank's shares upon the completion of the project at a mutually agreed price, unless both shareholders decide to continue the joint venture for subsequent projects.

Major strategic operation and financial decisions relating to the activities of AFFIN-i Goodyear Sdn Bhd requires unanimous consent by both joint venture parties. The Economy Entity's interest in AFFIN-i Goodyear Sdn Bhd has been treated as investment in jointly controlled entity, which has been accounted for in the consolidated financial statements using the equity method of accounting.

AFFIN Islamic Bank Berhad

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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009*

11 PROPERTY AND EQUIPMENT

The Bank/Economic Entity 2009	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost						
At 1 January 2009	1,333	957	1,195	458	-	3,943
Additions	18	21	27	-	1,550	1,616
At 31 December 2009	<u>1,351</u>	<u>978</u>	<u>1,222</u>	<u>458</u>	<u>1,550</u>	<u>5,559</u>
Accumulated depreciation						
At 1 January 2009	245	91	283	77	-	696
Charge for the financial year	272	98	243	91	-	704
At 31 December 2009	<u>517</u>	<u>189</u>	<u>526</u>	<u>168</u>	<u>-</u>	<u>1,400</u>
Net book value as at 31 December 2009	<u>834</u>	<u>789</u>	<u>696</u>	<u>290</u>	<u>1,550</u>	<u>4,159</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009***11 PROPERTY AND EQUIPMENT (CONTINUED)**

The Bank/Economic Entity 2008	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost						
At 1 January 2008	28	52	266	-	-	346
Additions	1,201	831	929	458	201	3,620
Reclassification to intangible assets (Note 13)	104	74	-	-	(201)	(23)
At 31 December 2008	<u>1,333</u>	<u>957</u>	<u>1,195</u>	<u>458</u>	<u>-</u>	<u>3,943</u>
Accumulated depreciation						
At 1 January 2008	4	2	67	-	-	73
Charge for the financial year	241	75	216	77	-	609
Reclassification to intangible assets (Note 13)	-	14	-	-	-	14
At 31 December 2008	<u>245</u>	<u>91</u>	<u>283</u>	<u>77</u>	<u>-</u>	<u>696</u>
Net book value as at 31 December 2008	<u>1,088</u>	<u>866</u>	<u>912</u>	<u>381</u>	<u>-</u>	<u>3,247</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

12 LAND HELD FOR SALE

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Freehold land	-	15,000

The above land was held in view to dispose to AFFIN-i Goodyear Sdn Bhd which is jointly owned by the Bank and Jurus Positif Sdn Bhd.

On 8 January 2009, the sale and purchase agreement was executed via Murabahah Concept between the Bank and AFFIN-i Goodyear Sdn Bhd to purchase a vacant freehold residential land at Lot no. 290, Geran Mukim 13, Daerah Timur Laut, Bukit Gambir, Pulau Pinang.

On 28 January 2009, AFFIN-i Goodyear Sdn Bhd has paid the 10% of the purchase price and on 12 May 2009, the remaining 90% of the purchase price totaling RM13,500,000 has been disbursed via Term Financing-i facility from the Bank.

13 INTANGIBLE ASSETS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Computer software		
Cost		
At beginning of the financial year	2,689	2,416
Additions	-	237
Reclassification	(162)	36
At end of the financial year	2,527	2,689
Accumulated amortisation		
At beginning of the financial year	1,297	806
Charge for the financial year	503	491
At end of the financial year	1,800	1,297
Net book value as at end of the financial year	727	1,392

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

14 DEFERRED TAX

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 taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Deferred tax assets (after offsetting)	8,431	4,552
At beginning of the financial year	4,552	6,212
Credited/(Charged) to income statement (Note 28)	4,751	(1,966)
- Property and equipment	(39)	(261)
- Intangible assets	139	97
- General allowances on bad and doubtful financing	1,690	2,441
- Unrealised forex revaluation gain	2,961	(4,243)
Charged to equity	(872)	306
At end of the financial year	8,431	4,552

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
<u>Subject to income tax</u>		
Deferred tax assets (before offsetting)		
General allowances for bad and doubtful financing	11,017	9,327
Investment fluctuation reserve	-	447
	11,017	9,774
Offsetting	(2,586)	(5,222)
Deferred tax assets (after offsetting)	8,431	4,552
Deferred tax liabilities (before offsetting)		
Property and equipment	(350)	(311)
Intangible assets	(182)	(321)
Investment fluctuation reserve	(425)	-
Unrealised forex revaluation gain	(1,629)	(4,590)
	(2,586)	(5,222)
Offsetting	2,586	5,222
Deferred tax liabilities (after offsetting)	-	-

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

15 DEPOSITS FROM CUSTOMERS

(i) **By type of deposit**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Non-Mudharabah		
Demand deposits	1,187,013	1,333,821
Savings deposits	176,485	180,314
Negotiable instruments of deposit ('NID')	309,626	222,268
Mudharabah		
Demand deposits	4,356	-
Savings deposits	29,490	16,778
General investment deposits	2,213,783	1,095,288
Special investment deposits	706,577	1,403,650
	4,627,330	4,252,119

(ii) **Maturity structure of general investment deposits and NID are as follows:**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Due within six months	2,329,216	1,169,369
Six months to one year	189,311	143,833
One year to three years	4,034	4,002
Three years to five years	848	352
	2,523,409	1,317,556

(iii) **By type of customer**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Government and statutory bodies	1,572,663	2,028,683
Business enterprises	1,405,170	1,351,890
Individuals	361,611	284,408
Others	1,287,886	587,138
	4,627,330	4,252,119

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Mudharabah		
Licensed banks	901,259	349,832
Licensed investment banks	102,765	-
Bank Negara Malaysia	-	22,821
Other financial institutions	234,435	888,552
	<u>1,238,459</u>	<u>1,261,205</u>
Maturity structure of deposits are as follows:		
Due within six months	1,211,842	1,123,614
One year to five years	10,277	121,051
Over five years	16,340	16,540
	<u>1,238,459</u>	<u>1,261,205</u>

17 OTHER LIABILITIES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Margin and collateral deposits	1,878	1,541
Accrued income payable	13,414	20,659
Sundry creditors	15,340	16,794
Profit equalisation reserve (a)	-	-
Defined contribution plan (b)	299	220
Accrued employee benefits (c)	20	20
	<u>30,951</u>	<u>39,234</u>

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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

17 OTHER LIABILITIES (CONTINUED)

(a) Profit equalisation reserve

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
At beginning of the financial year	-	-
Provided in the financial year	6,426	-
Written back in the financial year	(6,426)	-
At end of the financial year	<u>-</u>	<u>-</u>

(b) Defined contribution plan

The Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Bank has no further payment obligations.

(c) Accrued employee benefits

This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

18 AMOUNT DUE TO HOLDING COMPANY

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Amount due to holding company	229,364	254,374
	<u>229,364</u>	<u>254,374</u>

The amount due to holding company is unsecured and bear interest of 2.14 % per annum (2008: 3.55%) with no terms of repayment.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
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19 SHARE CAPITAL

The Bank/Economic Entity
2009

Authorised:

At beginning/end of the financial year

Number of ordinary shares of RM 1 each	Amount RM '000
1,000,000	1,000,000

Issued and fully paid:

At beginning of the financial year

Issued during the financial year

At end of the financial year

160,000	160,000
100,000	100,000
260,000	260,000

The Bank/Economic Entity
2008

Authorised:

At beginning/end of the financial year

Number of ordinary shares of RM 1 each	Amount RM '000
1,000,000	1,000,000

Issued and fully paid:

At beginning/end of the financial year

160,000	160,000
----------------	----------------

During the financial year, 100 million ordinary shares of RM1.00 each at par value were issued by the Bank. This is in line to Bank Negara Malaysia's requirement for minimum capital funds unimpaired by losses for Islamic banks is set at RM300 million.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

20 RESERVES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Distributable:		
Retained profits	68,397	52,005
Non-distributable:		
Investment fluctuation reserves	1,277	(1,339)
Statutory reserves	68,397	52,005
	138,071	102,671
Statutory reserves		
At beginning of the financial year	52,005	38,004
Transfer from retained profits	16,392	14,001
At end of the financial year	68,397	52,005

Movement of the unrealised gains/(losses) on 'Available-for-sale'

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
At beginning of the financial year	(1,339)	(401)
Unrealised gains/(losses) on 'Available-for-sale'	3,488	(1,244)
Deferred tax	(872)	306
At end of the financial year *	1,277	(1,339)

* The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised loss of RM1,206,307 (2008: net unrealised loss of RM1,283,432).

- (a) The statutory reserves of the Group and the Bank are maintained in compliance with the provisions of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.
- (b) Investment fluctuation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as available-for-sale securities. The gains or losses are transferred in the income statement upon disposal or when the securities become impaired.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

21 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Income derived from investment of:		
- General investment deposits * (a)	147,722	178,324
- Other deposits (b)	94,883	100,264
	<u>242,605</u>	<u>278,588</u>

* Includes the profit earned from investment of RPSIA in financing, advances and other loans of RM4,072,302 (2008: RM3,089,676).

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

21 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS
(CONTINUED)

a) **Income derived from investment of general investment deposits**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other loans	88,529	85,232
Available-for-sale securities	16,355	8,135
Money at call and deposits with financial institutions	32,772	67,896
	137,656	161,263
Amortisation of premium less accretion of discount	4,531	11,393
Total finance income and hibah	142,187	172,656
Other operating income		
Fee income		
Commission	1,060	1,119
Service charges and fees	1,518	1,749
Guarantee fees	932	642
	3,510	3,510
Securities income		
Gain on sale of securities:		
- Held-for-trading	13	27
- Available-for-sale	339	35
	352	62
Other income		
Foreign exchange (loss)/profit:		
- Realised	(2,464)	(9,481)
- Unrealised	3,746	11,265
Other non-operating income	391	312
	1,673	2,096
Total income derived from investment of general investment deposits	147,722	178,324

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

21 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)

b) Income derived from investment of other deposits

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other loans	56,863	47,922
Available-for-sale securities	10,505	4,574
Money at call and deposits with financial institution	21,050	38,174
	88,418	90,670
Amortisation of premium less accretion of discount	2,910	6,406
Total finance income and hibah	91,328	97,076
Other operating income		
Fee income		
Commission	681	629
Service charges and fees	975	984
Guarantee fees	599	361
	2,255	1,974
Securities income		
Gain on sale of securities:		
- Held-for-trading	8	15
- Available-for-sale	218	20
	226	35
Other income		
Foreign exchange (loss)/profit:		
- Realised	(1,583)	(5,331)
- Unrealised	2,406	6,334
Other non-operating income	251	176
	1,074	1,179
Total income derived from investment of other deposits	94,883	100,264

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

22 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other loans	8,560	5,765
Available-for-sale securities	1,581	550
Money at call and deposits with financial institution	3,169	4,592
	13,310	10,907
Amortisation of premium less accretion of discount	438	771
Total finance income and hibah	13,748	11,678
Other operating income		
Fee income		
Commission	102	76
Service charges and fees	147	119
Guarantee fees	90	43
	339	238
Securities income		
Gain on sale of securities:		
- Held-for-trading	1	2
- Available-for-sale	33	2
	34	4
Other income		
Foreign exchange (loss)/profit:		
- Realised	(239)	(641)
- Unrealised	364	762
Other non-operating income	38	21
	163	142
Total income derived from investment of shareholders' funds	14,284	12,062

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

23 ALLOWANCE FOR LOSSES ON FINANCING

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Allowance for bad and doubtful financing:		
Specific allowance		
- provided in the financial year	24,939	17,562
- written-back	(1,484)	(1,379)
General allowance		
- provided in the financial year	6,758	10,824
Bad debts on financing:		
- recovered	(318)	(114)
- written-off	100	220
	29,995	27,113

24 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Deposits from customers		
- Mudharabah	57,405	77,364
- Non-Mudharabah	18,790	17,906
Deposits and placement of banks and other financial institutions		
- Mudharabah	24,351	57,085
Others	2,716	2,840
	103,262	155,195

25 PERSONNEL EXPENSES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Wages, salaries and bonus	32,526	26,199
Defined contribution plan ('EPF')	5,155	4,230
Other personnel costs	4,663	3,416
	42,344	33,845

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

26 OTHER OVERHEADS AND EXPENDITURES

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Establishment costs		
Rental of premises	3,002	2,379
Equipment rental	27	225
Repair and maintenance	3,102	2,549
Depreciation of property and equipment	704	609
Amortisation of intangible assets	503	491
Licence fee	163	154
Insurance and indemnities	347	802
Security services	1,404	1,065
Electricity, water and sewerage	1,095	861
Other establishment costs	12,126	9,383
	<u>22,473</u>	<u>18,518</u>
Marketing expenses		
Dealers' handling charges	3,186	4,137
Business promotion and advertisement	309	540
Entertainment	197	258
Travelling and accommodation	791	669
Other marketing expenses	284	283
	<u>4,767</u>	<u>5,887</u>
Administration and general expenses		
Telecommunication expenses	738	617
Auditors' remuneration	221	183
Professional fees	3,471	4,419
Mail and courier charges	529	657
Stationery and consumables	1,215	1,253
Other administration and general expenses	869	1,602
	<u>7,043</u>	<u>8,731</u>
	<u>34,283</u>	<u>33,136</u>

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

26 OTHER OVERHEADS AND EXPENDITURES (CONTINUED)

The above expenditure includes the following statutory disclosures:

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Directors' remuneration (Note 27)	1,534	1,451
Rental of premises	3,002	584
Equipment rental	27	6
Auditors' remuneration		
- Statutory audit fees	90	90
- Audit related fees	44	44
- Non-audit fees	87	49
Depreciation of property and equipment	704	609
Amortisation of intangible assets	503	491

27 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

The Directors of the Bank who have held office during the period since the date of the last report are:

Executive Director

En. Kamarul Ariffin bin Mohd Jamil

Non-Executive Directors

Jen Tan Sri Dato' Seri Ismail bin Haji Omar (Bersara)

Dato' Sri Abdul Hamidy bin Abdul Hafiz

(Resigned as Director w.e.f 16 March 2009)

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara)

Tan Sri Mohamed Jawhar

En. Mohd Suffian bin Haji Haron

Dato' Zulkiflee Abbas bin Abdul Hamid

Tan Sri Dato' Lodin bin Wok Kamaruddin

(Directorship expired on 1 April 2008)

AFFIN Islamic Bank Berhad

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NOTES TO THE FINANCIAL STATEMENTS*for the financial year ended 31 December 2009***27 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION
(CONTINUED)**

The aggregate amount of remuneration for the Directors of the Bank for the financial year are as follows:

	The Bank/ Economic Entity	
	2009 RM'000	2008 RM'000
Executive Directors		
Salary and other remuneration, including meeting allowance	420	420
Bonuses	455	365
Defined contribution plan ('EPF')	147	131
Other employee benefits	43	32
Benefits-in-kind	65	60
Non-executive Directors		
Fees	404	443
Directors' remuneration	1,534	1,451
Shariah Committee	156	112
	1,690	1,563

The remuneration attributable to the Chief Executive Officer of the Bank during the financial year amounted to RM 1,130,000 (2008: RM1,008,000).

The number of Directors of the Bank whose total remuneration (including benefits-in-kind) received from the Bank falls within the Directors' remuneration band as follows:

	The Bank/ Economic Entity			
	Number of directors		Number of directors	
	Executive Director 2009	Non- Executive Director 2009	Executive Director 2008	Non- Executive Director 2008
Remuneration band:				
RM 0 - RM50,000	-	2	-	3
RM50,001 - RM100,000	-	2	-	3
RM100,001 - RM150,000	-	2	-	1
RM1,00,001 - RM1,050,000	1	-	1	-

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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

28 TAXATION

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Malaysian income tax:		
- Current tax	15,344	8,563
- Deferred tax (Note 14)	(4,751)	1,966
	10,593	10,529
Under provision in prior years	320	471
	10,913	11,000

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:

	%	%
Malaysian tax rate	25.00	26.00
Tax effect of:		
- change in tax rate	-	0.40
- non-allowable expenses	0.21	(0.18)
- non-taxable income	-	(0.01)
- double tax deduction	-	(0.01)
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	(2.67)	(0.75)
- under provision in prior years	0.68	1.14
Average effective tax rate	23.22	26.59

29 EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Bank has been calculated based on the net profit attributable to ordinary equity holders of the Bank of RM32,784,000 (2008: RM28,002,000). The weighted average number of shares in issue during the financial year of 212,602,742 (2008:160,000,002) is used for the computation.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body
AFFIN Holdings Berhad ('AHB')	Penultimate holding company
AFFIN Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of AHB as disclosed in its financial statements	Subsidiary and associate companies of the penultimate holding company
Subsidiaries of ABB as disclosed in its financial statements	Subsidiary companies of the holding company
Joint controlled entity as disclosed in Note 10	Joint controlled entity of AFFIN Islamic Bank Berhad
Voting shares in body corporate not less than 15% of votes	Other related companies
Key management personnel	The key management personnel of the Bank consist of: - Chief Executive Officer - Member of Senior Management team
Related parties of key management personnel (deemed as related to the Bank)	- Close family members and dependents of key management personnel - Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009*

30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Related parties balances

The Bank/Economic Entity 2009	Ultimate holding corporate body	Penultimate holding company	Holding companies	Other related companies	Companies in which certain Directors have substantial interest
	RM'000	RM'000	RM'000	RM'000	RM'000
Income					
Income on short-term advances	-	-	-	519	-
Income on deposits and placement with banks and other financial institutions	-	-	199	-	-
	-	-	199	519	-
Expenditure					
Hibah/profit paid on fixed deposits	-	-	-	275	-
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	2,145	-	-
Hibah/profit paid on special investment account	135	-	-	729	5
Hibah/profit paid on PSIA/RPSIA	-	-	4,487	-	-
Brokerage fees	-	-	-	22	-
Others	-	-	51,620	146	-
	135	-	58,252	1,172	5

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Related parties balances (continued)

The Bank/Economic Entity 2009	Ultimate holding corporate body RM'000	Penultimate holding company RM'000	Holding companies RM'000	Other related companies RM'000	Companies in which certain Directors have substantial interest RM'000
Amount due from					
Advances	-	-	-	13,479	-
Deposits and placement of banks and other financial institutions	-	-	102,765	-	-
Income receivables	-	-	3	-	-
Intercompany balances	-	-	-	1,058	-
Other receivables	-	-	-	303	-
	-	-	102,768	14,840	-
Amount due to					
Demand and fixed deposits	589	-	11	18,198	-
Negotiable Islamic Debt Certificates	-	-	-	-	-
Deposits and placement of banks and other financial institutions	-	-	457,259	-	-
Special investment account	-	-	176,000	44,515	453
Income payable	-	-	3,390	98	-
Intercompany balances	-	-	229,365	-	-
Other payables	-	-	-	2	-
	589	-	866,025	62,813	453

AFFIN Islamic Bank Berhad

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Related parties balances

The Bank/Economic Entity 2008	Ultimate holding corporate body RM'000	Penultimate holding company RM'000	Holding companies RM'000	Other related companies RM'000	Companies in which certain Directors have substantial interest RM'000
Expenditure					
Hibah/profit paid on fixed deposits	-	-	-	727	-
Hibah/profit paid on Negotiable Islamic Debt Certificates	2,378	-	-	-	-
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	2,732	-	-
Hibah/profit paid on special investment account	325	-	-	2,042	3
Hibah/profit paid on PSIA/RPSIA	-	-	7,305	-	-
Brokerage fees	-	-	-	18	-
Others	-	-	46,007	152	-
	<u>2,703</u>	<u>-</u>	<u>56,044</u>	<u>2,939</u>	<u>3</u>

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

Related parties balances (continued)

The Bank 2008	Ultimate holding corporate body RM'000	Penultimate holding company RM'000	Holding companies RM'000	Other related companies RM'000	Companies in which certain Directors have substantial interest RM'000
Amount due from					
Demand deposits	-	-	2	-	-
Brokerage fees	-	-	-	-	-
	-	-	2	-	-
Amount due to					
Demand and fixed deposits	542	-	-	27,594	-
Negotiable Islamic Debt Certificates	2,900	-	-	-	-
Deposits and placement of banks and other financial institutions	-	-	168,561	-	-
Special investment account	15,000	-	176,000	40,429	76
Income payable	92	-	6,949	126	-
Intercompany balances	-	-	254,374	-	-
Other payables	-	-	-	1	-
	18,534	-	605,884	68,150	76

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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

30 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) **Key management personnel compensation**

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Short-term employment benefits:		
- Salaries	780	737
- Bonuses	785	640
- Defined contribution plan ('EPF')	272	240
- Other employee benefits	146	123
- Benefit-in-kind	87	74
	<u>2,070</u>	<u>1,814</u>

Included in the above table are Directors' remuneration as disclosed in Note 27.

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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

31 COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies consist of:

The Bank/Economic Entity 2009	Principal amount RM'000	Credit equivalent amount * RM'000	Risk- weighted amount * RM'000
Direct credit substitutes	50,649	50,649	33,212
Transaction-related contingent items	167,270	83,635	83,330
Short-term self-liquidating trade related contingencies	1,076,663	215,333	56,390
Irrevocable commitments to extend credit:			
- maturity less than one year	579,085	-	-
- maturity more than one year	283,841	-	-
	2,157,508	349,617	172,932

The Bank/Economic Entity 2008	Principal amount RM'000	Credit equivalent amount * RM'000	Risk- weighted amount * RM'000
Direct credit substitutes	108,235	108,235	67,228
Transaction-related contingent items	157,441	78,721	66,242
Short-term self-liquidating trade related contingencies	1,738,930	347,786	74,828
Irrevocable commitments to extend credit:			
- maturity less than one year	4,659,791	931,958	106,250
- maturity more than one year	330,065	165,033	146,007
	6,994,462	1,631,733	460,555

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia Guidelines.

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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009*

32 RATE OF RETURN RISK

The Bank is exposed to the risks 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 the profit rate can be influenced by changes in interest rates that affect the value of financial instruments under its portfolio.

The Bank/Economic Entity 2009	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
Assets									
Cash and short-term funds	2,207,530	-	-	-	-	3,947	-	2,211,477	1.96
Available-for-sale securities	255,843	156,520	263,440	639,125	68,975	-	-	1,383,903	3.13
Held-to-maturity securities	-	-	-	-	-	575	-	575	-
Financing, advances and other loans									
- performing	1,119,799	206,360	315,654	753,351	482,959	(44,067) *	-	2,834,056	4.73
- non-performing	-	-	-	-	-	46,652 #	-	46,652	-
Others (1)	-	-	-	-	-	49,106	-	49,106	-
Total assets	3,583,172	362,880	579,094	1,392,476	551,934	56,213	-	6,525,769	

* The negative balance represents general allowance for loans, advances and financing in accordance with the Bank's accounting policy on allowance for bad and doubtful financing.

Net of specific allowance for bad and doubtful financing.

(1) Others include property and equipment, intangible assets, deferred tax, statutory deposits with Bank Negara Malaysia, other assets, investment in jointly controlled entity, land held for sale and amount due from jointly controlled entity.

AFFIN Islamic Bank Berhad

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**32 RATE OF RETURN RISK (CONTINUED)**

The Bank/Economic Entity 2009	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
Liabilities									
Deposits from customers	1,777,676	1,043,108	419,718	190,585	4,882	1,191,361	-	4,627,330	2.48
Deposits and placements of banks and other financial institutions	577,526	634,317	26,616	-	-	-	-	1,238,459	1.86
Amount due to holding company	229,364	-	-	-	-	-	-	229,364	2.14
Other liabilities	-	-	-	-	-	30,951	-	30,951	-
Provision for taxation	-	-	-	-	-	1,594	-	1,594	-
Total liabilities	2,584,566	1,677,425	446,334	190,585	4,882	1,223,906	-	6,127,698	
Shareholders' equity	-	-	-	-	-	398,071	-	398,071	
Total liabilities and shareholders' equity	2,584,566	1,677,425	446,334	190,585	4,882	1,621,977	-	6,525,769	
On-balance sheet profit sensitivity gap	998,606	(1,314,545)	132,760	1,201,891	547,052	(1,565,764)			
Total profit sensitivity gap	998,606	(1,314,545)	132,760	1,201,891	547,052	(1,565,764)			

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**32 RATE OF RETURN RISK (CONTINUED)**

The Bank/Economic Entity 2008	Non-trading book						Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000					
Assets										
Cash and short-term funds	2,355,150	-	-	-	-	3,000	-	2,358,150	3.24	
Available-for-sale securities	169,526	303,195	459,766	124,540	14,299	-	-	1,071,326	3.52	
Held-to-maturity securities	-	-	-	-	-	575	-	575	-	
Financing, advances and other loans										
- performing	857,486	238,501	272,439	636,476	449,024	(37,309) *	-	2,416,617	5.51	
- non-performing	-	-	-	-	-	33,322 #	-	33,322	-	
Others (1)	-	-	-	-	-	184,426	-	184,426	-	
Tax recoverable	-	-	-	-	-	5,187	-	5,187	-	
Total assets	3,382,162	541,696	732,205	761,016	463,323	189,201	-	6,069,603		

* The negative balance represents general allowance for loans, advances and financing in accordance with the Bank's accounting policy on allowance for bad and doubtful financing.

Net of specific allowance for bad and doubtful financing.

(1) Others include property and equipment, intangible assets, deferred tax, statutory deposits with Bank Negara Malaysia and other assets.

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**32 RATE OF RETURN RISK (CONTINUED)**

The Bank/Economic Entity 2008	Non-trading book						Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000					
Liabilities										
Deposits from customers	2,669,448	1,160,989	417,681	4,001	-	-	-	4,252,119	2.82	
Deposits and placements of banks and other financial institutions	800,645	322,969	-	121,051	16,540	-	-	1,261,205	3.31	
Amount due to holding company	254,374	-	-	-	-	-	-	254,374	3.55	
Other liabilities	-	-	-	-	-	39,234	-	39,234	-	
Total liabilities	3,724,467	1,483,958	417,681	125,052	16,540	39,234	-	5,806,932		
Shareholders' equity	-	-	-	-	-	262,671	-	262,671		
Total liabilities and shareholders' fund	3,724,467	1,483,958	417,681	125,052	16,540	301,905	-	6,069,603		
On-balance sheet profit sensitivity gap	(342,305)	(942,262)	314,524	635,964	446,783	(112,704)				
Total profit sensitivity gap	(342,305)	(942,262)	314,524	635,964	446,783	(112,704)				

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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2009*

33 CREDIT RISK

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Bank, by industry concentration, are set out in the following tables:

The Bank/Economic Entity 2009	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Available- for-sale securities RM'000	Held-to- maturity securities RM'000	Financing, advances and other loans RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	4,977	-	117,631	22	122,630	2,899
Mining and quarrying	-	-	-	-	199	-	199	21
Manufacturing	-	-	34,772	-	103,477	350	138,599	1,728
Electricity, gas and water	-	-	-	-	272	-	272	-
Construction	-	-	10,144	-	469,260	323	479,727	68,303
Real estate	-	-	-	-	41,525	-	41,525	-
Transport, storage and communication	-	-	-	-	26,723	-	26,723	746
Finance, insurance and business services	258,393	-	373,590	-	281,553	2,526	916,062	42,640
Government and government agencies	1,953,084	-	930,336	-	8,941	6,265	2,898,626	15,697
Wholesale and retail trade, restaurants and hotels	-	-	30,083	-	75,168	164	105,415	10,385
Others	-	-	-	-	1,800,026	23,881	1,823,907	207,198
Total assets	2,211,477	-	1,383,902	-	2,924,775 *	33,531	6,553,685	349,617

* Not inclusive of general allowance amounting to RM44 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

AFFIN Islamic Bank Berhad

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**33 CREDIT RISK (CONTINUED)**

The Bank/Economic Entity 2008	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Available- for-sale securities RM'000	Held-to- maturity securities RM'000	Financing, advances and other loans RM'000	Other assets RM'000	On	Commitments and contingencies RM'000
							balance sheet total RM'000	
Agriculture	-	-	-	-	89,667	-	89,667	11,562
Mining and quarrying	-	-	-	-	61	-	61	22
Manufacturing	-	-	-	-	143,528	369	143,897	22,027
Electricity, gas and water	-	-	-	-	342	-	342	-
Construction	-	-	60,833	-	302,523	595	363,951	90,906
Real estate	-	-	-	-	50,623	-	50,623	24,086
Transport, storage and communication	-	-	44,858	-	34,042	-	78,900	25,881
Finance, insurance and business services	2,746	-	252,363	-	227,127	1,967	484,203	159,916
Government and government agencies	2,355,404	-	683,395	-	20,818	3,330	3,062,947	1,211,838
Wholesale and retail trade, restaurants and hotels	-	-	29,877	-	52,262	164	82,303	17,290
Others	-	-	-	-	1,566,255	45,629	1,611,884	68,205
Total assets	2,358,150	-	1,071,326	-	2,487,248 *	52,054	5,968,778	1,631,733

* Not inclusive of general allowance amounting to RM37 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

34 CAPITAL ADEQUACY

(a) The capital adequacy ratios are as follows:

	The Bank/ Economic Entity	
	2009	2008
	RM'000	RM'000
Tier I capital		
Paid-up share capital	260,000	160,000
Retained profits	68,397	52,005
Statutory reserves	68,397	52,005
	396,794	264,010
Less:		
Deferred tax assets	(8,856)	(4,105)
Total Tier I capital	387,938	259,905
Tier II capital		
General allowance for bad and doubtful financing	44,067	37,309
Total Tier II capital	44,067	37,309
Less:		
Investment in capital instruments of other banking institutions	(16,158)	-
Capital Base	415,847	297,214
Core capital ratio	12.61%	9.03%
Risk-weighted capital ratio	13.51%	10.33%
Core capital ratio (net of proposed dividend)	12.61%	9.03%
Risk-weighted capital ratio (net of proposed dividend)	13.51%	10.33%

(b) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	The Bank/ Economic Entity	
	2009	2008
	Principal RM'000	Principal RM'000
0%	2,941,174	4,038,708
10%	-	-
20%	874,725	776,360
35%	56,748	55,911
50%	137,674	171,616
75%	1,543,913	1,368,896
100%	1,105,472	1,098,414
150%	191,870	186,345
Total risk-weighted assets for credit risk	6,851,576	7,696,250

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

34 CAPITAL ADEQUACY (CONTINUED)

	The Bank/ Economic Entity	
#	2009	2008
	Risk-weighted RM'000	Risk-weighted RM'000
0%	-	-
10%	-	-
20%	174,945	155,272
35%	19,862	19,569
50%	68,837	85,808
75%	1,157,935	1,026,672
100%	1,105,472	1,098,414
150%	287,805	279,517
Total risk-weighted assets for credit risk	2,814,856	2,665,252
Risk-weighted assets for market risk	7,730	2,512
Risk-weighted assets for operational risk	254,834	209,089
Total risk-weighted assets	3,077,420	2,876,853

Pursuant to Bank Negara Malaysia's circular, 'Recognition of Deferred Tax Asset ('DTA') and Treatment of DTA for RWCR Purposes' dated 8 August 2003, deferred tax income/(expenses) is excluded from the calculation of Tier I capital and DTA is excluded from the calculation of risk-weighted assets.

Effective 1 January 2008, the Bank's capital ratios is being computed in accordance with the RWCAF (Basel II - Risk Weighted Assets Computation) or Capital Adequacy Framework for Islamic Banks (CAFIB).

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009

34 CAPITAL ADEQUACY (CONTINUED)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

The Bank/Economic Entity
2009

	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Capital Requirements
1	CREDIT RISK						
	<i>On Balance Sheet Exposures</i>						
	Sovereigns/Central Banks	2,928,268	2,928,268	2,928,268	12,038	12,038	963
	Banks, Development Financial Institutions & MDBs	292,109	292,109	292,109	58,422	58,422	4,674
	Insurance Companies, Securities Firms & Fund Managers	95,048	94,400	94,400	94,400	94,400	7,552
	Corporates	1,308,215	1,260,011	1,260,011	941,725	941,725	75,338
	Regulatory Retail	1,548,335	1,543,913	1,543,913	1,157,935	1,157,935	92,635
	Residential Real Estate (RRE) Financing	125,794	125,794	125,794	54,385	54,385	4,351
	Total Higher Risk Assets	127,929	127,929	127,929	191,893	191,893	15,351
	Other Assets	46,853	46,853	46,853	20,397	20,397	1,632
	Defaulted Exposures	82,714	82,682	82,682	110,729	110,729	8,858
	TOTAL for On-Balance Sheet Exposures	6,555,265	6,501,959	6,501,959	2,641,924	2,641,924	211,354
	<i>Off Balance Sheet Exposures</i>						
	Off Balance sheet Exposures other than OTC derivatives or credit derivatives	349,617	349,617	349,617	172,932	172,932	13,835
TOTAL for Off-Balance Sheet Exposures	349,617	349,617	349,617	172,932	172,932	13,835	
TOTAL for On and Off-Balance Sheet Exposures	6,904,882	6,851,576	6,851,576	2,814,856	2,814,856	225,189	
2	MARKET RISK	Long Position	Short Position				
	Foreign Currency Risk	7,730	-		7,730		618
3	OPERATIONAL RISK						
	Operational Risk				254,834		20,387
TOTAL RWA AND CAPITAL REQUIREMENT					3,077,420		246,194

OTC "Over The Counter"

PSIA "Profit Sharing Investment Account"

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009

34 CAPITAL ADEQUACY (CONTINUED)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

The Bank/Economic Entity

2008

	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Capital Requirements
1	CREDIT RISK						
	<i>On Balance Sheet Exposures</i>						
	Sovereigns/Central Banks	3,063,827	3,063,827	-	-	-	-
	Banks, Development Financial Institutions & MDBs	73,139	73,139	14,628	14,628	1,170	
	Insurance Companies, Securities Firms & Fund Managers	95,124	95,124	95,124	95,124	7,610	
	Corporates	1,184,791	1,161,543	963,575	963,575	77,086	
	Regulatory Retail	1,323,250	1,317,910	988,533	988,533	79,083	
	Residential Real Estate (RRE) Financing	132,730	132,730	57,996	57,996	4,640	
	Total Higher Risk Assets	12,211	12,211	18,316	18,316	1,465	
	Other Assets	179,883	179,883	21,858	21,858	1,749	
	Defaulted Exposures	32,857	32,713	44,667	44,667	3,573	
	TOTAL for On-Balance Sheet Exposures	6,097,812	6,069,080	2,204,697	2,204,697	176,376	
	<i>Off Balance Sheet Exposures</i>						
	Off Balance sheet Exposures other than OTC derivatives or credit derivatives	1,631,582	1,627,019	460,329	460,329	36,826	
Defaulted Exposures	151	151	226	226	18		
TOTAL for Off-Balance Sheet Exposures	1,631,733	1,627,170	460,555	460,555	36,844		
TOTAL for On and Off-Balance Sheet Exposures	7,729,545	7,696,250	2,665,252	2,665,252	213,220		
2	MARKET RISK	Long Position	Short Position				
	Foreign Currency Risk	760	(2,512)	2,512		201	
3	OPERATIONAL RISK						
	Operational Risk			209,089		16,727	
TOTAL RWA AND CAPITAL REQUIREMENT				2,876,853		230,148	

OTC "Over The Counter"

PSIA "Profit Sharing Investment Account"

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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**34 CAPITAL ADEQUACY (CONTINUED)**

Disclosure on Credit Risk: Disclosures on Risk Weights (RM'000)

The Bank/Economic Entity

2009

Supervisory Risk Weights %	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Real Estate	Total Higher Risk Assets	Specialised Financing	Equity Exposures	Securitization Exposures	Other Assets		
0%	2,916,229	-	-	-	-	-	-	-	-	-	-	24,945	2,941,174	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	198,679	-	292,109	-	381,074	-	-	-	-	-	-	2,863	874,725	174,945
35%	-	-	-	-	-	-	56,748	-	-	-	-	-	56,748	19,862
50%	-	-	-	-	66,890	1,267	69,517	-	-	-	-	-	137,674	68,837
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	1,543,913	-	-	-	-	-	1,543,913	1,157,935
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	12,039	-	-	94,400	967,537	3,929	10,080	-	-	-	-	17,487	1,105,472	1,105,472
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	15,991	46,064	-	128,257	-	-	-	1,558	191,870	287,805
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,126,947	-	292,109	94,400	1,431,492	1,595,173	136,345	128,257	-	-	-	46,853	6,851,576	2,814,856

PSE "Public Sector Entities"

MDB "Multilateral Development Banks"

FDI "Financial Development Institutions"

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**34 CAPITAL ADEQUACY (CONTINUED)**

Disclosure on Credit Risk: Disclosures on Risk Weights (RM'000)

The Bank/Economic Entity

2008

Supervisory Risk Weights %	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Real Estate	Total Higher Risk Assets	Specialised Financing	Equity Exposures	Securitization Exposures	Other Assets		
0%	3,882,629	-	-	-	-	-	-	-	-	-	-	156,079	4,038,708	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	341,197	-	73,139	-	359,278	-	-	-	-	-	-	2,746	776,360	155,272
35%	-	-	-	-	-	-	55,911	-	-	-	-	-	55,911	19,569
50%	-	-	-	-	94,037	273	77,306	-	-	-	-	-	171,616	85,808
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	1,368,896	-	-	-	-	-	-	1,368,896	1,026,672
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	143,594	926,551	3,567	4,143	-	-	-	-	20,559	1,098,414	1,098,414
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	148,706	24,031	-	13,108	-	-	-	500	186,345	279,517
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	4,223,826	-	73,139	143,594	1,528,572	1,396,767	137,360	13,108	-	-	-	179,884	7,696,250	2,665,252

PSE "Public Sector Entities"

MDB "Multilateral Development Banks"

FDI "Financial Development Institutions"

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009**34 CAPITAL ADEQUACY (CONTINUED)****Disclosure on Off Balance Sheet and Counterparty Credit Risk (RM'000)****The Bank/Economic Entity****2009**

	Total Principle Amount	Total Credit Equivalent Amount	Positive Fair Value of Derivative Contracts	Total Risk Weighted Amount
Nature of item:				
Direct Credit Substitutes	50,649	50,649	-	33,212
Transaction related contingent Items	167,270	83,635	-	83,330
Short Term Self Liquidating trade related contingencies	1,076,663	215,333	-	56,390
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	283,841	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	579,085	-	-	-
Total	2,157,508	349,617	-	172,932

The Bank/Economic Entity**2008**

	Total Principle Amount	Total Credit Equivalent Amount	Positive Fair Value of Derivative Contracts	Total Risk Weighted Amount
Nature of item:				
Direct Credit Substitutes	108,235	108,235	-	67,228
Transaction related contingent Items	157,441	78,721	-	66,242
Short Term Self Liquidating trade related contingencies	1,738,930	347,786	-	74,828
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	330,065	165,033	-	146,007
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,659,791	931,958	-	106,250
Total	6,994,462	1,631,733	-	460,555

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

35 SEGMENT ANALYSIS

Segment analysis is presented in respect of the Bank's business segment. The Bank's activities are principally conducted in Malaysia and accordingly, no analysis on the Bank's operations by geographical segments have been provided.

The format of the segment analysis is based on the internal financial reporting system which reflect the Bank's management reporting structure. The Bank comprises the following main segments:

Enterprise banking

Corporate and commercial banking provide/obtain funding to/from corporate customers including public listed corporations and its related entities, multinational corporation, financial institutions, government and state owned entities, small and medium enterprises under Islamic products.

Consumer banking

Retail banking focuses on providing Islamic products and services to individual customers. The products and services offered to customers include credit facilities (house and personal financing), remittance services, deposit collection and investment products.

Treasury

Treasury and Islamic money market operations is involved in proprietary trading in fixed income and foreign exchange, Islamic derivatives trading and structuring, managing customer-based foreign exchange and Islamic money market transactions, funding and investment in ringgit and foreign currencies.

Hire purchase

Hire purchase focuses on the products and services offered to customers under the Islamic hire purchase financing facilities.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009

35 SEGMENT ANALYSIS (CONTINUED)

The segment analysis by activity:

	Enterprise Banking RM'000	Consumer Banking RM'000	Treasury RM'000	Hire Purchase RM'000	Total RM'000
The Bank/Economic Entity					
2009					
Revenue					
External revenue/income	54,566	53,422	95,709	53,136	256,833
Results					
Segment result	2,598	16,862	10,786	16,759	47,005
Unallocated corporate expenses					-
Profit from operation					47,005
Zakat and taxation					(14,221)
Net profit for the financial period					32,784
Other information					
Segment assets	1,104,877	959,369	3,577,765	849,035	6,491,046
Investment in jointly controlled entity					500
Amount due from jointly controlled entity					1,057
Deferred tax assets					8,431
Unallocated assets					24,735
Total assets					6,525,769
Segment liabilities	954,094	720,526	3,577,765	635,020	5,887,405
Provision for tax					1,594
Amount due to holding company					229,364
Unallocated liabilities					9,335
Total liabilities					6,127,698
Other segment items					
Capital expenditure	251	216	793	191	1,451
Depreciation of property and equipment	183	198	127	196	704
Amortisation of intangible assets	131	141	91	140	503
Specific allowances	18,835	1,886	-	2,734	23,455
General provision	3,037	1,480	-	2,241	6,758
Other non-cash income	(198)	1,023	(42,271)	303	(41,143)

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS for the financial year ended 31 December 2009

35 SEGMENT ANALYSIS (CONTINUED)

The segment analysis by activity:

	Enterprise Banking RM'000	Consumer Banking RM'000	Treasury RM'000	Hire Purchase RM'000	Total RM'000
The Bank/Economic Entity 2008					
Revenue					
External revenue/income	47,049	55,136	145,730	42,675	290,590
Results					
Segment result	6,560	13,773	11,940	9,088	41,361
Unallocated corporate expenses					-
Profit from operation					41,361
Zakat and taxation					(13,359)
Net profit for the financial period					28,002
Other information					
Segment assets	920,821	877,744	3,484,342	714,406	5,997,313
Deferred tax assets					4,552
Tax recoverable					5,187
Unallocated assets					62,551
Total assets					6,069,603
Segment liabilities	839,612	674,542	3,484,342	545,276	5,543,772
Provision for tax					-
Amount due to holding company					254,374
Unallocated liabilities					8,786
Total liabilities					5,806,932
Other segment items					
Capital expenditure	597	569	2,227	464	3,857
Depreciation of property and equipment	96	203	176	134	609
Amortisation of intangible assets	78	163	142	108	491
Specific allowances	13,717	748	-	1,718	16,183
General provision	4,033	3,417	-	3,374	10,824
Other non-cash income	107	1,180	(49,974)	284	(48,403)

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

36 FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

The fair value of the financial assets and financial liabilities of the Bank approximated to their carrying value as balance sheet date, except for the following:

The Bank/Economic Entity	RM'000	RM'000
2009	Carrying value	Fair value
<u>Financial Assets</u>		
Financing, advances and other loans	<u>2,880,708</u>	<u>2,993,291</u>
<u>Financial Liabilities</u>		
Deposits from customers	<u>4,627,330</u>	<u>4,628,814</u>
The Bank/Economic Entity	RM'000	RM'000
2008	Carrying value	Fair value
<u>Financial Assets</u>		
Financing, advances and other loans	<u>2,449,939</u>	<u>2,480,841</u>
<u>Financial Liabilities</u>		
Deposits from customers	<u>4,252,119</u>	<u>4,253,738</u>

Financial instruments comprise financial assets, financial liabilities and also off balance sheet financial instruments. The fair value of a financial instrument is the amount at which the instruments could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at balance sheet date.

Quoted market prices, when available, are used as the measure of fair values. For financial instruments, without quoted market prices, fair values are estimated using net present value or other valuation techniques. These techniques involve a certain degree of uncertainty depending on the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in these assumptions could materially affect these estimates and the resulting fair value.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of FRS 132 which requires fair values to be disclosed. This includes property and equipment, statutory deposits with Bank Negara Malaysia, other assets, tax recoverable, deferred tax and intangible assets.

The Islamic derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuation in market interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

36 FAIR VALUE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair value estimates were determined by application of the methodologies and assumptions described below.

Cash and short-term funds and placements with banks and other financial institutions

For cash and short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made with similar credit ratings and maturities.

Available-for-sale and held-to-maturity securities

The fair value of available-for-sale and held-to-maturity securities are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on indicative market yields or the asset book value of the invested company.

Financing, advances and other loans

For performing fixed rate financing, fair values have been estimated by discounting the estimated cash flows using the prevailing market rates of financing and advances with similar credit ratings and maturities.

For floating-rate financing, the carrying amount is generally a reasonable estimate of fair value.

The fair value of impaired financing, fixed or floating are based on the carrying value less specific allowance and general allowance for bad and doubtful financing which cover unidentified losses inherent to the loan portfolio, being the expected recoverable amount.

Deposits from customers, banks and other financial institutions and bills and acceptances payable

The fair value of demand deposits is the amounts payable on demand at the reporting date. For other liabilities with maturities of less than 6 months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 6 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values are estimated using discounted cash flows based on rates currently offered for similar liabilities of similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-*hibah*/profit bearing deposits, approximates carrying amount which represents the amount repayable on demand.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2009

36 FAIR VALUE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Other assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

37 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 31 March 2009 and 18 August 2009, AFFIN Islamic Bank Berhad ('AIBB') received capital injection of RM40 million and RM60 million respectively from its Holding company, AFFIN Bank Berhad ('ABB').

38 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

The following credit exposures are based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective 1 January 2008.

(i) The aggregate value of outstanding credit exposures with connected parties (RM'000)	324,200
(ii) The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	6%
(iii) The percentage of outstanding credit exposures with connected parties which is non-performing or in default	Nil

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 25 February 2010.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

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

We, JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA) and KAMARUL ARIFFIN BIN MOHD JAMIL, two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 22 to 99 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2009 and of the results and cash flows of the Bank in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 February 2010.

JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)
Chairman

KAMARUL ARIFFIN BIN MOHD JAMIL
Chief Executive Officer

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

I, EE KOK SIN, the officer of AFFIN ISLAMIC BANK BERHAD primarily responsible for the financial management of the Bank, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 22 to 99 are 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.

EE KOK SIN

Subscribed and solemnly declared by the abovenamed EE KOK SIN at Kuala Lumpur in Malaysia on 25 February 2010, before me.

Commissioner for Oaths

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD
(Incorporated in Malaysia)**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AFFIN Islamic Bank Berhad, which comprise the balance sheets as at 31 December 2009 of the Economic Entity and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Economic Entity and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 99.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD
(Incorporated in Malaysia)**

REPORT ON THE FINANCIAL STATEMENTS (continued)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Economic Entity and of the Bank as of 31 December 2009 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF : 1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/10 (J))
Chartered Accountant

Kuala Lumpur, Malaysia
25 February 2010

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the most beneficent and most merciful.

Praise to Allah, the Lord of the Worlds, and peace and blessings on our Prophet Muhammad and on his scion and companions.

Assalamu Alaikum Wa-Rahmatu Allah Wa-barkatuh

As Members of AFFIN Islamic Bank Bhd's ('AFFINISLAMIC') Shariah Committee, our roles and responsibilities are governed under the Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions, issued by Bank Negara Malaysia.

In compliance with the above Guidelines, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by AFFINISLAMIC, during the financial year ended 31 December 2009. We have also conducted our review to form an opinion as to whether AFFINISLAMIC has complied with Shariah rules and principles and also with the specific fatwa, rulings, guidelines issued by us.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by AFFINISLAMIC.

Our review was planned and performed, based on all prudent information and explanation, in a manner which we considered necessary in order to give reasonable assurance that AFFINISLAMIC has not violated Shariah rules and principles.

In our opinion, we

Concur that the contracts, transactions and dealings entered into by AFFINISLAMIC during the year ended 31 December 2009 are in compliance with Shariah rules and principles

Believe that the allocation of profits and losses relating to investment accounts conforms with Shariah rules and principles

Agree that all earnings realized are from permissible sources, and

Confirm that the calculation of Zakat is in compliance with Shariah rules and principles.

This opinion is rendered based on what has been presented to us by AFFINISLAMIC and its Shariah Officers.

In submitting this Report, we have taken due care and diligence and we pray to Allah the Almighty to continue to grant us wisdom, patience and clarity of thought as we embark on a path of straight-forwardness in our service.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (continued)

We, Dr. Asyraf Wajdi bin Dato' Dusuki and Dr. Said Bouheraoua, members of the Shariah Committee of AFFIN Islamic Bank Berhad, hereby confirm on behalf of the Shariah Committee, that in our opinion, the operations of the Bank for the financial year ended 31st December 2009 have been conducted in conformity with the Shariah principles.

On behalf of the Shariah Committee of AFFINISLAMIC

Associate Professor Dr. Asyraf Wajdi bin Dato' Dusuki

Associate Professor Dr. Said Bouheraoua

Kuala Lumpur, Malaysia
25 February 2010