KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No: 672174-T)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
AS AT
31 DECEMBER 2007

Registered Office
Level 18, Tower 2, Etiqa Twins, (f.k.a.MNI Twins)
11 Jalan Pinang,
50450 Kuala Lumpur
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1 PERFORMANCE OVERVIEW

The Group and the Bank registered a profit before zakat and taxation of RM37.1 million and RM30.5 million respectively for the financial year ended 31 December 2007.

The total assets of the Group and the Bank have increased by RM3,300.6 million and RM3,285.4 million to RM6,309.1 million and RM6,303.1 million respectively as at 31 December 2007.

The gross financing, advances and other receivables of the Group and the Bank have increased to RM3,219.7 million as at 31 December 2007.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

Kuwait Finance House (Malaysia) Berhad (hereinafter referred to as “the Bank”) acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. The Bank continuously pursues its efforts in implementing a corporate governance framework and structure which ensures protection of shareholders’ rights as well as recognition of the rights of all other stakeholders ranging from customers, creditors, suppliers, employees, regulators and the community.

Roles and Responsibilities of the Board

As a custodian of corporate governance, the Board provides strategic direction and effective control of the Bank with a view to preserve the long term viability of the Bank whereby the Board reviews and evaluates the strategic planning process and monitors the implementation of the strategy carried out by the management.

In safeguarding the Bank's assets, shareholders' investment and stakeholders' interest, the Board also ensures that the Bank is equipped with an effective system of internal control and that there is a satisfactory framework of reporting on internal financial controls and regulatory compliance, as well as an effective risk management system which effectively monitors and manages the principal risks of the business.

Accountability is part and parcel of governance in the Bank as whilst the Board is accountable to the shareholders, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its shareholders by working to enhance the Bank's performance.

The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest calibre.

The separation of powers between the Chairman of the Board and the Executive Director ensures a balance of power and authority thus providing a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring Board effectiveness as well as representing the Board to the shareholders.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

(i) Board responsibility and oversight (Cont’d.)

There is a clear division of responsibility between the Board and the management. The Executive Director who is also the Managing Director, supported by his team of management is responsible for the implementation of Board resolutions, overall responsibilities over the day-to-day operations of the Bank’s business and operational efficiency.

**Board Balance**

The Board currently has six (6) members, comprising three (3) independent non-executive directors, two (2) non-independent non-executive directors and one (1) executive director.

**Directors’ Profile**

**Shaheen HA KH SH Alghanem**
*Chairman*  
*Non-independent non-executive director*

(40 years of age - Kuwaiti) General Management Program, Certified Management Accountants, Bachelor of Commercial in Accountancy.

Mr. Shaheen was with Kuwait National Petroleum Company (Oil Refinery) and International Investor in the State of Kuwait before joining Kuwait Finance House, State of Kuwait as Manager in Financial Control Department.

He was appointed as Director of the Bank on 18 March 2007 and as Chairman of the Bank on 6 August 2007.

**Dato’ Khawaja Mohammad Salman Younis**
*Member*  
*Executive Director/Managing Director*

(52 years of age - Pakistani) Master of Business Administration, Bachelor of Commerce - International Financial Management, Economics & Management Information Systems.

Dato’ Salman worked for Saudi American Bank in Saudi Arabia for more than ten (10) years before joining Citi Islamic Investment Bank in Bahrain. In September 2001, he joined Kuwait Finance House, State of Kuwait.

He was appointed as the Executive Director of the Bank on 15 December 2004 and as the Managing Director on 1 June 2006.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

(i) Board responsibility and oversight (Cont’d.)

Mohamed Ismail Mohamed Shariff
Member
Independent non-executive director

(64 years of age – Malaysian) LL.B. (Hons.) (S’pore), LL.M. (Lond.), FCIArb., FMIArb., Barrister at
Law, Lincoln’s Inn

Mr. Ismail has been in private legal practice since 1970 and is presently the principal partner of the
law firm, Mohamed Ismail & Co. He has been involved in Islamic banking since its introduction in
Malaysia in 1983.

He was appointed a Director of the Bank on 10 November 2004, being the first Director at
incorporation date. Prior to his appointment as Director, he served for 4 years as a Director of another
local Islamic bank.

Khairil Anuar Abdullah
Member
Independent non-executive director

(57 years of age - Malaysian) Masters of Business Administration, Bachelor of Economics.

Mr. Khairil has been a Director of Kuwait Finance House (Malaysia) Berhad since 10 December 2004.
He currently sits on the Boards of several listed and non-listed companies. The three listed
corporations for which he is Chairman are The Media Shoppe Berhad, VisDynamics Holdings Berhad
and BCT Technology Berhad. He also serves on the boards of Symphony House Berhad, Airocom
Technology Berhad and Apollo Hospitals Enterprise Ltd, Chennai. Mr. Khairil was attached to the
Economic Planning Unit in the Prime Minister's Department from 1973 until 1982, following which he
joined Kumpulan Guthrie Sdn Bhd. In 1988, he became a Director of Arthur D Little Inc before moving
over to the Securities Commission. He was the Executive Chairman of Mesdaq Berhad in 1997 and
2002.

Dr. Radzuan A. Rahman
Member
Independent non-executive director

(64 years of age - Malaysian) Phd, Cornell University, Master of Science, Bachelor of Agriculture
Science

Dr. Radzuan worked for University Pertanian Malaysia from 1969 until 1980 before joining Sime Darby
Plantations Berhad as Regional Director. In 1984, he joined Golden Hope Plantations Berhad before
being appointed as Managing Director of Island & Peninsular Berhad in 1999. He was the Managing
Director of Tradewinds Plantation Berhad since 2005 until 9 August 2006.

He was appointed as the Director of the Bank on 15 December 2004.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

(i) Board responsibility and oversight (Cont’d.)

*Abdul Wahab I.A.A AlRushood*
*Member*
*Non-independent non-executive director*

(44 years of age – Kuwaiti) B.S Mathematics

Mr. Abdul Wahab worked with the Gulf Bank for 14 years before joining Kuwait Finance House, Kuwait in Treasury Department in 2002. He was appointed as Director of the Bank on 29 August 2007.

**Board Meetings**

During the financial year ended 31 December 2007, six (6) Board meetings and one (1) special Board meeting were held and were attended by all directors. In the said Board meetings, reports on the progress of the Bank's business operations and minutes of meetings of Board Committees were tabled for review by members of the Board. At the special board meeting, the 2008 budget was approved and at other Board meetings, members of the Board evaluated business propositions and corporate proposals that require the approval of the Board.

The agenda for every Board meeting together with management reports, proposals and supporting documents were circulated to all directors in advance prior to the scheduled Board meetings for their perusal.

Minutes of every Board meeting were also circulated to all the directors for their perusal prior to confirmation of the minutes at the following Board meeting.

**Board Committee**

The Board is assisted by four Board Committees with specific terms of reference and functions, as follows:

**Audit Committee**

The Audit Committee consists of three (3) independent non-executive directors and had held six (6) meetings during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Khairil Anuar Abdullah - Member
Dr. Radzuan A. Rahman - Member

The roles and responsibilities of the Audit Committee are to assist the Board in discharging its oversight duties and oversee the financial reporting process to ensure the balance, transparency and integrity of its published financial information. The Audit Committee also reviews the effectiveness of the Bank's internal financial control and risk management system, the internal audit function, the independent audit process including the appointment and assessing the performance of the external auditor, the process for monitoring compliance with laws and regulations affecting financial reporting and its code of business conduct.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Risk Management Committee

The Risk Management Committee consists of three (3) independent non-executive directors and one (1) executive director and had held seven (7) meetings during the financial year. The members are as follows:

Khairil Anuar Abdullah - Chairman
Mohamed Ismail Mohamed Shariff - Member
Dr. Radzuan A. Rahman - Member

The roles and responsibilities of the Risk Management Committee are to oversee the senior management officers’ activities in managing credit, market, operational, legal and other risk and to ensure that the risk management process is in place and functioning effectively.

Nomination Committee

The Nomination Committee consists of three (3) independent non-executive directors, one (1) non-independent non-executive director and one (1) executive director. One (1) meeting was held during the financial year. Resolution on re-appointment of directors was approved vide a Directors’ Circular Resolution. The members are as follows:

Dr. Radzuan A. Rahman - Chairman
Mohamed Ismail Mohamed Shariff - Member
Shaheen HA KH SH Alghanem - Member
Khairil Anuar Abdullah - Member
Dato’ Khawaja Mohammad Salman Younis - Member

The roles and responsibilities of the Nomination Committee are to provide a formal and transparent procedure for the appointment of directors and Chief Executive Officer as well as the assessment of effectiveness of individual directors, the Board as a whole and the performance of Chief Executive Officer and key management personnel.

Remuneration Committee

The Remuneration Committee consists of three (3) independent non-executive directors. Six (6) meetings were held during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Dr. Radzuan A. Rahman - Member
Khairil Anuar Abdullah - Member

The roles and responsibilities of the Remuneration Committee are to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer and key management personnel and ensuring that the Bank’s compensation package is competitive and consistent with the Bank’s culture, objectives and strategies.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

(ii) Internal audit and internal control activities

The Board is responsible for the Bank’s system of internal controls and its effectiveness. Such a system is designed to manage the Bank risks within an acceptable risk profile, rather than to eliminate the risk of failure, and to achieve the policies and business objectives of the Bank. Accordingly, it can only provide reasonable assurance and not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board via the Board Risk Management Committee (“BRMC”) has established an on-going process of identifying, evaluating and managing the significant risks faced by the Bank, which includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board in order to comply with the regulatory guidelines for directors on internal control, Islamic financial institutions and the Statement on Internal Control.

The Board is of the view that the system of internal controls is in place for the year under review till the date of issuance of the financial statements, and is sound and sufficient to safeguard the shareholders’ investment, the interests of customers, regulators and employees and the Bank’s assets.

The management assists the Board in the implementation of the Board’s policies and procedures on risk and internal control by identifying and assessing the risks faced, and in the design and monitoring of suitable internal controls to mitigate and control these risks.

Key Internal Control Processes

The key processes below have been established in reviewing the adequacy and integrity of the system of internal controls.

The BRMC is established by the Board to assist the Board in ensuring the effectiveness of the Bank’s daily operations so that the Bank’s operations are in accordance with the corporate objectives, strategies, annual budget as well as the policies and business directions that have been approved. The BRMC also formulates strategies on an on-going basis and addresses issues arising from changes in both the external business environment and internal operating conditions.

The BRMC is established by the Board to assist the Board to oversee the overall management of principal areas of risk. The other committees set up to manage specific areas of risk for the Bank include the Asset & Liabilities Management Committee which manages market and liquidity risks; three (3) Credit Risk Management Committees which manages Retail, Commercial and Corporate credit respectively, as well as Management Investment Committee and Private & Equity Investment Committee.

The Audit Committee reviews internal control and corporate governance issues identified by the Internal Audit Division, the external auditors, regulatory authorities and management as well as evaluating the adequacy and effectiveness of the Bank’s risk management and internal control systems. It also supports and monitors the internal audit function with particular emphasis on the scope of audits, quality of internal audits, audit implementation and independence of the Internal Audit Division of the Bank. The minutes of Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The Audit Committee is supported by the Internal Audit Division which examines the Bank and its subsidiaries for compliance with policies and procedures and assesses the effectiveness of the internal control systems, highlighting any significant findings in respect of non-compliance. The annual audit plan is reviewed and approved by the Audit Committee.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Operational Committees that have been established include the Human Resource Committee, Information Technology Steering Committee, Tender Committee, Business Continuity Management Committee and Fraud Management Committee.

The Board received and reviewed management reports on a regular basis. In addition to the financial statements, reports on monitoring of compliance with banking laws and Bank Negara Malaysia’s and other central bank’s guidelines on financing, capital adequacy and other regulatory requirements, as well as monthly progress reports on business operations are tabled before the Board at periodic meetings.

The annual business plan and annual budget that are prepared by the Bank's business units are also reviewed and approved by the Board.

The Bank has also put in place policies, guidelines and authority limits imposed on executive/managing director and management within the Bank in respect of the day-to-day banking and financing operations, extension of credits, investments, acquisitions and disposal of assets.

In addition, there are proper guidelines within the Bank for hiring and termination of staff, formal training programmes for staff, annual/semi-annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities.

(iii) Risk Management

Commitment to Risk Management

Risk Management is an integral part of the Bank's business strategies in ensuring the financial soundness and integrity. Therefore, strong risk management capabilities are essential to the management of risk and ultimately to the financial soundness of the Bank. Given that the Islamic Banking license is a universal banking license, the Bank recognises the diversity and complexity of banking operations and the exposure to various kinds of risk, including Credit, Market, Operational, Inventory and Equity Risk Position. Under the Bank's Integrated Risk Management Framework, the BRMC oversees the establishment of a robust enterprise-wide risk management system and will progressively set risk appetite limits to guide risk-taking within the Bank.

In order to raise the corporate value while ensuring that the business remains healthy and stable, the Bank has adopted effective risk management and control measures that complements the Bank’s operations and their inherent risks which was an issue of key importance to the management. All risk decisions and risk management activities should be in line with and in the spirit of the overall risk principles of the Bank.

For risk management to enhance shareholder value, the risk management ethos needs to be fully embedded within the Bank's people and culture, business processes and technology. This challenge has been met by a dynamic framework that establishes the appropriate structure, tools, techniques and culture for effective risk management.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Integrated Risk Management

In pursuing dynamic risk management, the Bank has adopted an Integrated Risk Management framework which provides a holistic approach in managing risks within four key segments: Risk Strategy, Risk Organisation, Risk Measurement and Risk Operations.

All key risks such as Credit, Market, Operational, Liquidity, Inventory and Equity Risk Position are captured in this framework to ensure comprehensiveness.

Essentially, there are three (3) broad areas of risk management. For comprehensiveness purposes, first, the management of Credit risk and Market risk aims to control risks appropriately in order to secure profits. Both Inventory risk and Equity Position risk are captured in the market risk framework. Second, the management of Operational risk seeks to control risk in order to avoid losses. Thirdly, the management of Asset and Liability portfolios to ensure there is earnings stability through profit rate risk management and to ensure the Bank’s liquidity is in a position to meet all obligations.

The Bank’s risk management policies are designed to identify & analyse these risks, to set appropriate risk limits, to control and monitor the risks and adherence to limits by means of reliable and up-to-date administrative and information systems. The Bank reviews its risk management policies to reflect changes in markets, products and emerging best practice.

The Bank uses quantitative methods to control total credit risk, market risk and operational risk which in line with the Integrated Risk Management Framework. The Bank also takes a proactive approach in enhancing the sophistication of the risk management infrastructure and capabilities by tailoring them to the characteristics of different type of risks, in particular the diversities of risks in Islamic Banking.

The Bank has strategies to address the Integrated Risk Management which comprise the followings:

a) Uniform recognition of Bank-wide risk appetite in terms of loss tolerance and target credit rating for the Bank;

b) Awareness and a common understanding of all risks and their impact on the Bank’s earnings/net worth, given the Bank's business strategies, lines of businesses and nature of business operations;

c) Clarity of the Bank’s philosophy and approach to various risks (whether these need to be controlled or eliminated, managed or looked upon as an opportunity for gaining competitive advantage) across the Bank;

d) Clarity of risk management objectives, roles and responsibilities;

e) Appropriate alignment of individual risks with the overall business tolerance of the Bank;

f) Defining a comprehensive limits structure for all its risk taking activities;
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Extending from these responsibilities, the Bank’s top management is also responsible for:

- Establishing a Bank-wide risk organisation structure and defining the roles and responsibilities for risk management, including the mandate of the BRMC, Asset and Liability Management Committee and various Investment and Credit Committees together with the role of a Head of Risk Management Division;
- Establishing risk assessment, management and monitoring processes and regularly benchmarking the Bank’s practices against industry good practice;
- Instilling risk culture within the organisation; and
- Providing appropriate opportunities for organisational learning.

Effective risk management is an essential element to ensure the Bank’s continued profitability and enhancement of shareholder value, particularly in today’s rapidly changing financial markets both internationally and domestically, conventional and Islamic banking alike. With the setting up and active involvement from the members of the BRMC, it ensures the disciplined and consistent application of the Integrated Risk Management principles further enhances corporate governance and risk-return management in the long-term.

General System of Risk Control and Risk Management

Importance of Risk Control and Risk Management

Risk, to varying degrees, is present in all business activities of a financial institution and the need for an effective risk management is fundamental to the success of the Bank. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank’s objectives and within the risk tolerance levels and an appropriate balance between risk and reward in order to maximise shareholder returns. The Bank’s risk management is independent of the Bank’s business units in independently managing risk within the powers delegated by the BRMC.

The Bank’s risk management activities rely on its comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. The major risk exposures include:

- Credit
- Market
- Operational

The Bank’s Integrated Risk Management Framework is integrated with the Bank’s strategies and business planning objectives. The effectiveness of this framework is enhanced by strong risk governance, which includes active participation of the Board, senior management, as well as business and support line management.

Consequently, the Bank considers risk control and risk management to be vitally important aspects of its business operations and management activities, establishing and integrating these functions into the corporate organisation in the form of continuous processes. In doing so, the Bank sets high standards of risks transparency as the basis for controlling, limiting and managing risks. At the same time, these measures also enable the Bank to keep pace with the increasingly extensive requirements of the banking supervisory authorities.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Management of Risk on a Portfolio Basis

Risk Management Division is responsible for independently managing risk within the limits of the powers delegated by BRMC. Above all, the duties consist of adopting and implementing business and risk management strategies on the overall portfolio. The core elements of the professional portfolio management program includes the development and issuance of policy guidelines together with a comprehensive limit structure, the continuous analysis of risk and the creation and ongoing maintenance of appropriate data resources.

Organisation and Duties of Risk Management

The Credit Risk, Market Risk, Operational Risk and Capital Planning and Regulatory Standards Departments are responsible for developing methods used to independently measure risks and monitor risks under their respective areas of responsibility on an ongoing basis.

They also provide periodic and monthly information to BRMC.

Organisation and Duties of Internal Audit

Internal Audit’s activities revolve prominently around preventing losses for the Bank and its customers through a disciplined and systematic approach to improve and maintain the effectiveness of risk management, control and governance. With every regular audit, Internal Audit makes a significant contribution to the goal of identifying and quantifying risks. This is the indispensable prerequisite for adopting concrete measures aimed specifically at reducing such risks.

Policies & Limits

Policies define the Bank’s overall risk appetite and are also developed based on the requirements of regulatory authorities and input from the Board and senior management. Policies also provide guidance to the businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared to assume. Limits are set for two purposes. First, limits ensure risk-taking activities will achieve predictable results within the tolerances established by the Board and senior management. Second, limits establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

The Bank’s internal policies and procedures are also regularly updated from time to time to ensure the primacy of customer interests and to maintain the integrity of the Bank.

Measurement, Monitoring and Reporting

Measurement tools that quantify risk across products and businesses are used, among other things, to determine risk exposure. The Bank’s risk management is responsible for developing and maintaining an appropriate suite of such tools to support its risk management activities. Reporting tools are also required to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, limits and guidelines and providing a mechanism for communicating the amounts, types and sensitivities of the various risks in the portfolio. This information is used by the Board via BRMC to understand the Bank’s risk profile and the performance of the portfolio against defined goals.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Stress Test

Stress test and scenario analysis serves as an important attributes of the Bank's risk assessment processes and are used to assess the financial risk and management capability of the Bank to continue to operate effectively under different scenarios but plausible economic and trading conditions within which the Bank operates. The stress test and scenario analysis will assist the BRMC and Bank's senior management with respect to:

a) setting of the risk appetite;

b) robustness of risk management solutions and controls;

c) nature of the risk profiles;

d) adequacy of contingency planning; and

e) effectiveness of risk mitigants established.

Credit Risk Management

The Bank defines credit risk as the risk of potential losses arising from a customer default or deterioration of the credit standing of a customer with whom the Bank has transactions with. It serves to provide cover for on and off-balance sheet items within the framework of asset and liability management. Credit risk also includes counterparty risk.

Year 2007 has seen a substantial growth in financing and investment assets in both the respective business units.

Controlling and Monitoring

Credit risk is restricted by adopting volume limits at customer level and at portfolio level. This is derived with alignment to the Bank’s overall business strategies and its risk appetite. The limit structure provides the matrix for financing and investment approval authority for all types of financing and investment. The Bank's present committees that are tasked to oversee this are, the Management Investment Committee; the Private Equity Investment Committee; the Credit Committee (Corporate); the Credit Committee (Commercial), the Credit Committee (Retail & Consumer Banking) and the Automotive and Equipment Committee. Large counterparty risk is restricted at each customer level in accordance to Bank Negara Malaysia’s Guidelines on the Credit Limit to a Single Customer ("BNM/GP5") and monitored continuously.

The Bank's Line Risk Management Department consisting of independent full time personnel continue with its present role to analyse, review and monitor transactional credits pertaining to corporate, commercial and retail financing activities. Compliance is monitored using the limit monitoring system. Counterparty risk is restricted and monitored at the customer level (also in accordance to BNM/GP5 definition). Numerous broad limits have also been approved for credit portfolio management.

The Bank's credit risk policies sets forth the principles by which the Bank and its related subsidiaries conduct their credit risk management activities. It ensures credit risk underwriting consistency across the Bank and provides guidance to various credit management units in the formulation of supplementary credit policies and practices specific to their businesses.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

In addition, the Bank has been monitoring the credit portfolio profile on a monthly basis and has implemented the relevant Islamic Financial Services Board ("IFSB") initiatives.

At the time of reporting, there were only one account classified as non-performing. The Bank has adopted Bank Negara Malaysia's Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3") in the classification of non-performing financing.

Market Risk and Asset & Liability Management

The Bank defines market risk as the risk that could incur losses because of changes in the value of assets and liabilities (including off-balance sheet items) caused by fluctuations in market risk factors such as profit rates, foreign exchange rates, inventory, commodity and sukuk as well as equity prices.

The definition includes the risk of losses incurred when it becomes impossible to execute transactions in the market because of market confusion, or loss arising from transactions at prices that are significantly less favourable than usual (market and liquidity risks). The Bank also defines liquidity risk as the risk of losses arising when funding difficulties to raise the necessary funds, or when it is forced to obtain funds at much higher rates than usual.

The Bank manages market and liquidity risks (in accordance to BNM's New Liquidity Framework) as a whole. More specifically, the Bank formulates the Asset and Liability Management policies for market and liquidity risk management in managing risk. This also allows the Bank to monitor and manage the overall market and liquidity risk profiles.

Specifically, the Asset and Liability Committee ("ALCO"), chaired by the Managing Director, discusses and coordinates matters relating to basic Asset and Liability Management policies, risk planning, fund procurements, assets and market risk management which also includes proposing responses to emergencies such as sudden market changes.

Risk Management Division is responsible for monitoring market risk, reports and analyses, proposing and setting limits and guidelines, as well as formulating and implementing plans relating to market risk management. It also receives necessary data from an independent source and reports on the status of market risk including compliance with risk limits. This information enables it to obtain a solid grasp of the market risk management situation.

Controlling and Monitoring

Day-to-day liquidity management is intended to assure the Bank’s ability to make payments at all times. The Bank has sufficient access to short term liquidity in the money markets with a number of banks and institutional customers with strong credit ratings.

Day-to-day management is supported by the provision of various controlling relevant information including a constantly updated liquidity flow plan and the monitoring of risks arising from committed credit lines.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

Operational Risk Management

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequacy or failure of processes, procedures, systems or controls and external events. Operational risk, in some form, exists in each of the Bank’s businesses and support activities and can result in direct and indirect financial loss, regulatory sanctions, customer dissatisfaction and damage to the Bank’s reputation.

In the past, financial institutions have experienced spectacular losses attributed to what is known as operational risk. The increasingly dynamic pace of operations banking and the rising complexity of products and processes have the potential to cause significant losses. Against this backdrop, banking supervisory authorities are paying closer attention to this type of risk, generating a broad debate on the subject of operational risk in general and the allocation of regulatory capital to back it in particular.

The management of operational risk is an important priority for the Bank. To mitigate such operational risk, the Bank has developed a comprehensive operational risk program and essential methodologies that enable the identification, measurement, monitoring and reporting of inherent and emerging operational risk. The operational risk framework also includes the Bank’s insurance programme that mitigates the risk of high impact operational losses.

The governing principles and fundamental components of the Bank’s operational risk management approaches include:

a) Accountability in the individual business and support lines for management and control of the significant operational risk to which they are exposed;

b) A robust risk control environment;

c) A risk control and assessment review; and

d) An operational risk management framework, consisting of processes and controls to identify, assess, monitor and manage operational risk.

The Bank’s risk control and assessment program entails formal reviews of significant operations to identify and assess operational risks. This program provides a basis for management to ensure that appropriate and effective controls and processes are in place on an ongoing basis to mitigate operational risk and, if not, appropriate corrective actions that can be taken. Where appropriate, business and support line management develops action plans to mitigate identified risks.

Clearly defined operational policies and procedures have been established to specifically handle various types of activities; these processes are checked periodically. Ongoing efforts are made to strengthen the operational guidance in order to improve the operational expertise and capabilities of the employees involved in the Bank.

As with most other banks, the Bank relies heavily on communications and information systems to conduct its business activities. Any failure, interruption or breach in security of these systems could have a material adverse effect in the Bank’s customer relationship management, general ledger, deposit, servicing and/or financing systems. Where Information Technology (“IT”) risk is concerned, the Bank is responsible towards the customers as any failure may threaten the basic infrastructure or its services to customers. The Bank therefore makes every effort to ensure the stability of its operations and the protection and safety of informational assets within the systems.
2 STATEMENT OF CORPORATE GOVERNANCE (Cont’d.)

External threats to systems security are constantly evolving, while internal threats such as error or attempted fraud are as real as ever. The Bank's resolution is to strengthen risk management through the establishment of the IT security team and IT risk management function.

Based on a clear critical response rationale and associated decision-making criteria, the Bank has developed the Business Continuity Management ("BCM") to ensure operations are not interrupted so that business processes continue with minimal adverse impact on customers, staff, products and services. BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Bank's critical processes and revenue streams.

The Bank's business continuity plan is to maintain continuous operational viability in the event of natural disasters, system failures and other types of emergencies. BCM, within the Bank involves the development, maintenance and testing of advance action plans to respond to these situations.

Summary

The Bank continues to achieve the necessary transparency and management capability by applying a robust system to identify, measure, monitor and manage risk. Throughout the Bank, the risk is classified in clearly defined risk types and measured by applications of comparable methods in accordance with uniform parameters. This approach enables the Bank to assess the overall risk positions and enhance the ability to carry risk. Also, it provides the basis for allocating risk capital to cover unexpected losses and is therefore a vitally important aspect of the overall Bank management system.

The Bank is making progress with regard to the international standards such as IFSB and Basel II. The Bank views both IFSB and Basel II as an enterprise-wide programme that will continue to expand the Bank's credit, market and operational risk management practices to be in line with the international standards. These are series of best practice risk and capital management techniques that will supplement the Bank's existing approach to risk and capital management.

(iv) Management Reports

At every Board meeting, a progress report on on-going projects of the Bank pertaining to recruitment, human resource, information technology, policy and procedure, regulatory requirement, product and service as well as income and expense, are submitted to the Board for review.
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

DIRECTORS’ REPORT

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

PRINCIPAL ACTIVITIES

The Bank is engaged in Islamic banking business as allowed under the Islamic Banking Act, 1983.

The principal activities of the subsidiaries are disclosed in Note 14 to the financial statements.

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

FINANCIAL RESULTS

<table>
<thead>
<tr>
<th></th>
<th>Group RM'000</th>
<th>Bank RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the year</td>
<td>26,976</td>
<td>20,333</td>
</tr>
</tbody>
</table>

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

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

DIRECTORS

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

i) Shaheen HA KH SH Alghanem (Chairman) (appointed as Director with effect from 18 March 2007; appointed as Chairman with effect from 6 August 2007)
ii) Jassar Dakheel Jassar Abdulaziz Al Jassar (Chairman) (resigned on 29 June 2007)
iii) Dato' Khawaja Mohammad Salman Younis (Managing Director)
iv) Khairil Anuar Abdullah
v) Dr. Radzuan A. Rahman
vi) Mohamed Ismail Mohamed Shariff
vii) Abdul Wahab I.A.A AlRushood (appointed with effect from 29 August 2007)

DIRECTORS’ INTERESTS

According to the register of directors’ shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2007.
DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 33 of the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 36 to the financial statements.

ISSUE OF SHARES

During the financial year, the issued and paid-up share capital of the Bank has increased to RM727 million from RM380 million with an issuance of 347,000,000 new ordinary shares of RM1 each at par for cash for working capital purposes on 14 August 2007. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Bank.

RESERVES, PROVISIONS AND ALLOWANCES

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

OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and the Bank were made out, the directors took reasonable steps:

(i) to ascertain that proper actions had been taken in relation to the writing off of bad debts and financing and the making of provisions for doubtful debts and financing and have satisfied themselves that there were no known bad debts and financing and that adequate provision had been made for doubtful debts and financing; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) it necessary to write off any bad debts and financing or the amount of provision for bad and doubtful debts and financing in the financial statements of the Group and the Bank inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Group and the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuations of assets or liabilities of the Group and the Bank misleading or inappropriate.
OTHER STATUTORY INFORMATION (Cont’d.)

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

(e) As at the date of this report, there does not exist:

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

   (ii) any contingent liability in respect of the Group and the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and the Bank.

(f) In the opinion of the directors:

   (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and the Bank to meet its obligations as and when they fall due; and

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank and the Group for the financial year in which this report is made.

BUSINESS PLAN FOR 2008

The Bank will continue to build on its successes and will leverage on its corporate investment banking and commercial banking businesses in Malaysia as well as overseas by offering innovative and personalised Shariah compliant solutions to clients. The corporate investment banking division will explore more business partners and opportunities in the Far East Asia, Middle East and other markets where the Bank has a presence. The commercial banking division will continue to play an active role in contributing to the Bank’s growth by serving the different needs of the middle market customers and focusing on the small medium enterprise. Apart from that, the Bank will continue to be an active market participant in the capital, money and foreign exchange market domestically and internationally.

Overall, the Bank will continue to establish its business presence in Asia Pacific through the establishment of regional offices and businesses which is led by the International Business division. The International Business division will also be focusing on the development and implementation of the Bank's Asia Pacific growth in non-ringgit deals.

As part of the business plan for 2008, the Bank will continue to roll out its retail business in stages as well as its wealth management services to ensure that the needs and requirements of individual clients are met. The Bank plans to expand its branch network outside Klang Valley namely in the south and the north of the country for the convenience of the existing and potential clients.

The Bank also plans to work with the existing financial institutions and the Gulf Cooperation Council (GCC) to leverage on their knowledge of the local market. The Bank’s presence in Malaysia and the region is to complement and not to compete with local, regional and international financial institutions.
OUTLOOK FOR 2008

Given the myriad of global economic tribulations and the corrosive uncertainty that engulfed economies for the most part of 2007, the Malaysian economy has once again displayed resilience and depth. As the global economy enters 2008 against the backdrop of a challenging economic environment on subprime concerns, high crude oil prices, heightened inflation and tightening credit markets — Asian economies are expected to ride this tide more resiliently than other markets and Malaysia is expected to benefit from sustained growth in the region.

Malaysia’s economy is expected to maintain its growth momentum, benefiting from strong domestic consumption underpinned by the services sector and firm inflow of private and foreign investments. In 4Q07, the economy grew by 7.3%, surpassing market expectations for a 6.4% growth. Overall, 2007 Gross Domestic Product (GDP) growth is expected at 6.3%. For 2008, we expect a more challenging global economic landscape characterised by external financial market uncertainties potentially impacting global economic growth. Nevertheless, we expect the Malaysian economy to be fairly insulated, though the external sector is anticipated to be hard hit via slowing electronic exports to the United States.

We expect Malaysia’s 2008 GDP growth to come in at a respectable rate of 5.7%, reflecting the thrusts of the Ninth Malaysia Plan (9MP), growth in retail and private consumption and stronger investments. Continued expansion of private sector activities and higher public expenditure to implement infrastructure projects will continue to see broad-based positive growth contribution from all economic sectors.

In this connection, the Group and the Bank plan to continue to tap on the prevailing business opportunities in Malaysia as well as looking for opportunities within the region.

RATING BY EXTERNAL RATING AGENCY

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Date</th>
<th>Classification</th>
<th>Assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Agency Malaysia</td>
<td>December 2007</td>
<td>Long term</td>
<td>AA2</td>
</tr>
<tr>
<td>Berhad</td>
<td></td>
<td>Short term</td>
<td>P1</td>
</tr>
</tbody>
</table>

SIGNIFICANT EVENTS

There are no significant events during the financial year ended 31 December 2007.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank’s business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Three members of the Shariah Committee who are appointed by the Board for the two year term are as follows:

a) Sheikh Prof. Dr. Mohammed Abdul Razaq al-Tabtabae (Chairman)
b) Sheikh Dr. Anwar Shuaib Abdulsalam (Member)
c) Sheikh Adnan Ali Ibrahim Al-Mulla (Member)
DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

The duties and responsibilities of the Shariah Committee among others are as follows:

a) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;

b) To evaluate and endorse sample of contracts, agreements of the Bank's transactions;

c) To clarify Shariah rulings in relation to the Bank's transactions as observed by the Committee based on what was referred to them by the Board of Directors, the Chairman or the Shariah Division;

d) To present Shariah's views to the Board of Directors in relation to any matter raised in regards to the transactions of the Bank;

e) To confirm that the Bank’s transactions and contracts are in compliance with Shariah via reports submitted by the Shariah Advisor/Shariah Division to the Shariah Committee on a periodic basis, explaining the activities and the implementation of the fatwa and rulings issued by the Shariah Committee. The Shariah Committee shall rectify any shortcomings to ensure its conformity to Shariah;

f) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:

i) when the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and

ii) when the Bank submits applications to Bank Negara Malaysia for the approval of new products in accordance with guidelines on product approval issued by Bank Negara Malaysia.

The roles of the Shariah Committee in respect of zakat are as follows:

a) Review computation of zakat and approve the amount to be paid according to Shariah rules and principles.

b) Advise on the distribution of zakat to the appropriate 'asnaf'.

ZAKAT OBLIGATIONS

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

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

Signed on behalf of the Board in accordance with a resolution of the Directors on 19 February 2008.

DATO' KHAWAJA MOHAMMAD SALMAN YOUNIS
Director

MOHAMED ISMAIL MOHAMED SHARIFF
Director
We, Dato' Khawaja Mohammad Salman Younis and Mohamed Ismail Mohamed Shariff, being two of the Directors of Kuwait Finance House (Malaysia) Berhad do hereby state that, in the opinion of the Directors, the financial statements set out on pages 27 to 93 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines and Shariah requirements so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2007 and of the results and the cash flows of the Group and the Bank for the year then ended.

Signed in accordance with a resolution of the Directors on 19 February 2008.

DATO' KHAWAJA MOHAMMAD SALMAN YOUNIS
Director

MOHAMED ISMAIL MOHAMED SHARIFF
Director
I, Dato' Khawaja Mohammad Salman Younis, being the director primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad do solemnly and sincerely declare that the financial statements set out on pages 27 to 93, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Dato' Khawaja Mohammad Salman Younis at Kuala Lumpur, in the Federal Territory on 19 February 2008.

BEFORE ME:

Commissioner for Oaths
In the name of Allah, the most Beneficent, the most Merciful.

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

Assalamualaikum Warahmatullahi Wabarakatuh.

In compliance with the Guidelines on the Shariah Committee of Kuwait Finance House (Malaysia) Berhad, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries ("Group") during the financial year ended 31 December 2007. We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles and also with the specific fatwa, rulings, guidelines issued by us.

Kuwait Finance House (Malaysia) Berhad’s Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form our independent opinion, based on our review of the operations of Kuwait Finance House (Malaysia) Berhad, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction, the relevant documents and procedures adopted by Kuwait Finance House (Malaysia) Berhad.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Kuwait Finance House (Malaysia) Berhad has not violated the Shariah rules and principles.

In our opinion:

a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2007 have been reviewed by us and are in compliance with Shariah rules and principles;

b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles.

c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been disposed to charitable causes; and

d) 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 the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Advisor.

We pray to Allah the Almighty to grant us success and the path of straight-forwardness.

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.
Sheikh Prof. Dr. Mohammed Abdul Razaq al-Tabtabae
Chairman

Sheikh Dr. Anwar Shuaib Abdulsalam
Member

Sheikh Adnan Ali Ibrahim Al-Mulla
Member

Kuala Lumpur, Malaysia
5 February 2008
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
Company No. 672174-T
(Incorporated in Malaysia)

REPORT OF THE AUDITORS TO THE MEMBER OF
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

We have audited the financial statements set out on pages 27 to 93. These financial statements are the
responsibility of the Bank's Directors.

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

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

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the
Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank
Negara Malaysia guidelines and the principles of Shariah so as to give a true and fair view of:

(i) the financial position of the Group and of the Bank as at 31 December 2007 and of the results and
the cash flows of the Group and of the Bank for the year then ended; and

(ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial
statements; and

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by
the Bank and the subsidiary of which we have acted as auditors have been properly kept in
accordance with the provisions of the said Act.

We have considered the financial statements of the subsidiaries of which we have not acted as auditors, as
indicated in Note 14 to the financial statements, being financial statements that have been included in the
consolidated financial statements.
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD  
Company No. 672174-T  
(Incorporated in Malaysia)  

REPORT OF THE AUDITORS TO THE MEMBER OF  
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD (Cont’d.)  

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

The auditors’ report on the financial statements of the subsidiary which have been audited was not subject to any qualification and did not include any comment made under Section 174(3) of the Act.

Ernst & Young  
AF 0039  
Chartered Accountants  
Kuala Lumpur, Malaysia  
19 February 2008  

Abdul Rauf bin Rashid  
No. 2305/05/08(J)  
Partner
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD  
(Incorporated in Malaysia)  

BALANCE SHEETS AS AT 31 DECEMBER 2007

<table>
<thead>
<tr>
<th>Note</th>
<th>Group 2007</th>
<th>RM’000</th>
<th>Group 2006</th>
<th>RM’000</th>
<th>Bank 2007</th>
<th>RM’000</th>
<th>Bank 2006</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Cash and short-term funds</td>
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<td>1,667,984</td>
<td>1,184,853</td>
<td>1,747,418</td>
<td>1,283,099</td>
<td></td>
<td></td>
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<tr>
<td>5</td>
<td>Deposits and placements with banks</td>
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<td>53,247</td>
<td>155,998</td>
<td>53,247</td>
<td>155,998</td>
<td></td>
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</tr>
<tr>
<td>6</td>
<td>Securities held-for-trading</td>
<td>6</td>
<td>84,105</td>
<td>64,548</td>
<td>84,105</td>
<td>64,548</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Securities available-for-sale</td>
<td>7</td>
<td>1,043,961</td>
<td>688,424</td>
<td>948,878</td>
<td>588,898</td>
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<td></td>
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<tr>
<td>8</td>
<td>Securities held-to-maturity</td>
<td>8</td>
<td>25,460</td>
<td>-</td>
<td>25,460</td>
<td>-</td>
<td></td>
<td></td>
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<tr>
<td>9</td>
<td>Financing, advances and other receivables</td>
<td>9</td>
<td>3,162,310</td>
<td>803,695</td>
<td>3,162,310</td>
<td>803,695</td>
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<tr>
<td>10</td>
<td>Murabahah trading automobiles</td>
<td>10</td>
<td>50,260</td>
<td>9,398</td>
<td>50,260</td>
<td>9,398</td>
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<td>11</td>
<td>Other assets</td>
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<td>83,961</td>
<td>50,585</td>
<td>83,525</td>
<td>50,987</td>
<td></td>
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</tr>
<tr>
<td>12</td>
<td>Statutory deposits with Bank Negara</td>
<td>12</td>
<td>89,926</td>
<td>23,942</td>
<td>89,926</td>
<td>23,942</td>
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<td>13</td>
<td>Musyarakah capital investment</td>
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<td>5,880</td>
<td>6,080</td>
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<tr>
<td>14</td>
<td>Investment in subsidiaries</td>
<td>14</td>
<td>-</td>
<td>-</td>
<td>10,200</td>
<td>10,200</td>
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<td></td>
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<tr>
<td>15</td>
<td>Property and equipment</td>
<td>15</td>
<td>22,553</td>
<td>14,023</td>
<td>22,482</td>
<td>13,947</td>
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<tr>
<td>16</td>
<td>Intangible assets</td>
<td>16</td>
<td>6,452</td>
<td>6,745</td>
<td>6,452</td>
<td>6,745</td>
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<tr>
<td>17</td>
<td>Deferred tax assets</td>
<td>17</td>
<td>12,796</td>
<td>441</td>
<td>12,796</td>
<td>441</td>
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<td></td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td></td>
<td>6,309,095</td>
<td>3,008,532</td>
<td>6,303,139</td>
<td>3,017,778</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>RM’000</th>
<th>Bank</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Deposits from customers</td>
<td>18</td>
<td>2,198,839</td>
<td>1,031,164</td>
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<tr>
<td>19</td>
<td>Deposits and placements of banks and other financial institutions</td>
<td>19</td>
<td>2,907,887</td>
<td>1,545,790</td>
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<tr>
<td>20</td>
<td>Other liabilities</td>
<td>20</td>
<td>111,306</td>
<td>42,463</td>
</tr>
<tr>
<td>21</td>
<td>Provision for zakat and taxation</td>
<td>21</td>
<td>240</td>
<td>30</td>
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<tr>
<td>22</td>
<td>Subordinated Murabahah Tawarruq</td>
<td>22</td>
<td>335,764</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td></td>
<td>5,554,036</td>
<td>2,619,447</td>
<td>5,555,984</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>RM’000</th>
<th>Bank</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Share capital</td>
<td>23</td>
<td>727,000</td>
<td>380,000</td>
</tr>
<tr>
<td>24</td>
<td>Reserves</td>
<td>24</td>
<td>28,059</td>
<td>9,085</td>
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<tr>
<td>TOTAL SHAREHOLDERS’ EQUITY</td>
<td></td>
<td>755,059</td>
<td>389,085</td>
<td>747,155</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>RM’000</th>
<th>Bank</th>
<th>RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY</td>
<td></td>
<td>6,309,095</td>
<td>3,008,532</td>
<td>6,303,139</td>
</tr>
</tbody>
</table>
The accompanying notes form an integral part of the financial statements.
**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>313,439</td>
<td>102,294</td>
<td>306,251</td>
<td>97,052</td>
</tr>
<tr>
<td>Income derived from investment of depositors’ funds and others</td>
<td>207,153</td>
<td>54,610</td>
<td>210,949</td>
<td>44,323</td>
</tr>
<tr>
<td>Income derived from investment of shareholders’ equity</td>
<td>106,286</td>
<td>47,684</td>
<td>95,302</td>
<td>52,729</td>
</tr>
<tr>
<td>Total distributable income</td>
<td>313,439</td>
<td>102,294</td>
<td>306,251</td>
<td>97,052</td>
</tr>
<tr>
<td>Allowance for losses on financing</td>
<td>(43,126)</td>
<td>(14,291)</td>
<td>(43,126)</td>
<td>(14,291)</td>
</tr>
<tr>
<td>Income attributable to the depositors</td>
<td>(128,381)</td>
<td>(36,502)</td>
<td>(128,381)</td>
<td>(34,485)</td>
</tr>
<tr>
<td>Total net income</td>
<td>141,932</td>
<td>51,501</td>
<td>134,744</td>
<td>48,276</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(70,061)</td>
<td>(25,930)</td>
<td>(69,823)</td>
<td>(25,858)</td>
</tr>
<tr>
<td>Other overheads and expenditures</td>
<td>(28,824)</td>
<td>(16,093)</td>
<td>(28,537)</td>
<td>(15,899)</td>
</tr>
<tr>
<td>Finance cost</td>
<td>(5,923)</td>
<td>-</td>
<td>(5,923)</td>
<td>-</td>
</tr>
<tr>
<td>Profit before zakat and taxation</td>
<td>37,124</td>
<td>9,478</td>
<td>30,461</td>
<td>6,519</td>
</tr>
<tr>
<td>Zakat</td>
<td>(210)</td>
<td>(10)</td>
<td>(210)</td>
<td>(10)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(9,938)</td>
<td>(1,699)</td>
<td>(9,918)</td>
<td>(1,679)</td>
</tr>
<tr>
<td>Net profit for the financial year</td>
<td>26,976</td>
<td>7,769</td>
<td>20,333</td>
<td>4,830</td>
</tr>
<tr>
<td>Earnings per share (sen)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>5.26</td>
<td>2.04</td>
<td>3.96</td>
<td>1.27</td>
</tr>
</tbody>
</table>

The accompanying notes form an integral part of the financial statements.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

Non-distributable

<table>
<thead>
<tr>
<th>Share Capital</th>
<th>Statutory Reserve</th>
<th>Exchange Fluctuation Reserve</th>
<th>Unrealised Gain/(Loss) on Securities</th>
<th>Available-For-Sale</th>
<th>Retained Profits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
</tbody>
</table>

**Group**

At 1 January 2007  380,000  2,606  (750)  1,685  5,544  389,085
Issue of ordinary shares for cash  347,000  -  -  -  -  347,000
Foreign currency translation recognised directly in equity  -  -  (929)  -  -  (929)
Unrealised gain/(loss) on revaluation of securities available-for-sale  -  -  -  (7,073)  -  (7,073)
Net profit for the year  -  -  -  26,976  26,976
Transfer to statutory reserve  -  10,167  -  -  (10,167)  -
At 31 December 2007  727,000  12,773  (1,679)  (5,388)  22,353  755,059

At 1 January 2006  380,000  191  7  14  190  380,402
Foreign currency translation recognised directly in equity  -  -  (757)  -  -  (757)
Unrealised gain/(loss) on revaluation of securities available-for-sale  -  -  -  1,671  -  1,671
Net profit for the year  -  -  -  7,769  7,769
Transfer to statutory reserve  -  2,415  -  -  (2,415)  -
At 31 December 2006  380,000  2,606  (750)  1,685  5,544  389,085
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONT’D.)

<table>
<thead>
<tr>
<th></th>
<th>Non-distributable</th>
<th>Distributable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share Capital RM’000</td>
<td>Statutory Reserve RM’000</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2007</td>
<td>380,000</td>
<td>2,606</td>
</tr>
<tr>
<td>Issue of ordinary shares for cash</td>
<td>347,000</td>
<td>-</td>
</tr>
<tr>
<td>Unrealised gain/(loss) on revaluation of securities available-for-sale</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to statutory reserve</td>
<td>-</td>
<td>10,167</td>
</tr>
<tr>
<td>At 31 December 2007</td>
<td>727,000</td>
<td>12,773</td>
</tr>
</tbody>
</table>

At 1 January 2006
Unrealised gain/(loss) on revaluation of securities available-for-sale | -   | -   | - | 1,671 | - | 1,671 |
Net profit for the year | -   | -   | - | -     | 4,830 | 4,830 |
Transfer to statutory reserve | - | 2,415 | - | - | (2,415) | - |
At 31 December 2006 | 380,000 | 2,606 | - | 1,685 | 2,604 | 386,895 |

The accompanying notes form an integral part of the financial statements.
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>CASH FLOW FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before zakat and taxation</td>
<td>37,124</td>
<td>9,478</td>
<td>30,461</td>
<td>6,519</td>
</tr>
<tr>
<td><strong>Adjustments for:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for losses on financing</td>
<td>43,126</td>
<td>14,291</td>
<td>43,126</td>
<td>14,291</td>
</tr>
<tr>
<td>Amortisation of premium less accretion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of discounts</td>
<td>166</td>
<td>143</td>
<td>166</td>
<td>143</td>
</tr>
<tr>
<td>Depreciation of property and equipment</td>
<td>3,952</td>
<td>3,080</td>
<td>3,935</td>
<td>3,073</td>
</tr>
<tr>
<td>Amortisation of intangible assets</td>
<td>1,972</td>
<td>1,339</td>
<td>1,972</td>
<td>1,339</td>
</tr>
<tr>
<td>Net gains on disposal of property and equipment</td>
<td>(97)</td>
<td>-</td>
<td>(97)</td>
<td>-</td>
</tr>
<tr>
<td>Dividends from securities available-for-sale</td>
<td>(7,571)</td>
<td>(4,282)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends from a subsidiary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gains on sale of securities available-for-sale</td>
<td>(2,069)</td>
<td>(7,513)</td>
<td>(2,069)</td>
<td>(437)</td>
</tr>
<tr>
<td>Net gains on sale of securities held-for-trading</td>
<td>(3,383)</td>
<td>(378)</td>
<td>(3,383)</td>
<td>(378)</td>
</tr>
<tr>
<td>Short-term accumulated compensated absences</td>
<td>8</td>
<td>3</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td></td>
<td>10</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Allowance for equipment</td>
<td></td>
<td>3</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Unrealised gain on revaluation of Ijarah rental swap</td>
<td>(6,856)</td>
<td>-</td>
<td>(6,856)</td>
<td>-</td>
</tr>
<tr>
<td>Unrealised loss on securities held-for-trading and Ijarah rental swap</td>
<td>432</td>
<td>1,906</td>
<td>432</td>
<td>1,906</td>
</tr>
<tr>
<td>Operating profit before working capital changes</td>
<td>66,804</td>
<td>18,080</td>
<td>67,695</td>
<td>21,358</td>
</tr>
<tr>
<td><strong>(Increase)/Decrease in operating assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits and placements with banks and other financial institutions</td>
<td>102,751</td>
<td>(155,998)</td>
<td>102,751</td>
<td>(155,998)</td>
</tr>
<tr>
<td>Financing, advances and other receivables</td>
<td>(2,401,741)</td>
<td>(817,986)</td>
<td>(2,401,741)</td>
<td>(817,986)</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>(40,862)</td>
<td>(9,398)</td>
<td>(40,862)</td>
<td>(9,398)</td>
</tr>
<tr>
<td>Other assets</td>
<td>(28,573)</td>
<td>(34,980)</td>
<td>(27,740)</td>
<td>(35,420)</td>
</tr>
<tr>
<td>Statutory deposits with Bank Negara Malaysia</td>
<td>(65,984)</td>
<td>(23,929)</td>
<td>(65,984)</td>
<td>(23,929)</td>
</tr>
<tr>
<td><strong>Increase/(Decrease) in operating liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>1,167,675</td>
<td>912,501</td>
<td>1,158,100</td>
<td>913,930</td>
</tr>
<tr>
<td>Deposits and placements of banks and other financial institutions</td>
<td>1,362,097</td>
<td>1,545,790</td>
<td>1,362,097</td>
<td>1,545,790</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>63,725</td>
<td>32,399</td>
<td>63,812</td>
<td>32,297</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes paid</td>
<td>(12,736)</td>
<td>(8,581)</td>
<td>(12,716)</td>
<td>(8,581)</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>213,156</td>
<td>1,457,898</td>
<td>205,412</td>
<td>1,462,063</td>
</tr>
</tbody>
</table>
KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD  
(Incorporated in Malaysia)  

CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONT’D.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>CASH FLOW FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of securities</td>
<td>(405,162)</td>
<td>(708,716)</td>
<td>(409,605)</td>
<td>(616,266)</td>
</tr>
<tr>
<td>Investment in Musyarakah capital</td>
<td>(200)</td>
<td>(5,880)</td>
<td>(200)</td>
<td>(5,880)</td>
</tr>
<tr>
<td>Dividend from securities available for sale</td>
<td>7,571</td>
<td>4,282</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dividend from subsidiary company</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,114</td>
</tr>
<tr>
<td>Proceeds from disposal of property and equipment</td>
<td>397</td>
<td>0</td>
<td>397</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(12,787)</td>
<td>(7,250)</td>
<td>(12,770)</td>
<td>(7,167)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(1,679)</td>
<td>(3,161)</td>
<td>(1,679)</td>
<td>(3,161)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(411,860)</td>
<td>(720,725)</td>
<td>(423,857)</td>
<td>(627,360)</td>
</tr>
<tr>
<td>CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of ordinary shares</td>
<td>347,000</td>
<td>0</td>
<td>347,000</td>
<td>0</td>
</tr>
<tr>
<td>Proceeds from subordinated Murabahah Tawarruq</td>
<td>335,764</td>
<td>0</td>
<td>335,764</td>
<td>0</td>
</tr>
<tr>
<td>Net cash generated from financing activities</td>
<td>682,764</td>
<td>0</td>
<td>682,764</td>
<td>0</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>484,060</td>
<td>737,173</td>
<td>464,319</td>
<td>834,703</td>
</tr>
</tbody>
</table>

The accompanying notes form an integral part of the financial statements.
1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is engaged in Islamic banking business as allowed under the Islamic Banking Act, 1983. The principal activities of the subsidiaries are set out in Note 14. There has been no significant change in the nature of the principal activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Banking Act 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 18, Tower 2, Etiqa Twins (formerly known as MNI Twins), 11 Jalan Pinang, 50450 Kuala Lumpur.

The holding company of the Bank is Kuwait Finance House K.S.C., a public limited liability company, incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait. The registered office of Kuwait Finance House K.S.C. is located at 13110, Abdulla Al-Mubarak Street, Murqab, Kuwait.

The number of employees in the Group and in the Bank at the end of the financial year were 376 (2006: 173) and 375 (2006: 172) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 19 February 2008.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of the Companies Act 1965, applicable Financial Reporting Standards ("FRSs") in Malaysia as modified by Bank Negara Malaysia ("BNM") guidelines and the principles of Shariah.

The accounting policies and methods of computations applied by the Group and the Bank are consistent with those adopted in the previous year except for adoption of:

<table>
<thead>
<tr>
<th>Effective period beginning on or after</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS 117 Leases</td>
<td>1 October 2006</td>
</tr>
<tr>
<td>FRS 124 Related Party Disclosures</td>
<td>1 October 2006</td>
</tr>
<tr>
<td>FRS 6 Exploration for and Evaluation of Mineral Resources</td>
<td>1 January 2007</td>
</tr>
</tbody>
</table>

Other than the disclosure of key management personnel compensation in Note 36 to the financial statements, the adoption of above FRSs does not result in significant changes in the accounting policies of the Group and the Bank.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.
3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiary is an entity over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Bank's separate financial statements, investment in subsidiaries is stated at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceed and their carrying amount is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisition of subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities’ share of the fair value of the subsidiaries’ identifiable assets and liabilities at the acquisition date and the minorities’ share of changes in the subsidiaries’ equity since then.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(c) Financing, advances and other receivables

(i) Financing, advances and other receivables

Financing, advances and other receivables are recognised when cash is disbursed to customers. They are initially stated at cost including any direct transaction cost and are subsequently measured at amortised cost using the effective profit rate method.

(ii) Allowances for losses on financing

Specific allowance provided for impaired financing, advances and other receivables had been made in full compliance with the BNM/GP3. Additional allowances for impaired financing, advances and other receivables are provided when the recoverable amount using discounted cash flow method under BNM's Guidelines on Financial Reporting for Licensed Islamic Banks (“BNM/GP8-i”) is lower than the net book value of the financing, advances and other receivables (outstanding amount, net of specific allowances). Any allowance made during the year is charged to the income statement.

A general allowance based on a percentage of the financing, advances and other receivables is also made. The percentage is reviewed annually in light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowance, if necessary.

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 directors, there is no prospect of recovery.

(d) Securities

(i) Held-for-trading

Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing 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. Securities classified as held-for-trading are stated at fair value and any gain or loss arising from a change in the fair value are recognised in the income statement.

Profit from held-for-trading securities calculated using the effective profit rate method, is recognised in the income statement.

(ii) Held-to-maturity

Held-to-maturity securities are securities with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold to maturity. These investments will be measured at amortised cost using the effective profit rate method. A gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(d) Securities (Cont’d.)

(ii) Held-to-maturity (Cont’d.)

The impairment loss, for investments held at amortised cost, is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at its original effective profit rate on initial recognition. The carrying amount of the securities shall be reduced either directly or through use of an allowance account.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss will be reversed either directly or by adjusting the allowance account. The reversal will not result in the carrying amount of securities exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal will be recognised in the income statement.

(iii) Available-for-sale

Available-for-sale securities are securities that are not classified as held-for-trading or held-to-maturity investments and are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost. Any gain or loss arising from a change in the fair value are recognised directly in equity, except for impairment losses and foreign exchange gains and losses.

Profit from available-for-sale securities, calculated using the effective profit rate method, is recognised in the income statement while dividends on available-for-sale equity instruments and property funds are recognised in the income statement when the Group's and the Bank's right to receive payment is established.

In the event of any objective evidence that the securities are impaired, the cumulative loss that had been recognised directly in equity will be removed from equity and recognised in the income statement even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment or amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statement.

If, in subsequent periods, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss will be reversed from the income statement.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(d) Securities (Cont’d.)

(iii) Available-for-sale (Cont’d.)

For equity instruments and other securities stated at cost, the amount of impairment loss is measured as the difference between the carrying amount of securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment loss shall not be reversed.

For financing converted into debt or equity instruments, the Bank will measure the security or equity instruments received at its fair value. The difference between the net book value of the restructured financing (outstanding amount of financing net of specific allowances) and the fair value of the security or equity instruments will be the gain or loss from the conversion scheme.

- where the net book value of the restructured financing is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the income statement in the current reporting period. (iii.i)

- where the fair value of the debt or equity instruments is higher than the net book value of the restructured financing, the gain from the conversion scheme is transferred to the "Impairment loss" account, which would be netted off from the "Securities" account in the balance sheet. (iii.ii)

The estimated fair values for securities held-for-trading and securities available-for-sale are based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the balance sheet date.

(e) Property and Equipment, and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced parts is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Subsequent to recognition, property and equipment except for work-in-progress are stated at cost less accumulated depreciation and any accumulated impairment losses.

Work-in-progress are not depreciated as these assets are not available for use. Depreciation of other property and equipment is provided for on a straight-line-basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:-

- Renovation 20%
- Furniture and fittings 20%
- Office equipment 20%
- Computer equipment hardware 20%
- Motor vehicles 20%
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(e) Property and Equipment, and Depreciation (Cont’d.)

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

(f) Intangible Assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

Intangible assets are amortised over their finite useful lives as follows:

- Computer software 5 years

(g) Murabahah Trading Automobiles

Murabahah trading automobiles are carried at the lower of cost and market value determined on an individual basis.

(h) Other Assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(i) Musyarakah Capital Investment and Musyarakah Financing

The Bank grants Musyarakah financing as part of the Bank’s activities in accordance with the principles of Shariah. The equity participation that forms part of the financing structure is called Musyarakah capital investment. Musyarakah capital investment is carried at cost less any impairment loss. Under the principle of Musyarakah, the Bank will share in profit or loss of the project less financing. In view of the Bank acting as a financier to the project, Musyarakah financing is carried as financing receivable in the financial statements of the Bank. The profit on Musyarakah financing is recognised over the term of the contract based on estimated internal rate of return of the project.

(j) Provision for Liabilities

Provision for liabilities are recognised when the Group and the Bank have a present obligation as a result of a past event and it is probable than a n outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

(k) Liabilities

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in future for the goods and services received.

(l) Subordinated Murabahah Tawarruq

Subordinated Murabahah Tawarruq is stated at cost including profit payable which is recognised on an accrual basis.

(m) Income Tax

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(n) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to
the Group and the Bank and the revenue can be reliably measured. The following specific
criteria must also be met before revenue is recognised:

(i) Finance Income Recognition

Finance income is recognised on an accrual basis. Income on cash line, house and
term financing are accounted for on a straight line basis by reference to the rest periods
as stipulated in the financing agreement, which are either monthly or daily. Income on
Musyarakah and Mudharabah financing are recognised based on estimated internal
rate of return.

Where an account is classified as non-performing, income is suspended until it is
realised on a cash. Financing income recognised prior to the non-performing
classification is not clawed back to the first day of default in conformity with Bank
Negara Malaysia Guidelines. Customers' accounts are classified as non-performing
where repayments are in arrears for more than six months from the first day of default
for financing, cash line and advances; and three months from first day of default for
trade bills and other instruments of similar nature.

(ii) Fee and Other Income Recognition

Financing arrangement, management and participation fees, underwriting commissions
and brokerage fees are recognised as income based on contractual arrangements. Guarantee fee (administrative fee) is recognised as income upon issuance of the
guarantee. Fees from advisory and corporate finance activities are recognised net of
service taxes and discounts on completion of each stage of the assignment. Other fees
and commissions on services and facilities extended to customers are recognised on
inception of such transactions.

Dividend income from subsidiary and other investments are recognised when the
Group's and the Bank's right to receive payment is established.

(iii) Profit from Murabahah Trading Automobiles

Profit is recognised based on payment received.

(o) Profit Expense Recognition

Attributable profit expense on deposits and borrowings of the Group and the Bank are
recognised on an accrual basis.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(p) Foreign Currencies

(i) Functional and Presentational Currency

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

(ii) Foreign Currency Transactions

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the year except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss shall be recognised directly in equity. Conversely, when a gain or loss of a non-monetary item is recognised in profit or loss, any exchange component shall be recognised in profit or loss.

(iii) Foreign Operations

The results and financial position of the subsidiaries that have functional currencies different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

a) Assets and liabilities for each balance sheet presented are translated at the closing rates prevailing at the balance sheet date;

b) Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and

c) All resulting exchange differences are taken to the foreign currency translation reserve within equity.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(q) Foreign Exchange Contracts, Profit Rate, Foreign Currency and Ijarah Rental Swaps

(i) Foreign Exchange Contracts

Foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at balance sheet date and the resultant gains and losses are recognised in the income statement.

(ii) Profit Rate, Foreign Currency and Ijarah Rental Swaps

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

Fair value hedge

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

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective, are deferred in a separate component of equity. The ineffective part of any gain or loss is recognised in the income statement. The deferred gains and losses are released to the income statement in the periods when the hedged item affects the income statement.

(r) Employee Benefits

(i) Short-Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group and the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(r) Employee Benefits (Cont’d.)

(ii) Defined Contribution Plan

Defined contribution plan is a post-employment benefit plan under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss when incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (“EPF”).

(s) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5775% of the opening reserves of the Bank.

(t) Profit Equalisation Reserves (“PER”)

PER is the amount provided in order to maintain a certain level of return for deposits in conformity with Bank Negara Malaysia’s "The Framework of the Rate of Return". The PER is deducted at a rate which does not exceed the maximum amount of 15% of monthly gross income, monthly net trading income, other income and irregular income. PER is maintained up to the maximum of 30% of total Islamic banking capital fund.

(u) Impairment of Assets

The carrying amounts of assets (other than investment in subsidiaries, associated companies and deferred tax assets) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(u) Impairment of Assets (Cont’d.)

An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

(v) Financial Instruments

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

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

(w) Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances and short-term deposits with remaining maturities of less than one month.

(x) Financial Risk Management Objective and Policies

The Group’s and the Bank’s financial risk management policy seek to ensure that adequate financial resources are available for the development of the Group’s and the Bank’s business whilst managing its profit rate risks (both fair value and cash flow), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are disclosed in Note 2 (iii) - Risk Management to the Statement of Corporate Governance on pages 7 to 14.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.1 Summary of Significant Accounting Policies (Cont’d.)

(y) Operating Lease

Under the operating lease, the Group and the Bank act as a lessee. The operating lease payments are accounted for on a straight-line basis over the lease term and included in "Other overheads and expenditures".

3.2 Standards and Interpretations Issued but Not Yet Effective

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

<table>
<thead>
<tr>
<th>FRSs, Amendments to FRSs and Interpretations</th>
<th>Effective period beginning on or after</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS 107 Cash Flow Statements</td>
<td>1 July 2007</td>
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<tr>
<td>FRS 111 Construction Contracts</td>
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<td>FRS 112 Income Taxes</td>
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<td>FRS 118 Revenue</td>
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<td>FRS 119 Employee Benefits</td>
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<td>FRS 120 Accounting for Government Grants and Disclosure of Government Assistance</td>
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<tr>
<td>FRS 126 Accounting and Reporting by Retirement Benefit Plans</td>
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<td>FRS 129 Financial Reporting in Hyperinflationary Economies</td>
<td>1 July 2007</td>
</tr>
<tr>
<td>FRS 134 Interim Financial Reporting</td>
<td>1 July 2007</td>
</tr>
<tr>
<td>FRS 137 Provisions, Contingent Liabilities and Contingent Assets</td>
<td>1 July 2007</td>
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<tr>
<td>FRS 139 Financial Instruments: Recognition and Measurement</td>
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<td>Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operations</td>
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<tr>
<td>IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities</td>
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<td>IC Interpretation 2: Members’ Shares in Co-operative Entities and Similar Instruments</td>
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<td>IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</td>
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<td>IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</td>
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<tr>
<td>IC Interpretation 8: Scope of FRS 2</td>
<td>1 July 2007</td>
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The above FRSs, amendments to FRSs and Interpretations have no significant impact on the financial statements of the Group and the Bank upon their initial application other than FRS 139.

The Group and the Bank are exempted from disclosing the possible impact, if any, to the financial statements upon initial application to FRS 139 by virtue of exemptions stipulated in the FRS.
3 SIGNIFICANT ACCOUNTING POLICIES (Cont’d.)

3.3 Significant Accounting Estimates and Judgements

The preparation of the financial statements involved making certain estimates, assumptions and judgements that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(a) Fair value estimation of securities and profit rate related contracts

As disclosed in Note 3.1(d), where the quoted and observable market prices of certain securities are not available, fair value is estimated using pricing models or discounted cash flow techniques. The usage of these models and techniques require the Group to make certain estimates and assumptions, including but not limited to estimated future cash flows and discount rates.

(b) Income taxes

Deferred tax assets are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Estimates are made as to the amount of taxable profits in these periods which will enable the deferred tax assets to be realised.

(c) Income recognition on Musyarakah and Mudharabah financing

Musyarakah and Mudharabah financing income are recognised based on estimated internal rate of return which is revised periodically over the duration of the financing.

(d) Allowance for losses on financing

The Group and the Bank review the doubtful financing, advances and other receivables, at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of doubtful financing, and the estimation of realisation amount from the doubtful financing when determining the level of allowance required.

The Group and the Bank have adopted certain criteria in the identification of doubtful financing, which include classifying financing as non-performing when repayments are in arrears for more than six (6) months. Specific allowances for doubtful financing are provided after taking into consideration of the values assigned to collateral. The values assigned to collateral are estimated based on market value and/or forced sales value, as appropriate and conforms with BNM guidelines. In addition to the specific allowances made, the Group and the Bank also make general allowance against exposure not specifically identified based on a certain percentage of total financing. Such estimates are based on assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.
4 CASH AND SHORT-TERM FUNDS

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<tr>
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5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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<td>RM'000</td>
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6 SECURITIES HELD-FOR-TRADING

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<td>RM'000</td>
<td>RM'000</td>
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<td>RM'000</td>
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<tr>
<td>At fair value</td>
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<td>Bank Negara Malaysia</td>
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<td>Sukuk Ijarah</td>
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<td>Unquoted Islamic</td>
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7 SECURITIES AVAILABLE-FOR-SALE

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<td>RM'000</td>
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<tr>
<td>At fair value</td>
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<td>Sukuk Ijarah</td>
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<td>Unquoted securities:</td>
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<td>Total</td>
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</table>
8 SEcurities HELD-TO-MATURITY

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>At amortised cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unquoted securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic private debt securities</td>
<td>25,460</td>
<td>-</td>
<td>25,460</td>
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</tbody>
</table>

9 FINANCING, ADVANCES AND OTHER RECEIVABLES

(i) **By type**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Term Financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Murabahah financing</td>
<td>2,123,560</td>
<td>512,096</td>
<td>2,123,560</td>
<td>512,096</td>
</tr>
<tr>
<td>Musyarakah financing</td>
<td>242,320</td>
<td>77,683</td>
<td>242,320</td>
<td>77,683</td>
</tr>
<tr>
<td>Ijarah asset financing</td>
<td>730,938</td>
<td>107,171</td>
<td>730,938</td>
<td>107,171</td>
</tr>
<tr>
<td>Mudharabah asset financing</td>
<td>99,668</td>
<td>138,668</td>
<td>99,668</td>
<td>138,668</td>
</tr>
<tr>
<td>Musyarakah Mutanaqisah financing</td>
<td>53,227</td>
<td>9,073</td>
<td>53,227</td>
<td>9,073</td>
</tr>
<tr>
<td>Iristisna' financing</td>
<td>37,414</td>
<td>-</td>
<td>37,414</td>
<td>-</td>
</tr>
<tr>
<td>Staff financing</td>
<td>9,054</td>
<td>1,670</td>
<td>9,054</td>
<td>1,670</td>
</tr>
<tr>
<td></td>
<td>3,296,181</td>
<td>846,361</td>
<td>3,296,181</td>
<td>846,361</td>
</tr>
<tr>
<td><strong>Less: Unearned income</strong></td>
<td>(76,455)</td>
<td>(28,375)</td>
<td>(76,455)</td>
<td>(28,375)</td>
</tr>
<tr>
<td></td>
<td>3,219,726</td>
<td>817,986</td>
<td>3,219,726</td>
<td>817,986</td>
</tr>
<tr>
<td>Less: Allowance for bad and doubtful financing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- General</td>
<td>(55,324)</td>
<td>(14,291)</td>
<td>(55,324)</td>
<td>(14,291)</td>
</tr>
<tr>
<td>- Specific</td>
<td>(2,092)</td>
<td>-</td>
<td>(2,092)</td>
<td>-</td>
</tr>
<tr>
<td>Total net financing, advances and other receivables</td>
<td>3,162,310</td>
<td>803,695</td>
<td>3,162,310</td>
<td>803,695</td>
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</table>

(ii) **By contract**

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Ijarah Muntahia Bittamlik/ Al-Ijarah</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thumma Al-Bai'/ (lease ended with ownership)</td>
<td>726,984</td>
<td>103,542</td>
<td>726,984</td>
<td>103,542</td>
</tr>
<tr>
<td>Murabahah (cost-plus)</td>
<td>2,058,701</td>
<td>488,859</td>
<td>2,058,701</td>
<td>488,859</td>
</tr>
<tr>
<td>Mudharabah (profit sharing)</td>
<td>99,668</td>
<td>138,668</td>
<td>99,668</td>
<td>138,668</td>
</tr>
<tr>
<td>Musyarakah (profit and loss sharing)</td>
<td>296,595</td>
<td>86,874</td>
<td>296,595</td>
<td>86,874</td>
</tr>
<tr>
<td>Qard (benevolent loan)</td>
<td>33</td>
<td>43</td>
<td>33</td>
<td>43</td>
</tr>
<tr>
<td>Iristisna'</td>
<td>37,745</td>
<td>-</td>
<td>37,745</td>
<td>-</td>
</tr>
<tr>
<td>Total net financing, advances and other receivables</td>
<td>3,219,726</td>
<td>817,986</td>
<td>3,219,726</td>
<td>817,986</td>
</tr>
</tbody>
</table>
### (iii) By type of customer

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Domestic business enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small medium enterprises</td>
<td>1,063,253</td>
<td>238,308</td>
<td>1,063,253</td>
<td>238,308</td>
</tr>
<tr>
<td>Others</td>
<td>1,495,297</td>
<td>513,851</td>
<td>1,495,297</td>
<td>513,851</td>
</tr>
<tr>
<td>Individuals</td>
<td>143,305</td>
<td>9,453</td>
<td>143,305</td>
<td>9,453</td>
</tr>
<tr>
<td>Foreign entities</td>
<td>288,376</td>
<td>56,374</td>
<td>288,376</td>
<td>56,374</td>
</tr>
<tr>
<td>Domestic non-bank financial institutions</td>
<td>229,495</td>
<td>-</td>
<td>229,495</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3,219,726</td>
<td>817,986</td>
<td>3,219,726</td>
<td>817,986</td>
</tr>
</tbody>
</table>

### (iv) By profit rate sensitivity

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Fixed rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House financing</td>
<td>18,243</td>
<td>548</td>
<td>18,243</td>
<td>548</td>
</tr>
<tr>
<td>Hire purchase receivables</td>
<td>2,711</td>
<td>1,510</td>
<td>2,711</td>
<td>1,510</td>
</tr>
<tr>
<td>Others</td>
<td>2,174,330</td>
<td>616,598</td>
<td>2,174,330</td>
<td>616,598</td>
</tr>
<tr>
<td>Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1,024,442</td>
<td>199,330</td>
<td>1,024,442</td>
<td>199,330</td>
</tr>
<tr>
<td></td>
<td>3,219,726</td>
<td>817,986</td>
<td>3,219,726</td>
<td>817,986</td>
</tr>
</tbody>
</table>

### (v) By sector

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Agriculture, hunting, forestry &amp; fishing</td>
<td>117,523</td>
<td>65,527</td>
<td>117,523</td>
<td>65,527</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>30,033</td>
<td>32,696</td>
<td>30,033</td>
<td>32,696</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>549,179</td>
<td>-</td>
<td>549,179</td>
<td>-</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>59,710</td>
<td>76,484</td>
<td>59,710</td>
<td>76,484</td>
</tr>
<tr>
<td>Construction</td>
<td>275,897</td>
<td>40,097</td>
<td>275,897</td>
<td>40,097</td>
</tr>
<tr>
<td>Real estate</td>
<td>334,355</td>
<td>127,284</td>
<td>334,355</td>
<td>127,284</td>
</tr>
<tr>
<td>Purchase of landed property:</td>
<td>14,031</td>
<td>430</td>
<td>14,031</td>
<td>430</td>
</tr>
<tr>
<td>Residential</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale, retail trade, restaurants and hotels</td>
<td>552,753</td>
<td>201,565</td>
<td>552,753</td>
<td>201,565</td>
</tr>
<tr>
<td>Transports, storage and communication</td>
<td>324,339</td>
<td>121,878</td>
<td>324,339</td>
<td>121,878</td>
</tr>
<tr>
<td>Finance, insurance and business services</td>
<td>588,800</td>
<td>63,654</td>
<td>588,800</td>
<td>63,654</td>
</tr>
<tr>
<td>Purchase of securities</td>
<td>94,928</td>
<td>16,871</td>
<td>94,928</td>
<td>16,871</td>
</tr>
<tr>
<td>Purchase of transport vehicles</td>
<td>2,674</td>
<td>1,510</td>
<td>2,674</td>
<td>1,510</td>
</tr>
<tr>
<td>Consumption credit</td>
<td>19,466</td>
<td>7,783</td>
<td>19,466</td>
<td>7,783</td>
</tr>
<tr>
<td>Others</td>
<td>256,038</td>
<td>62,207</td>
<td>256,038</td>
<td>62,207</td>
</tr>
<tr>
<td></td>
<td>3,219,726</td>
<td>817,986</td>
<td>3,219,726</td>
<td>817,986</td>
</tr>
</tbody>
</table>
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont’d.)

(vi) Movements in the non-performing financing, advances and other receivables

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>At beginning of year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Classified as non-performing</td>
<td>2,334</td>
<td>-</td>
<td>2,334</td>
<td>-</td>
</tr>
<tr>
<td>At end of year</td>
<td>2,334</td>
<td>-</td>
<td>2,334</td>
<td>-</td>
</tr>
<tr>
<td>Less : Specific allowance *</td>
<td>(2,092)</td>
<td>-</td>
<td>(2,092)</td>
<td>-</td>
</tr>
<tr>
<td>Net non-performing financing, advances and other receivables</td>
<td>242</td>
<td>-</td>
<td>242</td>
<td>-</td>
</tr>
</tbody>
</table>

Ratio of net non-performing financing, advances and other receivables to net financing, advances and other receivables

0.01% - 0.01%

* Includes specific allowance made for performing but impaired financing.

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

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>General allowance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>14,291</td>
<td>-</td>
<td>14,291</td>
<td>-</td>
</tr>
<tr>
<td>Allowance made</td>
<td>41,033</td>
<td>14,291</td>
<td>41,033</td>
<td>14,291</td>
</tr>
<tr>
<td>At end of year</td>
<td>55,324</td>
<td>14,291</td>
<td>55,324</td>
<td>14,291</td>
</tr>
</tbody>
</table>

As % of total gross financing, advances and other receivables less specific allowance

1.72% - 1.75% - 1.72% - 1.75%

(viii) Non-performing financing by sector

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Construction</td>
<td>2,334</td>
<td>-</td>
<td>2,334</td>
<td>-</td>
</tr>
</tbody>
</table>
10 MURABAHAH TRADING AUTOMOBILES

Murabahah automobile trading is the purchases and sales of automobiles at cost plus targeted profit mark up. The sales are carried out by appointed agents who receive commissions based on actual sales made.

The commissions paid to agent are determined with reference to actual sale price, time required to sell and the targeted profit set by the Bank. For certain transactions, the Bank holds an option to sell the unsold vehicles to the agents at prices agreed upfront. Ownership remains with the Bank until the vehicles are sold and the Bank has the right to appoint new agents for unsold vehicles.

11 OTHER ASSETS

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td></td>
<td>RM’000</td>
<td></td>
</tr>
<tr>
<td>Deposits and prepayments</td>
<td>3,537</td>
<td>1,466</td>
<td>3,442</td>
<td>1,453</td>
</tr>
<tr>
<td>Amount due from holding company</td>
<td>951</td>
<td>425</td>
<td>951</td>
<td>425</td>
</tr>
<tr>
<td>Amount due from subsidiaries</td>
<td>842</td>
<td>-</td>
<td>1,981</td>
<td>416</td>
</tr>
<tr>
<td>Amount due from other related parties</td>
<td>9,341</td>
<td>359</td>
<td>9,341</td>
<td>359</td>
</tr>
<tr>
<td>Income receivable</td>
<td>8,353</td>
<td>2,874</td>
<td>7,401</td>
<td>2,908</td>
</tr>
<tr>
<td>Fee receivable</td>
<td>10,498</td>
<td>6,583</td>
<td>10,498</td>
<td>6,583</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>1,889</td>
<td>11,943</td>
<td>1,361</td>
<td>11,908</td>
</tr>
<tr>
<td>Underwriting releases</td>
<td>37,522</td>
<td>26,871</td>
<td>37,522</td>
<td>26,871</td>
</tr>
<tr>
<td>Revaluation gain on forward foreign exchange contracts and Ijarah rental swaps</td>
<td>11,028</td>
<td>64</td>
<td>11,028</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td><strong>83,961</strong></td>
<td><strong>50,585</strong></td>
<td><strong>83,525</strong></td>
<td><strong>50,987</strong></td>
</tr>
</tbody>
</table>

Underwriting releases relate to progress payments released to a property developer pursuant to the Master Underwriting Agreement, of which the Bank agreed to underwrite the purchase of two apartment blocks.

The amount due from holding company, subsidiaries and related parties are unsecured, interest-free and have no fixed terms of repayment.

The Group and the Bank have no significant concentration of credit risk that may arise from exposure to a single debtor or a group of debtors.

Included in other assets are revaluation gain on the following financial instruments:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notional Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td></td>
<td>RM’000</td>
<td></td>
</tr>
<tr>
<td>Group and Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward foreign exchange related contracts</td>
<td>105,548</td>
<td>940</td>
</tr>
<tr>
<td>Ijarah rental swap related contracts</td>
<td>360,527</td>
<td>10,088</td>
</tr>
<tr>
<td></td>
<td><strong>466,075</strong></td>
<td><strong>11,028</strong></td>
</tr>
</tbody>
</table>
12 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

13 MUSYARAKAH CAPITAL INVESTMENT

The Bank grants Musyarakah financing as part of the Bank's activities in accordance with the principles of Shariah. The equity participation that forms part of the financing structure is called Musyarakah capital investment which is carried at cost less any impairment loss. The Bank's participation in these entities involved is limited to safeguarding its interest under the Musyarakah financing.

14 INVESTMENT IN SUBSIDIARIES

In Malaysia:
- Unquoted shares, at cost

<table>
<thead>
<tr>
<th>Country of Incorporation</th>
<th>Name</th>
<th>Principal Activities</th>
<th>Equity interest held (%)</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>Kuwait Finance House (Labuan) Berhad</td>
<td>Offshore Banking</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Kuwait Nominees (Tempatan) Sdn. Bhd. @</td>
<td>Nominee services</td>
<td>100</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>Kuwait Finance House (Singapore) Pte. Ltd. #</td>
<td>Fund management</td>
<td>100</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>Kuwait Finance House (Australia) Pte. Ltd. *</td>
<td>Fund management</td>
<td>100</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

@ Incorporated on 7 August 2007
# Incorporated on 6 November 2007
* Incorporated on 15 November 2007

The first set of statutory financial statements for the three subsidiaries incorporated during the financial year are not due as at 31 December 2007. The statutory auditors of these newly incorporated subsidiaries have not been appointed as at the date of the financial statements.
## 15 PROPERTY AND EQUIPMENT

<table>
<thead>
<tr>
<th>Group</th>
<th>Renovation</th>
<th>Furniture &amp; fittings</th>
<th>Office equipment</th>
<th>Computer equipment</th>
<th>Motor vehicles</th>
<th>Work-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2007</td>
<td>6,170</td>
<td>2,523</td>
<td>3,358</td>
<td>4,774</td>
<td>786</td>
<td>270</td>
<td>17,881</td>
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### Bank

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<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
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<tr>
<td><strong>Cost</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>2,520</td>
<td>3,350</td>
<td>4,774</td>
<td>786</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>(1,217)</td>
<td>-</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td>1,453</td>
<td>5,216</td>
<td>22,482</td>
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Included in the additions for office equipment is an allowance for write-off of RM Nil (2006 : RM2,899)

The additions for the period in respect of renovations include accrued restoration cost for the Group and the Bank of RM Nil (2006 : RM250,000)
## 15  PROPERTY AND EQUIPMENT (Cont’d.)

<table>
<thead>
<tr>
<th>Group</th>
<th>Furniture &amp; fittings</th>
<th>Office equipment</th>
<th>Motor vehicles</th>
<th>Work-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Renovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td></td>
<td>At 1 January 2006</td>
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<td>2,251</td>
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<td>964</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>At 1 January 2006</td>
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<td>7</td>
<td>79</td>
<td>152</td>
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<td>549</td>
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<td>506</td>
<td>44</td>
<td>104</td>
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<td>672</td>
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<td>4,907</td>
<td>1,818</td>
<td>2,679</td>
<td>3,761</td>
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### Bank

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<th>Furniture &amp; fittings</th>
<th>Office equipment</th>
<th>Motor vehicles</th>
<th>Work-in-progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Renovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td></td>
<td>At 1 January 2006</td>
<td>4,734</td>
<td>136</td>
<td>2,251</td>
<td>2,728</td>
</tr>
<tr>
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<td>Additions</td>
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<td>2,323</td>
<td>143</td>
<td>566</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2006</td>
<td>6,098</td>
<td>2,520</td>
<td>3,350</td>
<td>4,774</td>
</tr>
<tr>
<td></td>
<td>Accumulated depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>At 1 January 2006</td>
<td>417</td>
<td>7</td>
<td>79</td>
<td>152</td>
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<tr>
<td></td>
<td>Charge for the year</td>
<td>1,428</td>
<td>189</td>
<td>548</td>
<td>757</td>
</tr>
<tr>
<td></td>
<td>Reclassification</td>
<td>(654)</td>
<td>506</td>
<td>44</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2006</td>
<td>1,191</td>
<td>702</td>
<td>671</td>
<td>1,013</td>
</tr>
<tr>
<td></td>
<td>Net book value</td>
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<td>1,818</td>
<td>2,679</td>
<td>3,761</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2006</td>
<td>4,907</td>
<td>1,818</td>
<td>2,679</td>
<td>3,761</td>
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16 INTANGIBLE ASSETS

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<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Computer software</td>
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<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January</td>
<td>8,443</td>
<td>5,282</td>
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<tr>
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<td>1,679</td>
<td>3,161</td>
<td>1,679</td>
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<tr>
<td>At 31 December</td>
<td>10,122</td>
<td>8,443</td>
<td>10,122</td>
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<td>Accumulated amortisation</td>
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17 DEFERRED TAXATION

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<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
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<td>At 1 January</td>
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<td>441</td>
<td>(1,354</td>
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<td>(587)</td>
<td>2,388</td>
<td>(587)</td>
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<tr>
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<td>9,967</td>
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<tr>
<td>At 31 December</td>
<td>12,796</td>
<td>441</td>
<td>12,796</td>
<td>441</td>
</tr>
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</table>

Presented after appropriate offsetting as follows:
Deferred tax assets (net) | 12,796 | 441 | 12,796 | 441 |

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

Deferred tax assets of the Group and Bank:

<table>
<thead>
<tr>
<th></th>
<th>Allowance for financing losses RM'000</th>
<th>Other temporary differences RM'000</th>
<th>Total RM'000</th>
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<tr>
<td>2007</td>
<td></td>
<td></td>
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<tr>
<td>At 1 January 2007</td>
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<td>115</td>
<td>3,831</td>
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<tr>
<td>Recognised in income statement</td>
<td>10,115</td>
<td>1,214</td>
<td>11,329</td>
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<td>At 31 December 2007</td>
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<td>15,160</td>
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17 DEFERRED TAXATION (Cont'd.)

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<th>Other temporary differences</th>
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<td>RM'000</td>
<td>RM'000</td>
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<table>
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<th>2006</th>
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<tr>
<td>At 1 January 2006</td>
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<tr>
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<td>3,716</td>
<td>59</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>3,716</td>
<td>115</td>
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Deferred tax liabilities of the Group and Bank:

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<th>Accelerated capital allowances</th>
<th>Unrealised gain/(loss) on securities available-for-sale</th>
<th>Total</th>
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<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
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<th>2007</th>
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<tr>
<td>Recognised in equity</td>
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</tr>
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<td>(1,796)</td>
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18 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

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<th>2007 RM'000</th>
<th>2006 RM'000</th>
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<td>103,890</td>
<td>468,248</td>
<td>115,448</td>
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</table>

Mudharabah

| Savings deposits | 1,858 | 772 | 1,858 | 772 |
| General investment deposits | 165,713 | 34,903 | 165,714 | 34,903 |

Murabahah

<table>
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<th>Others</th>
<th>1,565,002</th>
<th>891,599</th>
<th>1,565,002</th>
<th>891,599</th>
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<td>2,200,822</td>
<td>1,042,722</td>
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18  DEPOSITS FROM CUSTOMERS (Cont'd)

(ii) By type of customer

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<th></th>
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</thead>
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<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
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<td>13,637</td>
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<td>155,215</td>
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<tr>
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<td><strong>1,031,164</strong></td>
<td><strong>2,200,822</strong></td>
<td><strong>1,042,722</strong></td>
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19  DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

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<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
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<td>377,974</td>
<td>-</td>
</tr>
<tr>
<td>Other financial institutions</td>
<td>2,034,913</td>
<td>1,340,180</td>
<td>2,034,913</td>
<td>1,340,180</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,907,887</strong></td>
<td><strong>1,545,790</strong></td>
<td><strong>2,907,887</strong></td>
<td><strong>1,545,790</strong></td>
</tr>
</tbody>
</table>

20  OTHER LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Income payables</td>
<td>38,145</td>
<td>12,744</td>
<td>38,145</td>
<td>12,647</td>
</tr>
<tr>
<td>Sundry creditors</td>
<td>12,997</td>
<td>8,842</td>
<td>12,996</td>
<td>8,842</td>
</tr>
<tr>
<td>Amount due to holding company</td>
<td>1,140</td>
<td>1,140</td>
<td>1,140</td>
<td>1,140</td>
</tr>
<tr>
<td>Project clearing account</td>
<td>27,234</td>
<td>11,841</td>
<td>27,234</td>
<td>11,841</td>
</tr>
<tr>
<td>Revaluation loss on forward foreign exchange contracts and Ijarah rental swaps</td>
<td>5,762</td>
<td>1,860</td>
<td>5,762</td>
<td>1,860</td>
</tr>
<tr>
<td>Accrued restoration cost</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Other provisions and accruals</td>
<td>25,778</td>
<td>5,786</td>
<td>25,764</td>
<td>5,781</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>111,308</strong></td>
<td><strong>42,463</strong></td>
<td><strong>111,291</strong></td>
<td><strong>42,361</strong></td>
</tr>
</tbody>
</table>

The amount due to holding company is unsecured, interest-free and has no fixed terms of repayment.
20 OTHER LIABILITIES (Cont’d)

Included in other liabilities are revaluation loss on the following financial instruments:

<table>
<thead>
<tr>
<th>Group and Bank</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notional Amount RM’000</td>
<td>Fair Value RM’000</td>
</tr>
<tr>
<td>Forward foreign exchange related contracts</td>
<td>97,105</td>
<td>652</td>
</tr>
<tr>
<td>Ijarah rental swap related contracts</td>
<td>99,225</td>
<td>5,110</td>
</tr>
<tr>
<td></td>
<td>196,330</td>
<td>5,762</td>
</tr>
</tbody>
</table>

21 PROVISION FOR ZAKAT AND TAXATION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Zakat</td>
<td>220</td>
<td>10</td>
<td>220</td>
<td>10</td>
</tr>
<tr>
<td>Taxation</td>
<td>20</td>
<td>20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>240</td>
<td>30</td>
<td>220</td>
<td>10</td>
</tr>
</tbody>
</table>

22 SUBORDINATED MURABAHAH TAWARRUQ

The subordinated Murabahah Tawarruq is a USD100 million (equivalent RM336 million) facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility is unsecured with a tenure of five years and forms part of the Bank’s Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate (“LIBOR”), at 50 basis point above LIBOR.

23 SHARE CAPITAL

<table>
<thead>
<tr>
<th>Number of ordinary shares at RM1.00 each</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Authorised:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January/ 31 December</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Issued and fully paid:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January</td>
<td>380,000</td>
<td>380,000</td>
<td>380,000</td>
<td>380,000</td>
</tr>
<tr>
<td>Issued during the year</td>
<td>347,000</td>
<td>-</td>
<td>347,000</td>
<td>-</td>
</tr>
<tr>
<td>At 31 December</td>
<td>727,000</td>
<td>380,000</td>
<td>727,000</td>
<td>380,000</td>
</tr>
</tbody>
</table>

During the year, the Bank increased its issued and paid-up capital to RM727 million from RM380 million via issuance of 347,000,000 new ordinary shares of RM1 each at par for cash.
24 RESERVES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Non-distributable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory reserve</td>
<td>12,773</td>
<td>2,620</td>
<td>12,773</td>
<td>2,620</td>
</tr>
<tr>
<td>Exchange fluctuation</td>
<td>(1,679)</td>
<td>(750)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>reserve</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealised (loss)/gain</td>
<td>(5,388)</td>
<td>1,685</td>
<td>(5,388)</td>
<td>1,685</td>
</tr>
<tr>
<td>on securities available-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for-sale</td>
<td>5,706</td>
<td>3,555</td>
<td>7,385</td>
<td>4,305</td>
</tr>
<tr>
<td>Distributable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained profits</td>
<td>22,353</td>
<td>5,530</td>
<td>12,770</td>
<td>2,590</td>
</tr>
<tr>
<td></td>
<td>28,059</td>
<td>9,085</td>
<td>20,155</td>
<td>6,895</td>
</tr>
</tbody>
</table>

The nature and purpose of each category of reserve are as follows:

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries.

(iii) Unrealised gain/(loss) on securities available-for-sale

This reserve represents the difference between fair value of the securities and their costs determined as at the balance sheet date, excluding the amount relating to impaired securities.

(i) Movements of the unrealised gain/(loss) on securities available-for-sale

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>At 1 January</td>
<td>1,685</td>
<td>14</td>
<td>1,685</td>
<td>14</td>
</tr>
<tr>
<td>Unrealised (loss)/gain on securities available for sale</td>
<td>(7,073)</td>
<td>1,671</td>
<td>(7,073)</td>
<td>1,671</td>
</tr>
<tr>
<td>At 31 December</td>
<td>(5,388)</td>
<td>1,685</td>
<td>(5,388)</td>
<td>1,685</td>
</tr>
</tbody>
</table>
## 25 OPERATING REVENUE

Operating revenue of the Group comprises of all types revenue derived from the business of banking but excluding all transactions between related companies.

Operating revenue of the Bank comprises financing income, fee and commission income, investment income, trading income, gross dividends and other income derived from banking operations.

## 26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS’ FUNDS AND OTHERS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income derived from investment of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) General investment deposits</td>
<td>4,263</td>
<td>545</td>
<td>4,343</td>
<td>545</td>
</tr>
<tr>
<td>(ii) Other deposits</td>
<td>202,890</td>
<td>54,065</td>
<td>206,606</td>
<td>43,778</td>
</tr>
<tr>
<td></td>
<td>207,153</td>
<td>54,610</td>
<td>210,949</td>
<td>44,323</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing, advances and other receivables</td>
<td>2,576</td>
<td>-</td>
<td>2,576</td>
<td>-</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held-for-trading</td>
<td>75</td>
<td>-</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>746</td>
<td>-</td>
<td>746</td>
<td>-</td>
</tr>
<tr>
<td>- Held-to-maturity</td>
<td>25</td>
<td></td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

| Money at call and deposits with financial institutions | 728 | 545 | 808 | 545 |
|                                                         | 4,150 | 545 | 4,230 | 545 |

| Amortisation of premium less accretion of discounts | (3) | - | (3) | - |

| Total financing income and hibah | 4,147 | 545 | 4,227 | 545 |

| Gain/(Loss) arising from sale of securities |            |            |           |           |
| - Held-for-trading                         | 57         | -          | 57        | -         |
| - Available-for-sale                       | 35         | -          | 35        | -         |

| Profit from Murabahah trading on automobiles | 19         | -          | 19        | -         |

| Foreign exchange profit/(loss) |            |            |           |           |
| - Realised                     | 20         | -          | 20        | -         |

| Gain/(Loss) on Ijarah rental swaps obligation | (15) | - | (15) | - |
|                                               | 4,263 | 545 | 4,343 | 545 |
### Income Derived from Investment of Other Deposits

<table>
<thead>
<tr>
<th></th>
<th>Group 2007 RM’000</th>
<th>Group 2006 RM’000</th>
<th>Bank 2007 RM’000</th>
<th>Bank 2006 RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing, advances and other receivables</td>
<td>121,340</td>
<td>17,416</td>
<td>121,340</td>
<td>17,416</td>
</tr>
<tr>
<td>Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held-for-trading</td>
<td>3,487</td>
<td>419</td>
<td>3,487</td>
<td>419</td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>35,344</td>
<td>4,910</td>
<td>35,344</td>
<td>4,910</td>
</tr>
<tr>
<td>- Held-to-maturity</td>
<td>948</td>
<td>-</td>
<td>948</td>
<td>-</td>
</tr>
<tr>
<td>Money at call and deposits with financial institutions</td>
<td>35,978</td>
<td>20,487</td>
<td>39,694</td>
<td>21,558</td>
</tr>
<tr>
<td>Amortisation of premium less accretion of discounts</td>
<td>(141)</td>
<td>(66)</td>
<td>(141)</td>
<td>(66)</td>
</tr>
<tr>
<td>Total financing income and hibah</td>
<td>196,956</td>
<td>43,166</td>
<td>200,672</td>
<td>44,237</td>
</tr>
<tr>
<td>Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swaps (net)</td>
<td>-</td>
<td>(1,101)</td>
<td>-</td>
<td>(1,101)</td>
</tr>
<tr>
<td>Profit from Murabahah trading on automobiles</td>
<td>903</td>
<td>399</td>
<td>903</td>
<td>399</td>
</tr>
<tr>
<td>Gain arising from sale of securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held-for-trading</td>
<td>2,892</td>
<td>137</td>
<td>2,892</td>
<td>137</td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>1,774</td>
<td>7,165</td>
<td>1,774</td>
<td>89</td>
</tr>
<tr>
<td>Foreign exchange profit/(loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Realised</td>
<td>1,129</td>
<td>299</td>
<td>1,129</td>
<td>299</td>
</tr>
<tr>
<td>- Unrealised</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Loss on Ijarah rental swaps obligation</td>
<td>(764)</td>
<td>(294)</td>
<td>(764)</td>
<td>(294)</td>
</tr>
<tr>
<td>Gross dividend from securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>-</td>
<td>4,282</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>202,890</strong></td>
<td><strong>54,065</strong></td>
<td><strong>206,606</strong></td>
<td><strong>43,778</strong></td>
</tr>
</tbody>
</table>
### INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' EQUITY

<table>
<thead>
<tr>
<th></th>
<th>Group 2007 RM’000</th>
<th>Group 2006 RM’000</th>
<th>Bank 2007 RM’000</th>
<th>Bank 2006 RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing, advances and other receivables</td>
<td>19,744</td>
<td>15,779</td>
<td>19,744</td>
<td>15,779</td>
</tr>
<tr>
<td>Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held-for-trading</td>
<td>555</td>
<td>480</td>
<td>555</td>
<td>480</td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>5,783</td>
<td>3,771</td>
<td>5,783</td>
<td>3,771</td>
</tr>
<tr>
<td>- Held-to-maturity</td>
<td>202</td>
<td>-</td>
<td>202</td>
<td>-</td>
</tr>
<tr>
<td>Money at call and deposits with financial institutions</td>
<td>5,777</td>
<td>5,391</td>
<td>6,378</td>
<td>5,391</td>
</tr>
<tr>
<td>Amortisation of premium less accretion of discounts</td>
<td>(23)</td>
<td>(77)</td>
<td>(23)</td>
<td>(77)</td>
</tr>
<tr>
<td>Total financing income and hibah</td>
<td>32,038</td>
<td>25,344</td>
<td>32,639</td>
<td>25,344</td>
</tr>
<tr>
<td>Fee income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Commissions</td>
<td>13,366</td>
<td>9,634</td>
<td>13,366</td>
<td>9,634</td>
</tr>
<tr>
<td>- Fund management fee</td>
<td>4,054</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Other fee income</td>
<td>38,985</td>
<td>12,326</td>
<td>38,985</td>
<td>12,214</td>
</tr>
<tr>
<td>Gain arising from sale of securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Held-for-trading</td>
<td>434</td>
<td>241</td>
<td>434</td>
<td>241</td>
</tr>
<tr>
<td>- Available-for-sale</td>
<td>260</td>
<td>348</td>
<td>260</td>
<td>348</td>
</tr>
<tr>
<td>Unrealised gain/(loss) on revaluation of securities held-for-trading and Ijarah rental swaps (net)</td>
<td>6,424</td>
<td>(805)</td>
<td>6,424</td>
<td>(805)</td>
</tr>
<tr>
<td>Profit from Murabahah trading on automobiles</td>
<td>149</td>
<td>324</td>
<td>149</td>
<td>324</td>
</tr>
<tr>
<td>Foreign exchange profit/(loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Realised</td>
<td>152</td>
<td>264</td>
<td>152</td>
<td>264</td>
</tr>
<tr>
<td>- Unrealised</td>
<td>2,876</td>
<td>64</td>
<td>2,796</td>
<td>37</td>
</tr>
<tr>
<td>Loss on Ijarah rental swaps obligation</td>
<td>(120)</td>
<td>(56)</td>
<td>(120)</td>
<td>(56)</td>
</tr>
<tr>
<td>Gross dividend from</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,114</td>
</tr>
<tr>
<td>Gross dividend from property funds (securities available-for-sale)</td>
<td>7,571</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain/(Loss) on disposal of property and equipment</td>
<td>97</td>
<td>-</td>
<td>97</td>
<td>-</td>
</tr>
<tr>
<td>Management fee</td>
<td>-</td>
<td>-</td>
<td>120</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>106,286</strong></td>
<td><strong>47,684</strong></td>
<td><strong>95,302</strong></td>
<td><strong>52,729</strong></td>
</tr>
</tbody>
</table>
### 28 ALLOWANCES FOR LOSSES ON FINANCING

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Allowance for bad and doubtful financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- General allowance</td>
<td>41,034</td>
<td>14,291</td>
<td>41,034</td>
<td>14,291</td>
</tr>
<tr>
<td>- Specific allowance *</td>
<td>2,092</td>
<td>-</td>
<td>2,092</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>43,126</strong></td>
<td><strong>14,291</strong></td>
<td><strong>43,126</strong></td>
<td><strong>14,291</strong></td>
</tr>
</tbody>
</table>

* Includes specific allowance made for performing but impaired financing.

### 29 INCOME ATTRIBUTABLE TO DEPOSITORS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Mudharabah</td>
<td>2,329</td>
<td>679</td>
<td>2,329</td>
<td>679</td>
</tr>
<tr>
<td>- Murabahah</td>
<td>37,181</td>
<td>15,160</td>
<td>37,181</td>
<td>15,160</td>
</tr>
<tr>
<td>Deposits and placements of banks and other financial institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Murabahah</td>
<td>88,810</td>
<td>20,663</td>
<td>88,810</td>
<td>18,646</td>
</tr>
<tr>
<td>Others</td>
<td>61</td>
<td>-</td>
<td>61</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>128,381</strong></td>
<td><strong>36,502</strong></td>
<td><strong>128,381</strong></td>
<td><strong>34,485</strong></td>
</tr>
</tbody>
</table>

### 30 PERSONNEL EXPENSES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>28,905</td>
<td>15,268</td>
<td>28,840</td>
<td>15,208</td>
</tr>
<tr>
<td>Social security costs</td>
<td>141</td>
<td>65</td>
<td>140</td>
<td>64</td>
</tr>
<tr>
<td>Short-term accumulating compensated absences</td>
<td>8</td>
<td>3</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Pension costs - defined contribution plan</td>
<td>11,657</td>
<td>3,118</td>
<td>11,644</td>
<td>3,109</td>
</tr>
<tr>
<td>Other staff related costs</td>
<td>29,350</td>
<td>7,476</td>
<td>29,191</td>
<td>7,474</td>
</tr>
<tr>
<td></td>
<td><strong>70,061</strong></td>
<td><strong>25,930</strong></td>
<td><strong>69,823</strong></td>
<td><strong>25,858</strong></td>
</tr>
</tbody>
</table>

Included in personnel expenses of the Group and the Bank are Executive/Managing Director's remuneration amounting to RM2,300,000 (2006: RM558,000) as disclosed in Note 33.
### 31 OTHER OVERHEADS AND EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertisement and publicity</td>
<td>1,457</td>
<td>1,138</td>
<td>1,457</td>
<td>1,138</td>
</tr>
<tr>
<td>Establishment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental</td>
<td>3,442</td>
<td>2,094</td>
<td>3,373</td>
<td>2,048</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,952</td>
<td>3,079</td>
<td>3,935</td>
<td>3,072</td>
</tr>
<tr>
<td>Amortisation</td>
<td>1,972</td>
<td>1,339</td>
<td>1,972</td>
<td>1,339</td>
</tr>
<tr>
<td>EDP expenses</td>
<td>2,666</td>
<td>1,944</td>
<td>2,666</td>
<td>1,944</td>
</tr>
<tr>
<td>Hire of equipment</td>
<td>270</td>
<td>47</td>
<td>258</td>
<td>47</td>
</tr>
<tr>
<td>Allowance for equipment</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>General expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors remuneration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Audit</td>
<td>165</td>
<td>105</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>- Non-audit</td>
<td>56</td>
<td>66</td>
<td>56</td>
<td>66</td>
</tr>
<tr>
<td>Professional fees</td>
<td>751</td>
<td>267</td>
<td>701</td>
<td>255</td>
</tr>
<tr>
<td>Non executive director's remuneration</td>
<td>808</td>
<td>579</td>
<td>808</td>
<td>579</td>
</tr>
<tr>
<td>Shariah Committee's remuneration</td>
<td>117</td>
<td>-</td>
<td>117</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Others</td>
<td>13,168</td>
<td>5,422</td>
<td>13,044</td>
<td>5,298</td>
</tr>
<tr>
<td></td>
<td>28,824</td>
<td>16,093</td>
<td>28,537</td>
<td>15,899</td>
</tr>
</tbody>
</table>

### 32 FINANCE COST

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated Murabahah Tawarruq</td>
<td>5,923</td>
<td>-</td>
<td>5,923</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>5,923</td>
<td>-</td>
<td>5,923</td>
<td>-</td>
</tr>
</tbody>
</table>

### 33 DIRECTORS’ AND SHARIAH COMMITTEE’S REMUNERATION

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive/Managing Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary and other remuneration</td>
<td>2,240</td>
<td>498</td>
<td>2,240</td>
<td>498</td>
</tr>
<tr>
<td>Fees</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>2,300</td>
<td>558</td>
<td>2,300</td>
<td>558</td>
</tr>
<tr>
<td>Benefits-in-kind</td>
<td>34</td>
<td>204</td>
<td>34</td>
<td>204</td>
</tr>
<tr>
<td></td>
<td>2,334</td>
<td>762</td>
<td>2,334</td>
<td>762</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>448</td>
<td>330</td>
<td>448</td>
<td>330</td>
</tr>
<tr>
<td>Other remuneration</td>
<td>360</td>
<td>249</td>
<td>360</td>
<td>249</td>
</tr>
<tr>
<td></td>
<td>808</td>
<td>579</td>
<td>808</td>
<td>579</td>
</tr>
<tr>
<td></td>
<td>3,142</td>
<td>1,341</td>
<td>3,142</td>
<td>1,341</td>
</tr>
<tr>
<td>Shariah Committee</td>
<td>117</td>
<td>-</td>
<td>117</td>
<td>-</td>
</tr>
</tbody>
</table>
33 DIRECTORS’ AND SHARIAH COMMITTEE’S REMUNERATION (Cont’d.)

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

<table>
<thead>
<tr>
<th>Number of directors</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Executive/Managing Director</td>
<td></td>
</tr>
<tr>
<td>RM750,001 - RM800,000</td>
<td>-</td>
</tr>
<tr>
<td>RM2,300,001 - RM2,350,000</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
</tr>
<tr>
<td>Less than RM50,000</td>
<td>1</td>
</tr>
<tr>
<td>RM50,001 - RM100,000</td>
<td>1</td>
</tr>
<tr>
<td>RM100,001 - RM150,000</td>
<td>1</td>
</tr>
<tr>
<td>RM150,001 - RM200,000</td>
<td>2</td>
</tr>
<tr>
<td>RM200,001 - RM250,000</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
</tr>
</tbody>
</table>

34 TAXATION

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Malaysian income tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current year</td>
<td>19,953</td>
<td>3,596</td>
</tr>
<tr>
<td>- (Over)/Under provision of Malaysian income tax in prior year</td>
<td>(48)</td>
<td>485</td>
</tr>
<tr>
<td>Deferred tax (Note 17):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Relating to origination and reversal of temporary differences</td>
<td>(11,345)</td>
<td>(2,899)</td>
</tr>
<tr>
<td>- Relating to changes in tax rates</td>
<td>1,378</td>
<td>517</td>
</tr>
<tr>
<td></td>
<td>9,938</td>
<td>1,699</td>
</tr>
</tbody>
</table>

Domestic current income tax is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% and 25% for year of assessment 2008 and 2009, respectively. The computation of deferred tax as at 31 December 2007 have reflected these changes.

Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdiction.
34  TAXATION (Cont’d.)

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before taxation</td>
<td>37,124</td>
<td>9,478</td>
<td>30,461</td>
<td>6,519</td>
</tr>
<tr>
<td>Taxation at Malaysian statutory tax rate of 27% (2006: 28%)</td>
<td>10,023</td>
<td>2,654</td>
<td>8,224</td>
<td>1,825</td>
</tr>
<tr>
<td>Effect of different tax rate in a subsidiary</td>
<td>20</td>
<td>20</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Effect of changes in tax rates on opening balance of deferred tax</td>
<td>(253)</td>
<td>(100)</td>
<td>(253)</td>
<td>(100)</td>
</tr>
<tr>
<td>Deferred tax recognised at different tax rates on current year’s temporary differences</td>
<td>1,631</td>
<td>617</td>
<td>1,631</td>
<td>617</td>
</tr>
<tr>
<td>Income not subject to tax</td>
<td>(1,800)</td>
<td>(2,261)</td>
<td>-</td>
<td>(1,452)</td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>365</td>
<td>284</td>
<td>364</td>
<td>284</td>
</tr>
<tr>
<td>(Over)/Under provision of tax expense in prior years</td>
<td>(48)</td>
<td>485</td>
<td>(48)</td>
<td>485</td>
</tr>
<tr>
<td>Taxation for the year</td>
<td>9,938</td>
<td>1,699</td>
<td>9,918</td>
<td>1,679</td>
</tr>
</tbody>
</table>

35  EARNINGS PER SHARE

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the year (RM'000)</td>
<td>26,976</td>
<td>7,769</td>
<td>20,333</td>
<td>4,830</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issues ('000)</td>
<td>513,096</td>
<td>380,000</td>
<td>513,096</td>
<td>380,000</td>
</tr>
<tr>
<td>Basic earnings per share (sen)</td>
<td>5.26</td>
<td>2.04</td>
<td>3.96</td>
<td>1.27</td>
</tr>
</tbody>
</table>
36 RELATED PARTY TRANSACTIONS

The Directors are of the opinion that all transactions below have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtained in transactions with unrelated parties.

(a) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both.

The related parties of the Group and the Bank are as follows:

Holding Company
Details of holding company are disclosed in Note 47.

Subsidiaries
Details of subsidiaries are disclosed in Note 14.

Subsidiaries of holding company
Subsidiaries of the holding company are KFH (Bahrain) B.S.C., KFH Ijarah House (M) Berhad, International Turnkey System Kuwait, KFH Investment Services Ltd., Baitak Realty Investment, Al-Faiz Partners Ltd. and Zara’ah Partners.

Companies with common directors
These are entities in which significant voting power in such entities resides, directly or indirectly, with certain directors of the Bank.

Key management personnel
Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Managing Director and selected Head of Divisions.

Directors
The identity of the directors of the Bank, (including the Managing Director, who is also included under key management personnel) are disclosed on page 15 in the director's report.
(b) Related party transactions

The significant transactions and outstanding balances of the Bank with its related parties are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Holding company RM'000</th>
<th>Subsidiaries of holding company RM'000</th>
<th>Key Management Personnel RM'000</th>
<th>Companies with common directors RM'000</th>
<th>Directors RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(i) Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management fees</td>
<td>-</td>
<td>120</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit income on placements</td>
<td>21</td>
<td>4,397</td>
<td>1,227</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit income on financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46</td>
<td>429</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21</td>
<td>4,517</td>
<td>1,227</td>
<td>46</td>
<td>429</td>
</tr>
<tr>
<td><strong>(ii) Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit expense on deposits</td>
<td>1,423</td>
<td>-</td>
<td>1,228</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit expense on subordinated Murabahah Tawarruq</td>
<td>5,923</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,346</td>
<td>-</td>
<td>1,228</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>(iii) Amount due to related parties</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated Murabahah Tawarruq</td>
<td>335,764</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>165,651</td>
<td>2,309</td>
<td>49,412</td>
<td>3,015</td>
<td>22,912</td>
</tr>
<tr>
<td>Interbank borrowing</td>
<td>276,176</td>
<td>-</td>
<td>37,930</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>188</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>777,779</td>
<td>2,309</td>
<td>87,342</td>
<td>3,015</td>
<td>22,912</td>
</tr>
<tr>
<td><strong>(iv) Amount due from related parties</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underwriting releases</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37,522</td>
<td>-</td>
</tr>
<tr>
<td>Financing</td>
<td>-</td>
<td>-</td>
<td>1,579</td>
<td>19,929</td>
<td>-</td>
</tr>
<tr>
<td>Interbank lending</td>
<td>-</td>
<td>79,470</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit income receivable</td>
<td>-</td>
<td>54</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>2,213</td>
<td>4,595</td>
<td>-</td>
<td>4,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>81,737</td>
<td>4,595</td>
<td>1,579</td>
<td>62,251</td>
</tr>
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</table>
### RELATED PARTY TRANSACTIONS (Cont'd.)

#### (b) Related party transactions (Cont'd.)

<table>
<thead>
<tr>
<th></th>
<th>Holding company RM'000</th>
<th>Subsidiaries RM'000</th>
<th>Subsidiaries of holding company RM'000</th>
<th>Key Management Personnel RM'000</th>
<th>Companies with common directors RM'000</th>
<th>Directors RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2006</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(i) Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Dividend income</td>
<td>-</td>
<td>5,114</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Management fees</td>
<td>-</td>
<td>70</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Profit income on placements</td>
<td>204</td>
<td>1,071</td>
<td>616</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Profit income on financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>204</td>
<td>6,255</td>
<td>616</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>(ii) Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Profit expense on deposits</td>
<td>2,597</td>
<td>19</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>179</td>
</tr>
<tr>
<td>- Purchase of computer hardware, software and maintenance</td>
<td>-</td>
<td>-</td>
<td>4,610</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,597</td>
<td>19</td>
<td>4,627</td>
<td>-</td>
<td>-</td>
<td>179</td>
</tr>
<tr>
<td><strong>(iii) Amount due to related parties</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Deposits from customers</td>
<td>-</td>
<td>11,906</td>
<td>-</td>
<td>69</td>
<td>46,409</td>
<td>90</td>
</tr>
<tr>
<td>- Interbank borrowing</td>
<td>-</td>
<td>-</td>
<td>500</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Other liabilities</td>
<td>1,140</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,140</td>
<td>11,906</td>
<td>500</td>
<td>69</td>
<td>46,409</td>
<td>90</td>
</tr>
<tr>
<td><strong>(iv) Amount due from related parties</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>169</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Interbank lending</td>
<td>-</td>
<td>-</td>
<td>98,284</td>
<td>49,308</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Profit income receivable</td>
<td>-</td>
<td>-</td>
<td>131</td>
<td>162</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Other assets</td>
<td>425</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Others</td>
<td>-</td>
<td>-</td>
<td>416</td>
<td>-</td>
<td>359</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>425</td>
<td>98,831</td>
<td>49,470</td>
<td>169</td>
<td>359</td>
<td>-</td>
</tr>
</tbody>
</table>
36 RELATED PARTY TRANSACTIONS (Cont’d.)

(c) Key management personnel compensation

The remuneration of key management personnel during the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007 RM’000</th>
<th>2006 RM’000</th>
<th>2007 RM’000</th>
<th>2006 RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term employee benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Fees</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>- Salary and other remuneration</td>
<td>6,788</td>
<td>3,465</td>
<td>6,788</td>
<td>3,465</td>
</tr>
<tr>
<td>- Benefits-in-kind</td>
<td>34</td>
<td>204</td>
<td>34</td>
<td>204</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,882</strong></td>
<td><strong>3,729</strong></td>
<td><strong>6,882</strong></td>
<td><strong>3,729</strong></td>
</tr>
</tbody>
</table>

The total key management personnel compensation includes Executive/Managing Director’s remuneration of which details are disclosed in Note 33.

37 COMMITMENTS AND CONTINGENCIES

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

<table>
<thead>
<tr>
<th>Group and Bank</th>
<th>2007 Principal amount RM’000</th>
<th>2007 Credit equivalent amount RM’000</th>
<th>2007 Risk weighted amount * RM’000</th>
<th>2006 Principal amount RM’000</th>
<th>2006 Credit equivalent amount RM’000</th>
<th>2006 Risk weighted amount * RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct credit substitutes #</td>
<td>1,254,633</td>
<td>1,254,633</td>
<td>1,311,133</td>
<td>631,559</td>
<td>631,559</td>
<td>477,309</td>
</tr>
<tr>
<td>Transaction related contingencies</td>
<td>994</td>
<td>497</td>
<td>497</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trade related contingencies</td>
<td>128,253</td>
<td>25,650</td>
<td>25,650</td>
<td>37,727</td>
<td>7,545</td>
<td>7,545</td>
</tr>
<tr>
<td>Irrevocable commitments to extend credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- maturity not exceeding one year</td>
<td>781,844</td>
<td>-</td>
<td>-</td>
<td>153,222</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- maturity exceeding one year</td>
<td>608,711</td>
<td>304,356</td>
<td>304,356</td>
<td>149,862</td>
<td>74,931</td>
<td>74,931</td>
</tr>
<tr>
<td>Foreign exchange related contracts *</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- less than one year</td>
<td>202,653</td>
<td>3,693</td>
<td>1,847</td>
<td>7,108</td>
<td>498</td>
<td>249</td>
</tr>
<tr>
<td>Profit rate related contracts (Ijarah rental swap obligation) *</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- five years and above</td>
<td>459,752</td>
<td>46,588</td>
<td>23,294</td>
<td>253,584</td>
<td>30,430</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,436,840</strong></td>
<td><strong>1,635,417</strong></td>
<td><strong>1,666,777</strong></td>
<td><strong>1,233,062</strong></td>
<td><strong>744,963</strong></td>
<td><strong>560,034</strong></td>
</tr>
</tbody>
</table>
37 COMMITMENTS AND CONTINGENCIES (Cont'd.)

# Included in the principal amount of direct credit substitutes is a Put Option written by the Bank of up to RM562 million representing commitment given to the holder to sell certain specified project lands at a fixed price to the Bank on certain specified dates. The Put Option was given as credit enhancement for a sukuk issuance. The Put Option is for a period of 7 years expiring in 2014.

As at the Balance Sheet date, there was no occurrence of compulsory trigger events for the Option to be exercised.

* The foreign exchange related contracts and Ijarah rental swap related contracts are subject to market risk and credit risk.

**Market risk**

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2007, the amount of contracts which were not hedged in the Group and the Bank and, hence, exposed to market risk was RM224,493,256 (2006: RM260,692,000).

**Credit risk**

Credit risk is the risk that a counterpart will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2007, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM7,211,528 (2006: RM64,200). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.
38 RATE OF RETURN RISK

The Group and the Bank are exposed to risks associated with the effects of fluctuations in the prevailing levels of yield/profit rate on the financial position. The rate of return risk is the potential impacts of market factors affecting rates on returns in comparison with the expected rates on return for investment account holders. Yield/profit rate is monitored and managed by the Asset and Liability Management Committee ("ALCO") to protect the income of its operations. The following table summarises the exposure to rate of return risk. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates.

<table>
<thead>
<tr>
<th>Group</th>
<th>2007</th>
<th></th>
<th>Non-trading book</th>
<th>Effective profit rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td>Up to 1 month RM'000</td>
<td>&gt;1 - 3 months RM'000</td>
</tr>
<tr>
<td>Cash and short-term funds</td>
<td>1,632,333</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits and placements with banks and other financial institutions</td>
<td>-</td>
<td>-</td>
<td>46,549</td>
<td>6,698</td>
</tr>
<tr>
<td>Securities held-for-trading</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>-</td>
<td>121,545</td>
<td>25,360</td>
<td>605,563</td>
</tr>
<tr>
<td>Securities held-to-maturity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,460</td>
</tr>
<tr>
<td>Financing, advances and receivables</td>
<td>630,835</td>
<td>1,226,694</td>
<td>569,920</td>
<td>321,248</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Musyarakah capital investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>2,263,168</td>
<td>1,348,239</td>
<td>641,829</td>
<td>958,969</td>
</tr>
</tbody>
</table>
### RATE OF RETURN RISK (Cont'd.)

<table>
<thead>
<tr>
<th>Group</th>
<th>2007 (Cont'd.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>347,782 180,936 1,003,856 200,000 - 466,265 - 2,198,839</td>
</tr>
<tr>
<td>Deposits and placements of banks and other financial institutions</td>
<td>1,213,200 1,000,480 694,207 - - - - 2,907,887</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>- - - - - 111,546 - 111,546</td>
</tr>
<tr>
<td>Subordinated Murabahah Tawarruq</td>
<td>- - - - 335,764 - - 335,764</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,560,982 1,181,416 1,698,063 535,764 - 577,811 - 5,554,036</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>- - - - - 755,059 - 755,059</td>
</tr>
<tr>
<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
<td>1,560,982 1,181,416 1,698,063 535,764 - 1,332,870 - 6,309,095</td>
</tr>
<tr>
<td>On-balance sheet profit sensitivity gap</td>
<td>702,186 166,823 (1,056,234) 423,205 601,399 (971,744) 134,365 -</td>
</tr>
<tr>
<td>Off-balance sheet profit sensitivity gap</td>
<td>- (223,260) - 223,260 - - - -</td>
</tr>
<tr>
<td><strong>Total profit sensitivity gap</strong></td>
<td>702,186 (56,437) (1,056,234) 646,465 601,399 (971,744) 134,365 -</td>
</tr>
</tbody>
</table>
## 38 RATE OF RETURN RISK (Cont’d.)

<table>
<thead>
<tr>
<th></th>
<th>Non-trading book</th>
<th>Effective profit rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Up to 1 month RM’000</td>
<td>&gt;1 - 3 months RM’000</td>
</tr>
<tr>
<td>Group 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term funds</td>
<td>1,159,715</td>
<td>-</td>
</tr>
<tr>
<td>Deposits and placements with banks and other financial institutions</td>
<td>-</td>
<td>128,240</td>
</tr>
<tr>
<td>Securities held-for-trading</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>-</td>
<td>91,061</td>
</tr>
<tr>
<td>Financing, advances and receivables</td>
<td>88,668</td>
<td>4,059</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Musyarakah capital investment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>1,248,383</td>
<td>223,360</td>
</tr>
</tbody>
</table>

**LIABILITIES AND SHAREHOLDERS’ EQUITY**

|                |                  |                      |                      |                       |                      |                                         |              |    |
| Deposits from customers | 683,886 | 138,204 | 105,184 | - | - | 103,890 | - | 1,031,164 | 3.68 |
| Deposits and placements of banks and other financial institutions | 529,683 | 725,986 | 290,121 | - | - | - | - | 1,545,790 | 4.25 |
| Other liabilities | - | - | - | - | - | - | - | 42,493 | 42,493 |
| **Total Liabilities** | 1,213,569 | 864,190 | 395,305 | - | - | 146,383 | - | 2,619,447 |          |
| Shareholders’ equity | - | - | - | - | - | - | - | 389,085 | 389,085 |
| **Total Liabilities and Shareholders’ equity** | 1,213,569 | 864,190 | 395,305 | - | - | 535,468 | - | 3,008,532 |          |

On-balance sheet profit sensitivity gap | 34,814 | (640,830) | (70,427) | 480,653 | 298,674 | (176,830) | 73,946 | - |
Off-balance sheet profit sensitivity gap | - | (253,584) | - | 253,584 | - | - | - | - |
**Total profit sensitivity gap** | 34,814 | (894,414) | (70,427) | 734,237 | 298,674 | (176,830) | 73,946 | - |
### Non-trading book

<table>
<thead>
<tr>
<th>Bank</th>
<th>Up to 1 month</th>
<th>&gt;1 - 3 months</th>
<th>&gt;3 - 12 months</th>
<th>&gt;1 - 5 years</th>
<th>Over 5 years</th>
<th>Non-profit sensitive</th>
<th>Trading book</th>
<th>Total</th>
<th>Effective profit rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term funds</td>
<td>1,711,804</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35,614</td>
<td>-</td>
<td>1,747,418</td>
<td>3.86</td>
</tr>
<tr>
<td>Deposits and placements with</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>banks and other financial institutions</td>
<td>-</td>
<td>121,545</td>
<td>569,920</td>
<td>321,248</td>
<td>-</td>
<td>84,105</td>
<td>-</td>
<td>948,878</td>
<td>4.95</td>
</tr>
<tr>
<td>Securities held-for-trading</td>
<td>-</td>
<td>-</td>
<td>25,460</td>
<td>-</td>
<td>-</td>
<td>84,105</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>-</td>
<td>-</td>
<td>25,460</td>
<td>404,989</td>
<td>-</td>
<td>948,878</td>
<td>-</td>
<td>25,460</td>
<td>5.72</td>
</tr>
<tr>
<td>Financing, advances and receivables</td>
<td>630,835</td>
<td>1,226,694</td>
<td>569,920</td>
<td>321,248</td>
<td>8,624</td>
<td>1,622,310</td>
<td>-</td>
<td>6,080</td>
<td>7.20</td>
</tr>
<tr>
<td>Musyarakah capital investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,260</td>
<td>-</td>
<td>50,260</td>
<td></td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,260</td>
<td>-</td>
<td>50,260</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>225,381</td>
<td>-</td>
<td>225,381</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>2,342,639</td>
<td>1,348,239</td>
<td>641,829</td>
<td>958,969</td>
<td>601,399</td>
<td>275,699</td>
<td>134,365</td>
<td>6,303,139</td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>347,782</td>
<td>180,936</td>
<td>1,003,856</td>
<td>200,000</td>
<td>-</td>
<td>468,248</td>
<td>-</td>
<td>2,200,822</td>
<td>2.96</td>
</tr>
<tr>
<td>Deposits and placements of</td>
<td>1,213,200</td>
<td>1,000,480</td>
<td>694,207</td>
<td>-</td>
<td>-</td>
<td>2,907,887</td>
<td>-</td>
<td>4.18</td>
<td></td>
</tr>
<tr>
<td>banks and other financial institutions</td>
<td>-</td>
<td>-</td>
<td>694,207</td>
<td>-</td>
<td>-</td>
<td>2,907,887</td>
<td>-</td>
<td>4.18</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6,080</td>
<td>111,511</td>
<td>-</td>
<td>111,511</td>
<td></td>
</tr>
<tr>
<td>Subordinated Murabahah Tawarrruq</td>
<td>-</td>
<td>-</td>
<td>335,764</td>
<td>-</td>
<td>-</td>
<td>335,764</td>
<td>-</td>
<td>335,764</td>
<td>5.49</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,560,982</td>
<td>1,181,416</td>
<td>1,698,063</td>
<td>535,764</td>
<td>-</td>
<td>579,759</td>
<td>-</td>
<td>5,555,984</td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>747,155</td>
<td>-</td>
<td>747,155</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities and</strong></td>
<td>1,560,982</td>
<td>1,181,416</td>
<td>1,698,063</td>
<td>535,764</td>
<td>-</td>
<td>1,326,914</td>
<td>-</td>
<td>6,303,139</td>
<td></td>
</tr>
<tr>
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<td>747,155</td>
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<tr>
<td>On-balance sheet profit sensitivity gap</td>
<td>781,657</td>
<td>166,823</td>
<td>(1,056,234)</td>
<td>423,205</td>
<td>601,399</td>
<td>(1,051,215)</td>
<td>134,365</td>
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<tr>
<td>Off-balance sheet profit sensitivity gap</td>
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<td>(223,260)</td>
<td>(223,260)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total profit sensitivity gap</strong></td>
<td>781,657</td>
<td>(56,437)</td>
<td>(1,056,234)</td>
<td>646,465</td>
<td>601,399</td>
<td>(1,051,215)</td>
<td>134,365</td>
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### RATE OF RETURN RISK (Cont’d.)

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<th>Bank</th>
<th>Up to 1 month RM’000</th>
<th>&gt;1 - 3 months RM’000</th>
<th>&gt;3 - 12 months RM’000</th>
<th>&gt;1 - 5 years RM’000</th>
<th>Over 5 years RM’000</th>
<th>Non-profit sensitive RM’000</th>
<th>Trading book RM’000</th>
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<th>Effective profit rate %</th>
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<td>111,810</td>
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<td>5,880</td>
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<td>Murabahah trading automobiles</td>
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<td>-</td>
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<td>-</td>
<td>106,262</td>
<td>-</td>
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<td>1,346,667</td>
<td>223,360</td>
<td>324,878</td>
<td>480,654</td>
<td>298,674</td>
<td>269,599</td>
<td>73,946</td>
<td>3,017,778</td>
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</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS' EQUITY</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Deposits from customers</td>
<td>683,886</td>
<td>138,204</td>
<td>105,184</td>
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<tr>
<td>banks and other financial institutions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
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<td>-</td>
<td>1,545,790</td>
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<td>395,305</td>
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<td>-</td>
<td>157,819</td>
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<td>2,630,883</td>
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<td>386,895</td>
<td>-</td>
<td>386,895</td>
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<tr>
<td><strong>Total Liabilities and</strong></td>
<td>1,213,569</td>
<td>864,190</td>
<td>395,305</td>
<td>-</td>
<td>-</td>
<td>544,714</td>
<td>-</td>
<td>3,017,778</td>
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<tr>
<td><strong>Shareholders’ equity</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td><strong>On-balance sheet profit</strong></td>
<td>133,098</td>
<td>(640,830)</td>
<td>(70,427)</td>
<td>480,654</td>
<td>298,674</td>
<td>(275,115)</td>
<td>73,946</td>
<td>-</td>
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<tr>
<td>sensitivity gap</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Off-balance sheet profit</strong></td>
<td>-</td>
<td>(253,584)</td>
<td>-</td>
<td>253,584</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>sensitivity gap</td>
<td>-</td>
<td></td>
<td>-</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total profit sensitivity gap</strong></td>
<td>133,098</td>
<td>(894,414)</td>
<td>(70,427)</td>
<td>734,238</td>
<td>298,674</td>
<td>(275,115)</td>
<td>73,946</td>
<td>-</td>
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</table>
LIQUIDITY RISK

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheets assets and liabilities, commitments and counter-guarantees are important factors in assessing liquidity of the Group and the Bank. The table below provides analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile:

<table>
<thead>
<tr>
<th>Group</th>
<th>Up to 6 months</th>
<th>&gt;6 - 12 months</th>
<th>&gt;1 - 5 years</th>
<th>Over 5 years</th>
<th>Not on demand &amp; no maturity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td></td>
<td>Cash and short-term funds</td>
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<td></td>
<td>Deposits and placements with banks and other financial institutions</td>
<td>-</td>
<td>46,549</td>
<td>6,698</td>
<td>-</td>
<td>53,247</td>
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<td>10,204</td>
<td>-</td>
<td>73,901</td>
<td>84,105</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>25,460</td>
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<tr>
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<td>474,048</td>
<td>849,340</td>
<td>3,162,310</td>
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<td>-</td>
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<td>6,080</td>
<td>-</td>
<td>6,080</td>
</tr>
<tr>
<td></td>
<td>Murabahah trading automobiles</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,260</td>
<td>50,260</td>
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<tr>
<td></td>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>215,688</td>
<td>215,688</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td><strong>3,047,657</strong></td>
<td><strong>516,002</strong></td>
<td><strong>506,206</strong></td>
<td><strong>1,973,282</strong></td>
<td><strong>265,948</strong></td>
<td><strong>6,309,095</strong></td>
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</tbody>
</table>

LIABILITIES AND SHAREHOLDERS’ EQUITY

<table>
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<tr>
<th></th>
<th>Up to 6 months</th>
<th>&gt;6 - 12 months</th>
<th>&gt;1 - 5 years</th>
<th>Over 5 years</th>
<th>Not on demand &amp; no maturity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
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<tr>
<td>Deposits from customers</td>
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<td>-</td>
<td>2,907,887</td>
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<td>111,546</td>
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<td>-</td>
<td>335,764</td>
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<td>335,764</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>2,982,778</strong></td>
<td><strong>-</strong></td>
<td><strong>2,486,982</strong></td>
<td><strong>-</strong></td>
<td><strong>84,276</strong></td>
<td><strong>5,554,036</strong></td>
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<td>Shareholders’ equity</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>755,059</td>
<td>755,059</td>
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<tr>
<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
<td><strong>2,982,778</strong></td>
<td><strong>-</strong></td>
<td><strong>2,486,982</strong></td>
<td><strong>-</strong></td>
<td><strong>839,335</strong></td>
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OFF-BALANCE SHEET LIABILITIES

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<th>Up to 6 months</th>
<th>&gt;6 - 12 months</th>
<th>&gt;1 - 5 years</th>
<th>Over 5 years</th>
<th>Not on demand &amp; no maturity</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
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<td><strong>Net maturity mismatch</strong></td>
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<td><strong>516,002</strong></td>
<td><strong>(4,957,864)</strong></td>
<td><strong>1,973,282</strong></td>
<td><strong>(573,387)</strong></td>
<td><strong>(3,436,840)</strong></td>
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### LIQUIDITY RISK (Cont'd.)

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<th>Total</th>
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<td>Up to 6 months RM'000</td>
<td>&gt;6 - 12 months RM'000</td>
<td>&gt;1 - 5 years RM'000</td>
<td>Over 5 years RM'000</td>
<td>Not on demand &amp; no maturity RM'000</td>
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<td>1,184,853</td>
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<td></td>
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<td>368,899</td>
<td>228,464</td>
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<td></td>
<td>688,424</td>
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<td>182,263</td>
<td>232,925</td>
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<td></td>
<td>803,695</td>
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<td>Musyarakah capital investment</td>
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<td></td>
<td>-</td>
<td>5,880</td>
<td></td>
<td></td>
<td>5,880</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>-</td>
<td></td>
<td>-</td>
<td>9,398</td>
<td></td>
<td></td>
<td>9,398</td>
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<td>Other assets</td>
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<td>-</td>
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<td>551,162</td>
<td>501,471</td>
<td>105,134</td>
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<td>3,008,532</td>
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<td>LIABILITIES AND SHAREHOLDERS’ EQUITY</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits from customers</td>
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<td>35,431</td>
<td>904,783</td>
<td>-</td>
<td>-</td>
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<td>1,031,164</td>
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<td>-</td>
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<td>250</td>
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<td>-</td>
<td>-</td>
<td>389,085</td>
<td></td>
<td>389,085</td>
</tr>
<tr>
<td>Total Liabilities and Shareholders’ equity</td>
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<td>465,552</td>
<td>904,783</td>
<td>-</td>
<td>389,085</td>
<td></td>
<td>3,008,532</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitments &amp; contingencies</td>
<td>67,725</td>
<td>63,286</td>
<td>848,467</td>
<td>253,584</td>
<td>-</td>
<td></td>
<td>1,233,062</td>
</tr>
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<td>380,633</td>
<td>(375,293)</td>
<td>(1,202,088)</td>
<td>247,887</td>
<td>(284,201)</td>
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<td>(1,233,062)</td>
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### LIQUIDITY RISK (Cont’d.)

#### 2007

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<th>&gt;6 - 12 months RM'000</th>
<th>&gt;1 - 5 years RM'000</th>
<th>Over 5 years RM'000</th>
<th>Not on demand &amp; no maturity RM'000</th>
<th>Total RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Cash and short-term funds</td>
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<td>-</td>
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<td>6,698</td>
<td>-</td>
<td>-</td>
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<td>459,249</td>
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<tr>
<td>Murabahah trading automobiles</td>
<td>-</td>
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<tr>
<td>Other assets</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>3,127,091</td>
<td>516,002</td>
<td>506,206</td>
<td>1,878,199</td>
<td>275,641</td>
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#### LIABILITIES AND SHAREHOLDERS’ EQUITY

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<th>Bank</th>
<th>RM'000</th>
<th>RM'000</th>
<th>RM'000</th>
<th>RM'000</th>
<th>RM'000</th>
<th>RM'000</th>
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<tbody>
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<td>-</td>
<td>335,764</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
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<td>-</td>
<td>2,486,982</td>
<td>84,277</td>
<td>5,555,984</td>
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<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
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<td>2,486,982</td>
<td>831,432</td>
<td>6,303,139</td>
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</table>

#### OFF-BALANCE SHEET LIABILITIES

| Commitments & contingencies                                         | 459,752                | -                      | 2,977,088            | -                    | -                    | 3,436,840            |

| **Net maturity mismatch**                                           | (317,386)              | 516,002                | (4,957,864)          | 1,878,199            | (555,791)            | (3,436,840)          |
### LIQUIDITY RISK (Cont’d.)

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<td>&lt;6 - 12</td>
<td>&gt;6 - 12</td>
<td>&gt;1 - 5</td>
<td>Over 5</td>
<td>Not on demand &amp; no maturity</td>
<td>Total</td>
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<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
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<td><strong>ASSETS</strong></td>
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<tr>
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<td>5,880</td>
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<td>9,398</td>
<td>9,398</td>
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<td>106,262</td>
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<td>551,162</td>
<td>401,945</td>
<td>115,660</td>
<td>3,017,778</td>
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<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
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</tr>
<tr>
<td>Deposits from customers</td>
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<td>-</td>
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<td>386,895</td>
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<tr>
<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
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<td>465,552</td>
<td>904,783</td>
<td>-</td>
<td>387,145</td>
<td>3,017,778</td>
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<td>Commitments &amp; contingencies</td>
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<td>(1,202,088)</td>
<td>148,361</td>
<td>(271,485)</td>
<td>(1,233,062)</td>
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</table>
40 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Group and the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Group’s policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, US Dollar, Euro and Kuwait Dinar.

<table>
<thead>
<tr>
<th></th>
<th>MYR RM'000</th>
<th>SGD RM'000</th>
<th>USD RM'000</th>
<th>EUR RM'000</th>
<th>KWD RM'000</th>
<th>Others RM'000</th>
<th>Total RM'000</th>
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<tr>
<td><strong>2007</strong></td>
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<tr>
<td><strong>ASSETS</strong></td>
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<td></td>
<td></td>
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<td>25,460</td>
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<td>797,003</td>
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<td>3,162,310</td>
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<td>6,080</td>
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<td>16,517</td>
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<td>1,792,226</td>
<td>78,672</td>
<td>24</td>
<td>1,270</td>
<td>6,309,095</td>
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### FOREIGN EXCHANGE RISK (Cont'd.)

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<th>MYR</th>
<th>SGD</th>
<th>USD</th>
<th>EUR</th>
<th>KWD</th>
<th>Others</th>
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<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
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</tr>
<tr>
<td><strong>Group</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>2007 (Cont'd.)</strong></td>
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<tr>
<td><strong>LIABILITIES AND</strong></td>
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<td></td>
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</tr>
<tr>
<td><strong>SHAREHOLDERS’ EQUITY</strong></td>
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<td></td>
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<td>Deposits from customers</td>
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<td>263,624</td>
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<td>5</td>
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<td>1,096,138</td>
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<td>-</td>
<td>-</td>
<td>2,907,887</td>
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<td>55,513</td>
<td>-</td>
<td>17</td>
<td>622</td>
<td>111,546</td>
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<td>Subordinated Murabahah Tawarruq</td>
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<td>335,764</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>335,764</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
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<td>874</td>
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<td>-</td>
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<td>755,059</td>
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<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
<td>4,427,128</td>
<td>35,370</td>
<td>1,751,039</td>
<td>94,662</td>
<td>22</td>
<td>874</td>
<td>6,309,095</td>
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<tr>
<td><strong>On-balance sheet open position</strong></td>
<td>(25,118)</td>
<td>(477)</td>
<td>41,187</td>
<td>(15,990)</td>
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<td>41,187</td>
<td>(15,990)</td>
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## 40 FOREIGN EXCHANGE RISK (Cont'd.)

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<th>USD 2006 RM'000</th>
<th>EUR 2006 RM'000</th>
<th>KWD 2006 RM'000</th>
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<td></td>
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<tr>
<td>banks and other financial institutions</td>
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<td>155,998</td>
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<td>-</td>
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<td>-</td>
<td>803,695</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,880</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>9,398</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,398</td>
</tr>
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<td>Other assets</td>
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<td>-</td>
<td>-</td>
<td>95,736</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>2,126,359</td>
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<td>844,209</td>
<td>5,794</td>
<td>754</td>
<td>-</td>
<td>3,008,532</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND SHAREHOLDERS’ EQUITY**         |                 |                 |                 |                 |                 |                   |                  |
| Deposits from customers                          | 624,504         | 35,370          | 370,320         | 713             | 5               | 252               | 1,031,164        |
| Deposits and placements of                       |                 |                 |                 |                 |                 |                   |                  |
| banks and other financial institutions           | 1,168,121       | -               | 377,669         | -               | -               | -                 | 1,545,790        |
| Other liabilities                                | 42,493          | -               | -               | -               | -               | -                 | 42,493           |
| **Total Liabilities**                            | 1,835,118       | 35,370          | 747,989         | 713             | 5               | 252               | 2,619,447        |
| Shareholders’ equity                             | 389,085         | -               | -               | -               | -               | -                 | 389,085          |
| **Total Liabilities and Shareholders’ equity**   | 2,224,203       | 35,370          | 747,989         | 713             | 5               | 252               | 3,008,532        |

| On-balance sheet open position                   | (97,844)        | (3,954)         | 96,220          | 5,081           | 749             | (252)             | -                |
| Net open position                               | (97,844)        | (3,954)         | 96,220          | 5,081           | 749             | (252)             | -                |
### 40 FOREIGN EXCHANGE RISK

<table>
<thead>
<tr>
<th>Bank</th>
<th>MYR RM'000</th>
<th>SGD RM'000</th>
<th>USD RM'000</th>
<th>EUR RM'000</th>
<th>KWD RM'000</th>
<th>Others RM'000</th>
<th>Total RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term funds</td>
<td>1,196,635</td>
<td>2,646</td>
<td>479,853</td>
<td>66,990</td>
<td>24</td>
<td>1,270</td>
<td>1,747,418</td>
</tr>
<tr>
<td>Deposits and placements with</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>banks and other financial institutions</td>
<td>6,698</td>
<td>31,863</td>
<td>-</td>
<td>14,686</td>
<td>-</td>
<td>-</td>
<td>53,247</td>
</tr>
<tr>
<td>Securities held-for-trading</td>
<td>84,105</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>84,105</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>398,759</td>
<td>-</td>
<td>550,119</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>948,878</td>
</tr>
<tr>
<td>Securities held-to-maturity</td>
<td>25,460</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,460</td>
</tr>
<tr>
<td>Financing, advances and receivables</td>
<td>2,365,306</td>
<td>-</td>
<td>797,004</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,162,310</td>
</tr>
<tr>
<td>Musyarakah capital investment</td>
<td>6,080</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6,080</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>25,520</td>
<td>-</td>
<td>24,740</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,260</td>
</tr>
<tr>
<td>Other assets</td>
<td>208,020</td>
<td>384</td>
<td>16,517</td>
<td>460</td>
<td>-</td>
<td>-</td>
<td>225,381</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4,316,583</td>
<td>34,893</td>
<td>1,843,493</td>
<td>106,876</td>
<td>24</td>
<td>1,270</td>
<td>6,303,139</td>
</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deposits from customers</strong></td>
<td>1,900,858</td>
<td>35,370</td>
<td>263,624</td>
<td>713</td>
<td>5</td>
<td>252</td>
<td>2,200,822</td>
</tr>
<tr>
<td>Deposits and placements of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>banks and other financial institutions</td>
<td>1,717,800</td>
<td>-</td>
<td>1,096,138</td>
<td>93,949</td>
<td>-</td>
<td>-</td>
<td>2,907,887</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>55,358</td>
<td>-</td>
<td>55,513</td>
<td>-</td>
<td>17</td>
<td>623</td>
<td>111,511</td>
</tr>
<tr>
<td>Subordinated Murabahah Tawarruq</td>
<td>-</td>
<td>335,764</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>335,764</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>3,674,016</td>
<td>35,370</td>
<td>1,751,039</td>
<td>94,662</td>
<td>22</td>
<td>875</td>
<td>5,555,984</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>747,155</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>747,155</td>
</tr>
<tr>
<td><strong>Total Liabilities and Shareholders’ equity</strong></td>
<td>4,421,171</td>
<td>35,370</td>
<td>1,751,039</td>
<td>94,662</td>
<td>22</td>
<td>875</td>
<td>6,303,139</td>
</tr>
<tr>
<td><strong>On-balance sheet open position</strong></td>
<td>(104,588)</td>
<td>(477)</td>
<td>92,454</td>
<td>12,214</td>
<td>2</td>
<td>395</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net open position</strong></td>
<td>(104,588)</td>
<td>(477)</td>
<td>92,454</td>
<td>12,214</td>
<td>2</td>
<td>395</td>
<td>-</td>
</tr>
</tbody>
</table>
## FOREIGN EXCHANGE RISK

### ASSETS

<table>
<thead>
<tr>
<th>Bank</th>
<th>MYR</th>
<th>SGD</th>
<th>USD</th>
<th>EUR</th>
<th>KWD</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Cash and short-term funds</td>
<td>967,289</td>
<td>418</td>
<td>308,844</td>
<td>5,794</td>
<td>754</td>
<td>-</td>
<td>1,283,099</td>
</tr>
<tr>
<td>Deposits and placements with banks and other financial institutions</td>
<td>125,000</td>
<td>30,998</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>155,998</td>
</tr>
<tr>
<td>Securities held-for-trading</td>
<td>64,548</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>64,548</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>319,580</td>
<td>-</td>
<td>269,318</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>588,898</td>
</tr>
<tr>
<td>Financing, advances and receivables</td>
<td>622,045</td>
<td>-</td>
<td>181,650</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>803,695</td>
</tr>
<tr>
<td>Musyarakah capital investment</td>
<td>5,880</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,880</td>
</tr>
<tr>
<td>Murabahah trading automobiles</td>
<td>9,398</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,398</td>
</tr>
<tr>
<td>Other assets</td>
<td>106,262</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>106,262</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,220,002</td>
<td>31,416</td>
<td>759,812</td>
<td>5,794</td>
<td>754</td>
<td>-</td>
<td>3,017,778</td>
</tr>
</tbody>
</table>

### LIABILITIES AND SHAREHOLDERS' EQUITY

| Deposits from customers                        | 544,291 | 30,986 | 462,786 | 145  | 7    | 4,507 | 1,042,722 |
| Deposits and placements of banks and other financial institutions | 1,190,329 | -     | 349,826 | 5,635 | -    | -    | 1,545,790 |
| Other liabilities                              | 42,371  | -     | -     | -    | -    | -    | 42,371    |
| **Total Liabilities**                          | 1,776,991 | 30,986 | 812,612 | 5,780 | 7    | 4,507 | 2,630,883 |
| Shareholders' equity                           | 386,895 | -     | -     | -    | -    | -    | 386,895   |
| **Total Liabilities and Shareholders' equity** | 2,163,886 | 30,986 | 812,612 | 5,780 | 7    | 4,507 | 3,017,778 |

**On-balance sheet open position**

| Full-year losses (gains) | 56,116 | 430   | (52,800) | 14   | 747  | (4,507) | -         |

**Net open position**

| Full-year losses (gains) | 56,116 | 430   | (52,800) | 14   | 747  | (4,507) | -         |
41 CAPITAL COMMITMENTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td>Capital expenditure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorised and contracted for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- purchase of equipment</td>
<td>3,817</td>
<td>-</td>
<td>3,817</td>
<td>-</td>
</tr>
<tr>
<td>- purchase of furniture &amp; fittings</td>
<td>-</td>
<td>791</td>
<td>-</td>
<td>791</td>
</tr>
<tr>
<td>- renovation</td>
<td>5,200</td>
<td>-</td>
<td>5,200</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>9,017</td>
<td>791</td>
<td>9,017</td>
<td>791</td>
</tr>
</tbody>
</table>

42 CAPITAL ADEQUACY

(a) The capital adequacy ratios of the Group and the Bank as at 31 December, are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group</td>
<td>Bank</td>
<td>Group</td>
<td>Bank</td>
</tr>
<tr>
<td>Capital Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core capital ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td>13.70%</td>
<td>20.08%</td>
<td>13.72%</td>
<td>21.01%</td>
</tr>
<tr>
<td>Credit risk and market risk</td>
<td>12.17%</td>
<td>16.92%</td>
<td>12.17%</td>
<td>17.56%</td>
</tr>
<tr>
<td>Risk-weighted capital ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td>19.60%</td>
<td>20.81%</td>
<td>19.52%</td>
<td>21.23%</td>
</tr>
<tr>
<td>Credit risk and market risk</td>
<td>17.42%</td>
<td>17.54%</td>
<td>17.31%</td>
<td>17.74%</td>
</tr>
</tbody>
</table>

| Tier I capital                                           |
| Paid-up share capital                                    | 727,000 | 380,000 | 727,000 | 380,000 |
| Statutory reserve                                        | 12,773  | 2,606   | 12,773  | 2,606   |
| Other reserves                                           | 22,353  | 5,544   | 12,770  | 2,604   |
|                                                        | 762,126 | 388,150 | 752,543 | 385,210 |
| Less: Deferred tax assets (net)                          | (12,796)| (441)   | (12,796)| (441)   |
| Total Tier-I capital                                     | 749,330 | 387,709 | 739,747 | 384,769 |

| Tier II capital                                          |
| Subordinated Murabahah Tawarruq                         | 267,768 | -       | 267,768 | -       |
| General allowance for bad and doubtful financing         | 55,324  | 14,291  | 55,324  | 14,291  |
|                                                        | 323,092 | 15,291  | 323,092 | 15,291  |
| Total capital                                            | 1,072,422| 402,000 | 1,062,839| 399,060 |
| Less: Investment in a subsidiary                        | -       | -       | (10,200)| (10,200) |
| Capital base                                             | 1,072,422| 402,000 | 1,052,639| 388,860 |
42 CAPITAL ADEQUACY (Cont’d.)

(b) The breakdown of risk-weighted assets for credit risk (excluding deferred tax assets) in the various categories of risk-weights are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Group 2007</th>
<th>Bank 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal RM'000</td>
<td>Risk-weighted RM'000</td>
</tr>
<tr>
<td>0%</td>
<td>1,355,084</td>
<td>-</td>
</tr>
<tr>
<td>20%</td>
<td>1,077,216</td>
<td>215,443</td>
</tr>
<tr>
<td>50%</td>
<td>571,281</td>
<td>285,641</td>
</tr>
<tr>
<td>100%</td>
<td>4,967,997</td>
<td>4,967,997</td>
</tr>
</tbody>
</table>

Risk-weighted assets for credit risk

<table>
<thead>
<tr>
<th></th>
<th>Group 2006</th>
<th>Bank 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal RM'000</td>
<td>Risk-weighted RM'000</td>
</tr>
<tr>
<td>0%</td>
<td>1,257,486</td>
<td>-</td>
</tr>
<tr>
<td>20%</td>
<td>482,679</td>
<td>96,536</td>
</tr>
<tr>
<td>50%</td>
<td>521,056</td>
<td>260,528</td>
</tr>
<tr>
<td>100%</td>
<td>1,573,981</td>
<td>1,573,981</td>
</tr>
</tbody>
</table>

Risk-weighted assets for credit risk

<table>
<thead>
<tr>
<th></th>
<th>Group 2006</th>
<th>Bank 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,835,202</td>
<td>1,931,045</td>
</tr>
</tbody>
</table>

43 SEGMENT INFORMATION

Segment information is presented in respect of the Group’s business and geographical segments.

The primary format, the business segment information, is prepared based on internal management reports, which are used by senior management for decision making and performance management. The amounts for each business segment are shown after the allocation of certain centralised cost, funding income and the applicable transfer pricing where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation. All inter-segment transactions are conducted at arm’s length basis on normal commercial terms that are not more favourable than those generally available to public.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure comprises additions to property and equipment.
(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market Operations

The treasury and capital market operations are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading and Ijarah rental swap.

(ii) Corporate and Investment Banking

The corporate and investment banking operations focus on business needs to large corporate customers, primarily public listed companies as well as financial institutions. The products and services offered to customers include direct financing, advisory banking service, equity financing, Islamic securities/sukuk issuance, syndicated financing, mergers and acquisition advisory services and debt restructuring advisory services.

(iii) Commercial Banking

Commercial banking operation provides a full range of financial services to customers, primarily non-public listed companies as well as small and medium sized enterprises. The products and services offered include long and short term financing such as working capital financing, asset financing, project financing as well as trade financing.
43 SEGMENT INFORMATION (Cont’ d.)

(a) Primary Segment - By Business Segment

<table>
<thead>
<tr>
<th>Group 2007</th>
<th>Treasury &amp; Capital Markets RM'000</th>
<th>Corporate &amp; Investment Banking RM'000</th>
<th>Commercial Banking RM'000</th>
<th>Others RM'000</th>
<th>Elimination RM'000</th>
<th>Total RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>External revenue</td>
<td>116,127</td>
<td>108,240</td>
<td>78,043</td>
<td>11,029</td>
<td>-</td>
<td>313,439</td>
</tr>
<tr>
<td>Revenue from other segments</td>
<td>37,740</td>
<td>-</td>
<td>2,553</td>
<td>(40,293)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>153,867</td>
<td>108,240</td>
<td>78,043</td>
<td>13,582</td>
<td>(40,293)</td>
<td>313,439</td>
</tr>
<tr>
<td>Segment results</td>
<td>21,042</td>
<td>43,616</td>
<td>19,358</td>
<td>(11,747)</td>
<td>-</td>
<td>72,269</td>
</tr>
<tr>
<td>Unallocated expenses</td>
<td>(35,145)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit from operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>37,124</td>
</tr>
<tr>
<td>Zakat</td>
<td>(210)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>(9,938)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26,976</td>
</tr>
</tbody>
</table>

Other information

| Segment assets | 2,885,438 | 1,457,059 | 1,683,978 | 119,124 | - | 6,145,599 |
| Unallocated corporate assets | | | | | | 163,496 |
| Total assets | | | | | | 6,309,095 |
| Segment liabilities | 4,515,596 | 5,489 | 65 | 664,352 | - | 5,185,502 |
| Unallocated corporate liabilities | | | | | | 368,534 |
| Total liabilities | | | | | | 5,554,036 |

Other segment items

| Capital expenditure | - | - | - | 14,466 | - | 14,466 |
| Depreciation | - | - | - | 3,952 | - | 3,952 |
| Amortisation | - | - | - | 1,972 | - | 1,972 |
| Other non-cash (income)/ expense other than depreciation | 166 | 18,375 | 23,446 | 1,313 | - | 43,300 |

(b) Secondary Segment - By Geographical Locations

The Group has operations only in Malaysia.
43 SEGMENT INFORMATION (Cont’d.)

(a) Primary Segment - By Business Segment

<table>
<thead>
<tr>
<th>Group 2006</th>
<th>Treasury &amp; Capital Markets RM’000</th>
<th>Corporate &amp; Investment Banking RM’000</th>
<th>Commercial Banking RM’000</th>
<th>Others RM’000</th>
<th>Elimination RM’000</th>
<th>Total RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>External revenue</td>
<td>50,790</td>
<td>39,101</td>
<td>10,924</td>
<td>1,479</td>
<td>-</td>
<td>102,294</td>
</tr>
<tr>
<td>Revenue from other segments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,273</td>
<td>(2,273)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>50,790</strong></td>
<td><strong>39,101</strong></td>
<td><strong>10,924</strong></td>
<td><strong>3,752</strong></td>
<td><strong>(2,273)</strong></td>
<td><strong>102,294</strong></td>
</tr>
<tr>
<td>Segment results</td>
<td>10,436</td>
<td>15,200</td>
<td>1,146</td>
<td>(2,061)</td>
<td>-</td>
<td>24,721</td>
</tr>
<tr>
<td>Unallocated expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(15,243)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit from operations</strong></td>
<td><strong>9,478</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zakat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(10)</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,699)</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit for the period</strong></td>
<td><strong>7,769</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other information

| Segment assets | 2,113,736 | 500,005 | 332,761 | 33,545 | - | 2,980,047 |
| Unallocated corporate assets | 28,485 | | | | | |
| **Total assets** | **3,008,532** | | | | | |

| Segment liabilities | 2,457,090 | 11,841 | 1,077 | 141,053 | - | 2,611,061 |
| Unallocated corporate liabilities | 8,386 | | | | | |
| **Total liabilities** | **2,619,447** | | | | | |

Other segment items

| Capital expenditure | - | - | - | 10,411 | - | 10,411 |
| Depreciation | - | - | - | 3,079 | - | 3,079 |
| Amortisation | - | - | - | 1,339 | - | 1,339 |
| Other non-cash (income)/expense other than depreciation | 143 | 8,049 | 5,894 | 364 | - | 14,450 |

(b) Secondary Segment - By Geographical Locations

The Group has operations only in Malaysia.
44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The estimated fair values of those on-balance sheets financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets.

The following methods and assumptions used to estimate the fair values of the following classes of financial instruments:

(a) Cash and Short-Term Funds

The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.

(b) Deposits and Placements with Banks and Other Financial Institutions

The fair values of those financial instruments with remaining maturities of less than one year approximate their carrying values due to their relatively short maturities. For those financial instruments with maturities of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates of similar remaining maturities at the balance sheet date.

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

The fair values of securities actively traded are estimated based on quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity are estimated discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at balance sheet date.

(d) Financing, Advances and Other Receivables

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

(e) Deposits from Customers, Deposits and Placement of Banks and Other Financial Institutions

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of general investment deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable prevailing rates currently offered for deposits and placements with similar remaining maturities. For negotiable instruments of deposits, the estimated fair values are estimated based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using discounted cash flow technique.
45 OPERATING LEASES

The Group and the Bank lease a number of premises under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>5,822</td>
<td>2,353</td>
<td>5,753</td>
<td>2,285</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>3,838</td>
<td>3,073</td>
<td>3,827</td>
<td>2,935</td>
</tr>
<tr>
<td></td>
<td>9,660</td>
<td>5,426</td>
<td>9,580</td>
<td>5,220</td>
</tr>
</tbody>
</table>

46 SIGNIFICANT POST BALANCE SHEET EVENTS

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

47 HOLDING COMPANY

The holding company for the Bank is Kuwait Finance House K.S.C, a licensed Islamic Bank incorporated in Kuwait.

48 COMPARATIVES

The presentation and classification of items in the current year's financial statements are consistent with the previous financial year except for the following comparative figures which have been restated to conform with current year's presentation:

<table>
<thead>
<tr>
<th></th>
<th>Group As restated RM’000</th>
<th>Group As previously stated RM’000</th>
<th>Bank As restated RM’000</th>
<th>Bank As previously stated RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet as at 31 December 2006:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td>14,023</td>
<td>20,768</td>
<td>13,947</td>
<td>20,692</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>6,745</td>
<td>-</td>
<td>6,745</td>
<td>-</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>1,031,164</td>
<td>1,581,164</td>
<td>1,042,722</td>
<td>1,592,722</td>
</tr>
<tr>
<td>Deposits and placements of banks and other financial institutions</td>
<td>1,545,790</td>
<td>995,790</td>
<td>1,545,790</td>
<td>995,790</td>
</tr>
</tbody>
</table>