



VISION MISSION

To be the leading and preferred regional Islamic Bank

Leading the way in Islamic Finance by:

- Delivering cutting-edge Shariah-based solutions to all sections of society.
- Being the leading authority on the growth of Islamic banking in the region.
- Being the finance house of choice for customers, employees and shareholders.

COVER RATIONALE



Kuwait Finance House (Malaysia) Berhad (KFHMB) abides by a very simple philosophy, which is its commitment to achieving success through excellence. We believe that success can be achieved best and quickest by helping others succeed first. Success, like excellence, is attained as a result of collaboration; from teamwork and partnership.

We provide a wide range of Islamic banking and financial solutions that serves the diverse needs of our customers, from retail and commercial banking to structured financing for major industrial and infrastructure projects. Forging close links with our clients, colleagues and business associates ensures that we constantly align each other's needs and goals. It is a win-win approach based on mutual effort and reward.



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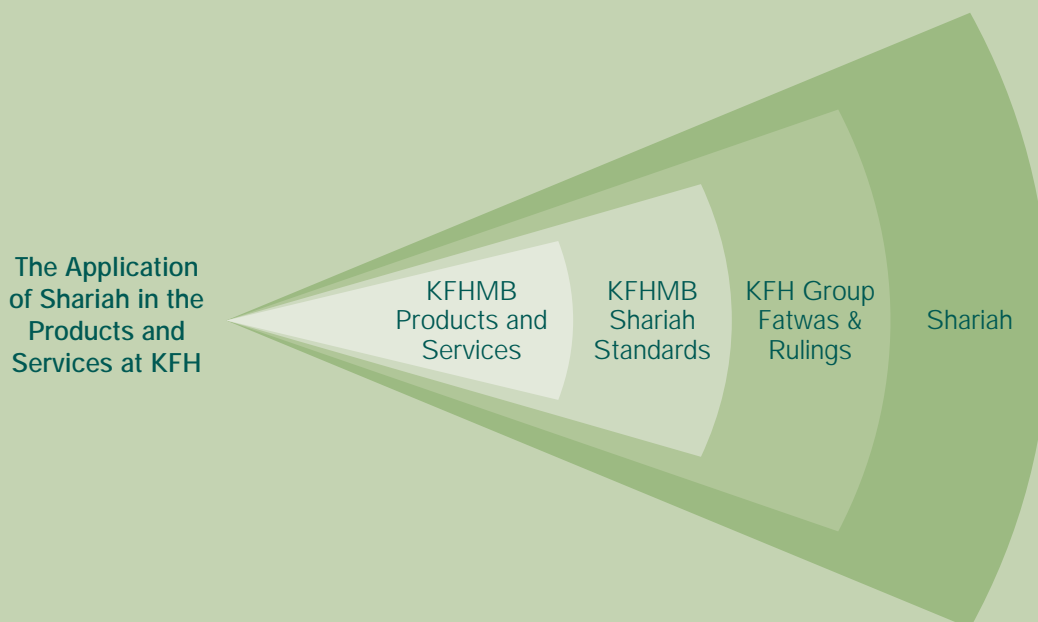
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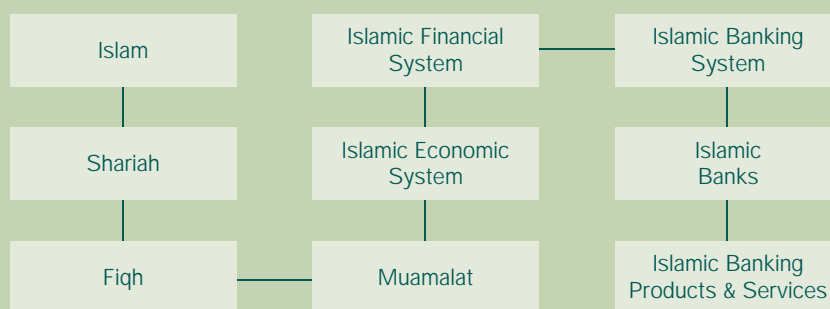
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Shariah is the basis on which the foundation of Kuwait Finance House (KFH) has been laid. Since its inception, Shariah has been the backbone of our remarkable growth and development over the past 30 years. Every activity undertaken by KFH is in accordance with the principles of Shariah and every employee is committed to ensure conformity to the dogma. The framework for Shariah is engineered into policies and corporate governance guidelines. Apart from these policies and guidelines, this framework also comprises the Shariah Committee as well as Shariah Division.

KFH, hallmarkd as an authority in the Islamic financial industry, maintains high standards and stringent conditions for each of its products. Shariah, being the main reference for Islamic banking and finance, is translated into a daily practice here at KFH. This has led to many achievements and accolades awarded to us in our pursuit to become a 'bona fide' Islamic bank and develop Islamic banking globally. Our devotion to serve Allah and commitment to give back to the society at large, has brought a new meaning to the economy and social responsibility to the community.



The Shariah Framework of Islamic Banking

At KFH we strongly believe that through responsible Islamic banking practices, the industry as a whole will thrive in meeting the challenges of a demanding economic environment of today. The Shariah Framework, which is embedded in KFH's foundation, is

deeply rooted in the faith of its people, which in turn has determined KFH's existence and successes. Our conscious decision to adhere to the principles of Shariah principles whole-heartedly, has made KFH a trusted household name in Islamic banking.



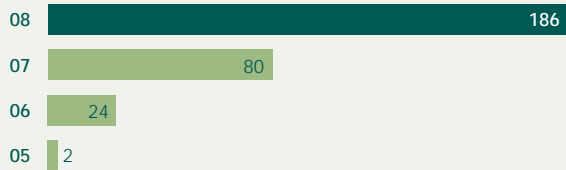
	Group		Bank	
	2008	2007	2008	2007
PROFITABILITY (RM million)				
Operating revenue	573	313	548	306
Operating profit	186	80	174	74
Profit before zakat and tax	50	37	38	30
Profit after zakat and tax	56	27	44	20
KEY BALANCE SHEET DATA (RM million)				
Total assets	9,637	6,309	9,627	6,303
Securities portfolio	880	1,154	781	1,058
Deposits with banks and financial institutions	38	53	38	53
Financing, advances and other receivables	6,157	3,162	6,160	3,162
Total liabilities	7,858	5,554	7,869	5,556
Deposits from customers	4,293	2,199	4,306	2,201
Deposits from banks and financial institutions	2,919	2,908	2,919	2,908
Share capital	1,751	727	1,751	727
Shareholder's equity	1,779	755	1,758	747
FINANCIAL RATIOS (%)				
Net return on average assets	0.7	0.6	0.6	0.4
Cost to income ratio	46.5	55.2	46.1	57.2
ASSET QUALITY RATIOS (%)				
Net non-performing financing ratio	0.3	0.1	0.3	0.1
Financing loss coverage ratio	241.3	2,390.4	241.3	2,390.4
Gross financing to total deposit ratio	88.0	63.0	87.9	63.0
CAPITAL ADEQUACY RATIOS (%)				
Core capital ratio	17.7	12.2	17.7	12.2
Risk-weighted capital ratio	20.8	17.4	20.5	17.3
SHARE INFORMATION				
Earnings per share (sen)	5.8	5.3	-	-
Earnings net tangible assets (RM)	1.0	1.0	1.0	1.0

Year ended 31 December	2008	2007	2006	2005
PROFITABILITY (RM million)				
Operating revenue	573	313	102	18
Operating profit	186	80	24	2
Profit before zakat and tax	50	37	9	2
Profit after zakat and tax	56	27	8	0.4
KEY BALANCE SHEET DATA (RM million)				
Total assets	9,637	6,309	3,009	505
Securities portfolio	880	1,154	753	34
Deposits with banks and financial institutions	38	53	156	–
Financing, advances and other receivables	6,157	3,162	804	–
Total liabilities	7,858	5,554	2,619	125
Deposits from customers	4,293	2,199	1,031	119
Deposits from banks and financial institutions	2,919	2,908	1,546	–
Share capital	1,751	727	380	380
Shareholder's equity	1,779	755	389	380
FINANCIAL RATIOS (%)				
Net return on average assets	0.7	0.6	0.4	0.1
Cost to income ratio	46.5	55.2	63.9	89.8
ASSET QUALITY RATIOS (%)				
Net non-performing financing ratio	0.3	0.1	–	–
Financing loss coverage ratio	241.3	2,390.4	–	–
Gross financing to total deposit ratio	88.0	63.0	31.7	–
CAPITAL ADEQUACY RATIOS (%)				
Core capital ratio	17.7	12.2	16.9	143.1
Risk-weighted capital ratio	20.8	17.4	17.5	143.6
SHARE INFORMATION				
Earnings per share (sen)	5.8	5.3	2.0	0.1
Earnings net tangible assets (RM)	1.0	1.0	1.0	1.0

FOUR-YEAR GROUP GROWTH SUMMARY

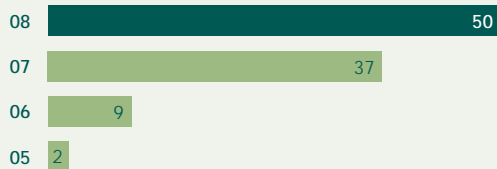
Operating Profit

RM million



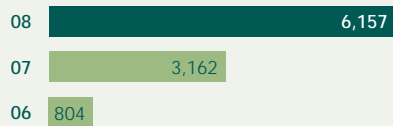
Profit Before Zakat and Tax

RM million



Financing, Advances and Other Receivables

RM million



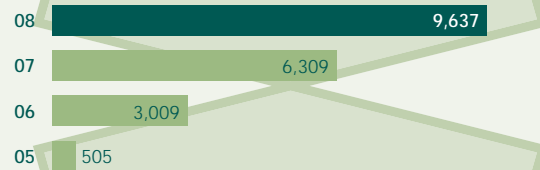
Risk-weighted Capital Ratio

%



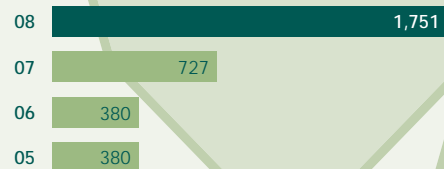
Total Assets

RM million



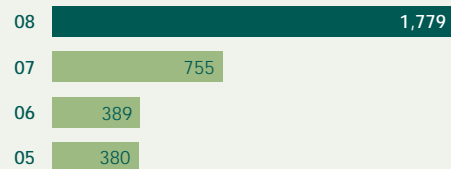
Share Capital

RM million



Shareholders' Equity

RM million





SEATED FROM LEFT TO RIGHT

**SHAHEEN H.A.KH.SH.
ALGHANEM**

Chairman

**DATO' KHAWAJA
MOHAMMAD SALMAN
YOUNIS**

Managing Director

STANDING FROM LEFT TO RIGHT

**ABDUL WAHAB I.A.A
ALRUSHOOD**

**KHAIRIL ANUAR BIN
ABDULLAH**

**DR. RADZUAN BIN
A. RAHMAN**

**MOHAMED ISMAIL BIN
MOHAMED SHARIFF**

As at 31 May 2009



SHAHEEN H.A.KH.SH. ALGHANEM
Chairman
Non-independent Non-executive Director
41 years of age – Kuwaiti

Master of Business Administration (Maastricht School of Management)
Certified Management Accountant (Institute of Management Accountant)
Bachelor of Commerce in Accountancy (Kuwait University College of Commerce)

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

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
53 years of age – Pakistani

Master of Business Administration (Hartford University, St. Paul, Minnesota)
Bachelor of Commerce (St. Patrick's College, University of Karachi)

Dato' Salman worked for the Saudi American Bank in Saudi Arabia for more than 10 years before joining Citi Islamic Investment Bank in Bahrain. In September 2001, he joined Kuwait Finance House, Kuwait.

He was appointed as an Executive Director of the Bank on 15 December 2004 and as the Managing Director on 1 June 2006.



MOHAMED ISMAIL BIN MOHAMED SHARIFF
Member
Independent Non-executive Director
65 years of age – Malaysian

Barrister at Law (Lincoln's Inn)
FCIArb., FMIArb.
(Chartered Institute of Arbitrators)
LL.M. (King's College University, London)
LL.B. (Hons) (University of Singapore)

Mr. Ismail has been in private legal practice since 1970 and is presently a partner of Skrine, a law firm in Malaysia. Previously, he was a principal partner in Mohamed Ismail & Co. before it merged with Skrine on 1 October 2008. He has been involved in Islamic banking since its introduction in Malaysia in 1983.

He was appointed as Director of the Bank on 10 November 2004, and is the first Director at the date of incorporation. Prior to his appointment, he served as a Director of Bank Muamalat Malaysia Berhad for four years.



KHAIRIL ANUAR BIN ABDULLAH
Member
Independent Non-executive Director
58 years of age – Malaysian

Master of Business Administration
(Harvard University)
Bachelor of Economics (Hons)
(University of Malaya)

Mr. Khairil has been a Director of the Bank since 10 December 2004. He currently serves on the Boards of several listed and non-listed companies. He is the Chairman of The Media Shoppe Berhad, VisDynamics Holdings Berhad and BCT Technology Berhad. He is also a board member of Symphony House 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. and Managing Director of Batu Lintang Berhad before joining the Securities Commission at its inception in 1993. He was the Executive Chairman of Mesdaq Berhad from 1997 to 2002.



DR. RADZUAN BIN A. RAHMAN
Member
Independent Non-executive Director
66 years of age – Malaysian

Ph.D. in Resource Economics
(Cornell University)
Master of Science
(Cornell University)
Bachelor of Agriculture Science
(University of Malaya)

Dr. Radzuan has been a Director of the Bank since 15 December 2004. Previously, he worked for University Putra 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.



ABDUL WAHAB I.A.A ALRUSHOOD
Member
Non-independent Non-executive Director
45 years of age – Kuwaiti

Bachelor of Science in Mathematics
(Western Oregon State)
Bachelor of Science in Mathematics
(University of Tampa)

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





SHEIKH ADNAN ALI IBRAHIM AL-MULLA
Member

Sheikh Adnan Ali Ibrahim Al-Mulla, 39 years of age, currently is the Head of Research, Development and Secretariat, Shariah Division of Kuwait Finance House, Kuwait and serves as a member of the Fatwa and Shariah Supervisory Board of Ijarah House Holding Company in Kuwait. In 1989, he was appointed as an Imam and Khatib by the Ministry of Awqaf and Islamic Affairs in Kuwait. Sheikh Adnan is also a trainer in the field of Islamic Commercial Law (Muamalat) at Kuwait Finance House and Human Investment Company. He holds a Bachelor of Shariah from Kuwait University and a Master's Degree from Cairo University, Egypt.

**SHEIKH PROF. DR. MOHAMMAD ABDUL
RAZAQ AL-TABTABAE**
Chairman

Sheikh Professor Dr. Mohammad Abdul Razaq Al-Tabtabae, 42 years of age, is the former Dean and Professor for the Faculty of Shariah and Islamic Studies at Kuwait University. He is a member of the Shariah Committee in the Ministry of Awqaf and Islamic Affairs, Zakat House and A'ayan Leasing and Investment Company. He was formerly a professor at the Kuwait Institute of Judiciary Studies. Dr. Mohammad received his Bachelor and Master of Shariah and subsequently obtained a Ph.D from Imam Mohammed Bin Saud Islamic University, Saudi Arabia.

**SHEIKH DR. ANWAR SHUAIB
ABDULSALAM**
Member

Sheikh Dr. Anwar Shuaib Abdulsalam, 47 years of age, is an Associate Professor and the Head of Department for Islamic Jurisprudence and Usul Fiqh in the Faculty of Shariah and Islamic Studies at Kuwait University. He also serves as Director of the Research Centre in the faculty. Dr. Anwar is a member of various Shariah Committees including the First Takaful Insurance Co. in Kuwait, Kuwait Turkish Participation Bank Inc. and the International Ijarah and Investment Co. In 2005, he became a member of the Jurisprudence Encyclopedia for the Ministry of Awqaf and Islamic Affairs. After obtaining his first degree in Shariah from Kuwait University, he furthered his studies and received a Master and Ph.D from Al-Azhar University, Egypt.





INNOVATION & SUCCESS

The most important yardstick of success is the way we treat others – our customers, colleagues, business associates and the public. It is the sum of all small efforts, repeated day in and day out, to always delivering on our commitment to offer our very best.

SHAHEEN H.A.KH.SH. ALGHANEM
Chairman



PERFORMANCE IN 2008

For the financial year ended 31 December 2008, Kuwait Finance House (Malaysia) Berhad (KFHMB) registered a net profit of RM56.5 million, constituting a growth of 109.4% y-o-y compared to the previous financial year-end which posted a net profit of RM27.0 million.

Profit before zakat and tax grew by 35.8% y-o-y, from RM37.1 million in 2007 to RM50.4 million in 2008. This was attributable to the strong growth in operating revenue, which advanced by 82.8% y-o-y from RM313.4 million in 2007 to RM573.0 million in 2008.

Compared to operating revenue, costs rose at a slower rate of 63.1% y-o-y to RM161.3 million in 2008 from RM98.9 million the previous year. Cost to income ratio also improved in 2008 and was recorded at 46.5% compared to 55.2% in 2007.

The Bank's assets grew by over 52.4% y-o-y in 2008, from RM6.3 billion to RM9.6 billion in 2007. Gross financing, advances and other receivables almost doubled, growing by 96.9% y-o-y to RM6.3 billion in 2008 from RM3.2 billion in 2007.

Deposits from customers also registered a strong growth of 95.4% y-o-y, from RM2.2 billion in 2007 to RM4.3 billion in 2008.

In 2008, the KFH Group injected capital funds worth USD300.0 million into KFHMB in three separate tranches in July, October and December respectively. This has boosted the Bank's risk-weighted capital adequacy ratio (RWCAR) from 17.4% in 2007 to 20.8% in 2008.

From its inception in 2005 until 2007, KFHMB only operated from one branch, which is currently located at Jalan Pinang, Kuala Lumpur. In 2008, the Bank embarked on a branch expansion programme and added five more branches to its network – another in Kuala Lumpur (located at the Pavilion Kuala Lumpur), and one each in Shah Alam, Klang, Johor Bahru and Pulau Pinang.

In line with the Bank's expansion, KFHMB also rolled out its core values initiative in 2008, which incorporates Customer Passion, Humanity, Integrity, Excellence and Fairness (CHIEF) into an integral part of the Bank's culture and is adopted by its employees to guide them during the course of executing their duties.

DEALS

AirAsia Berhad - Sukuk *Ijarah*

AirAsia Berhad (AirAsia) successfully priced and issued a RM500.0 million Sukuk *Ijarah* - its first bank-guaranteed Sukuk. Sukuk *Ijarah* is an innovative Shariah-based securities and is often an ideal way for a company to raise the capital it needs to purchase assets such as lands, buildings or equipment.

As part of a consortium with Bank Islam Malaysia Berhad, KFHMB acted as a Joint Lead Adviser, Joint Lead Arranger and Joint Lead Manager of the Sukuk programme to introduce AirAsia into the Ringgit debt market. This was a noteworthy accomplishment for the Bank as the Sukuk issuance was not only the first for AirAsia, but it has also set a benchmark for pricing in the Malaysian aviation sector.

KFHMB was also a Joint Lead Arranger for the Bank Guarantee Facility together with Bank Islam and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat).

The internationally-compliant bank guaranteed Sukuk issuance represents beneficial ownership of the leased aircrafts. The innovative structure was approved by the Shariah Committee of Kuwait Finance House KSC in Kuwait (KFH), whose requirements are considered more stringent than others around the world. More importantly, the transaction supports the Malaysian Government's effort to boost the Islamic Capital Market with widely accepted Islamic structured products, especially those in compliance with the Shariah requirements from the Gulf Cooperative Council (GCC) region.

Noble Resources Limited (Hong Kong) (a wholly-owned subsidiary of Noble Group Limited, listed in Singapore) - *Murabahah*

This was a landmark deal for KFHMB as the transaction represents the first syndicated Islamic financing in Hong Kong. It was also the first Islamic funding transaction concluded by a Hong Kong-based borrower, Noble Group Limited. The Group is a global supply chain manager of agricultural, industrial and energy products. The addition of Islamic finance as a new asset class in Hong Kong's financial system adds value to one of Asia's thriving financial centres and leading financial services hub. The deal, which provides working capital for Noble Resources Limited, was finalised and attracted key participants during a challenging financial market condition.



Armada Floating Solutions Limited**- *Ijarah Muntahiah Bitamlik***

KFHMB was the Arranger to part-finance the cost of acquiring, upgrading and refurbishing a Floating Production Storage Offloading (FPSO) unit worth USD70.0 million (RM243.6 million). Bumi Armada Berhad had signed a contract with Afren Energy Resources Limited (Afren) to charter an FPSO vessel unit for a period of five years. The vessel will serve Afren's fixed oil and gas production facilities in the Okoro-Setu offshore oil and gas reservoir in Nigeria.

Pelabuhan Tanjung Pelepas Sdn Bhd (PTPSB)**- *Murabahah***

KFHMB provided a bridging finance of up to RM150.0 million to part finance the development of Phase Two of Tanjung Pelepas Port, which involves wharf design and construction for Berth 11 and 12, as well as port operating facilities for Berth seven to 12.

Press Metal Sarawak Sdn Bhd (PMSSB)**- *Ijarah Mausufah Fi Zimmah***

KFHMB's participation amounted to RM120.0 million in a RM430.0 million Syndicated Financing facilities for the design, construction, operation and maintenance of the PMSSD's Aluminum Smelter Plant in Mukah, Sarawak. The Plant which has a 100,000 metric tonne capacity will begin its operation in August 2009.

Prestige Scale Sdn Bhd**- *Musarakah and Murabahah Tawarruq***

This initiative comprised a *Musarakah* and *Murabahah Tawarruq* financing at two different financing stages. It financed the purchase of a 36-storey grade A office tower with a net built up area of 515,003 square feet, located in the Kuala Lumpur City Centre (KLCC) area. The *Musarakah* financing was utilised to part-finance an initial deposit for the building. Subsequently, KFHM arranged a club deal, under the *Murabahah Tawarruq* financing facility with other banks to finance the balance of the purchase of the building.

FUNDS

During the year, KFHM promoted a selection of Shariah-based funds specifically designed to enable investors from the GCC to invest in Southeast Asia while simultaneously providing investors

from the Asia-Pacific region with an opportunity to diversify their portfolios via investments in the GCC and globally. The aim of these funds is to combine steady cash returns with a worthwhile capital appreciation. In 2008, KFHM established two funds – the Al Nibras 2 Fund and the Al-Faiz Fund I.

Al Nibras 2 Limited is a Labuan-based offshore private company managed by Kuwait Finance House (Labuan) Berhad. Kuwait Finance House via Al Nibras 2 established a consortium, Medini Central Sdn Bhd (formerly known as Cultural Cluster Sdn Bhd) to acquire a land concession at Medini Iskandar Malaysia (formerly known as Node 1).

Medini Central @ Iskandar Malaysia measures approximately 624 hectares and is located on the periphery of the Straits of Johor, facing Singapore. The Malaysian Government had awarded the land concession to a consortium comprising Al Nibras 2 as the major shareholder, Iskandar Investment Berhad (majority-owned by a Malaysian Government's investment arm, Khazanah Nasional Berhad) and Jumeirah Capital of Dubai.

With the vision to become a globally-recognised smart city, Medini Central will incorporate a series of quality projects and sustainable digital ecosystems that are made possible through economic development, environmental protection as well as community and social development. Three zones are identified and targeted to provide commercial and office spaces, trade and logistics infrastructures and residential areas, among others.

Al-Faiz Fund I, a joint venture fund between Kuwait Finance House (Labuan) Berhad (KFHLB) and Al Aman KSCC, is a Shariah-based private equity fund which focuses on investing in private enterprises in Southeast Asia, India and China. Al-Faiz Fund I has secured seven investments around the region namely in cardiac care facilities in India, precision engineering in both Malaysia and Singapore, medical disposal devices manufacturer in Malaysia, primary healthcare and diagnostic services provider in Singapore, waste management equipment and services provider in China and a casual dining restaurant chain in Philippines.

Al-Faiz Fund I investors comprises primarily institutional investors, as well as high net worth individuals from Kuwait, Malaysia and Brunei who are seeking exposure to Shariah-based Asian private equity asset classes. With an established investment blue print and commitment from the investors, Al-Faiz Fund I has successfully bridged investment opportunities between Asia and the Middle East.

HIGHLIGHTS

As a full-fledged Islamic bank, the Retail and Consumer banking arm of KFHMB was launched in 2008, to complement the Bank's Corporate and Investment, as well as Commercial banking divisions. Apart from the branch expansion in Johor Bahru and Pulau Pinang, Priority Banking was introduced as part of the Wealth Management unit. During the same year, KFHMB was appointed as the Islamic Unit Trust Distributor, and signed agreements with Firium Solutions (M) Sdn Bhd and Amanie Solutions Sdn Bhd to implement the First Islamic Wealth Management Solution in Malaysia. The first phase of the Cheque Truncation and Conversion System (CTCS) had also been successfully completed during the year.

A key development for the Treasury division at KFHMB in 2008, was the signing between KFHMB and Calyon, London for the Master Terms of Reference agreement for the KFH Ijarah Rental Swap-i transaction. The first-of-its-kind agreement between a global financial institution and one of the world's leading Islamic banks, not only demonstrates the acceptance of the structure in countries such as Bahrain and the United Kingdom, but offers corporate clients an alternative that is more viable and competitively priced in the market.

The Commercial banking division has at the same time, been active in financing vessels and pipeline services including pipeline laying and pigging for the oil and gas industry, charter boats and barges for coal transportation, plantation, bunkering services and infrastructure, as well as contract financing.

To improve our services and to expand our reach, the division has opened a new Commercial Banking Business Centre in Kota Kinabalu, Sabah in addition to those in Johor Bahru, Penang and Shah Alam.

Having concluded several new landmark deals in Islamic banking and finance in Malaysia, 2008 marked the regional expansion of KFHMB with the establishment of the Bank's subsidiaries in Singapore and Australia. In line with KFHMB's aspiration to be a leading financial force in the Asia-Pacific region, Kuwait Finance House (Australia) Pty Ltd (KFHA), a wholly-owned subsidiary of KFHMB, commenced operations on 2 January 2008. KFHA operates under an Australian Financial Services License and plays a critical role in pioneering the development of the Australian Islamic capital market. Our Australian arm deploys the full scale Islamic financial services capability of KFH in Australia, including origination and execution of investment opportunities, treasury and investment products, as well as other marketing initiatives.



KFH Ijarah Rental Swap-i Agreement Signing Ceremony



Klang branch soft opening



Kuwait Finance House (Singapore) Pte Ltd (KFHS), a wholly-owned subsidiary of KFHMB, commenced operations on 18 March 2008. KFHS is involved in fund management activities and undertakes the management of regional funds promoted by the KFH Group. Apart from being the regional distribution network for products and services sponsored by the KFH Group in the Asia-Pacific region, KFHS acts as a centre of excellence for the KFH Group's Islamic private banking and wealth management services.

Both subsidiaries will serve as a liaison for all intended activities in Singapore and Australia, namely corporate and investment banking, investment by KFH-promoted funds, treasury products and all other marketing, investment and banking initiatives meant to be carried out within their jurisdictions.

In July 2008, the Securities Commission (SC) approved the application of KFH to establish an Islamic fund management company (IFMC) in Malaysia. Through a restructuring exercise, the KFH Group's fund management activities in the region were consolidated. In this respect, KFH Asset Management Sdn Bhd (KFHAM) was set up as a wholly-owned subsidiary of KFHMB. It holds a Capital Market Services License under the Capital Markets and Services Act 2007 for the regulated activities of Islamic fund management and restricted dealings in unit trusts.

Several notable events were held, the first one being the Official Opening of Pavilion KL on 31 January 2008, by former Prime Minister of Malaysia, Y.A.Bhg. Tun Abdullah Haji Ahmad Badawi, and attended by the KFH Group Chairman, who led the delegation from Kuwait. KFH, via the Baitak Asian Real Estate Fund participated in the successful development of the iconic Pavilion KL, while KFHMB underwrote the purchase of the two apartment blocks known as The Pavilion Residences.

KFHMB participated in the inaugural Malaysia Services Exhibition (MSE 2008) organised by the Malaysia External Trade Development Corporation (MATRADE), held in the United Arab Emirates from 13-15 January. In conjunction with the roadshow, the Ministry of International Trade and Industry and MATRADE invited the Chairman of KFHMB to share KFH's experiences in Malaysia with the business community in Kuwait.

The Malaysia International Islamic Financial Centre (MIFC) of Bank Negara Malaysia held a roadshow in Kuwait and Saudi Arabia in October, led by H.R.H. Crown Prince of Perak, as the MIFC Ambassador, together with the Deputy Governor of Bank Negara Malaysia, the Director General of the Labuan Offshore Financial Service Authority (LOFSA) and senior representatives of Bursa Malaysia. KFHMB was invited to organise lunches in Kuwait and Riyadh and introduce the Middle East business community to the Malaysian regulators and MIFC delegation.

KFH made its entry at the inaugural Euromoney Islamic Finance Forum 2008, as the Senior Lead Sponsor and Lunch Sponsor during Hong Kong's largest Islamic banking and finance forum held in November 2008. KFHMB also took part both as a panelist and exhibitor at the Global Forum on Islamic Finance 2008, as well as at the Malaysia Issuers and Investors Forum 2008.

In fulfilling its objective to educate the community, KFHMB organised two Islamic banking and finance briefings in Penang and Kuala Lumpur for corporate clients and members of the media. The forum in Penang presented perspectives on various Islamic banking and finance products and services for corporate clients in the Northern Region.

Ratings and Awards

The Rating Agency of Malaysia (RAM) has reaffirmed the long and short term financial institution ratings for KFHMB as AA2 (stable outlook) and P1, respectively. This reaffirmation reflects the sturdy support KFHMB receives from its holding company, KFH, vis-à-vis its core business model and international franchise, as well as funding and business support.

At the same time, the Malaysian Rating Corporation Berhad (MARC) has assigned long and short term financial institution ratings of AA+/MARC-1 to KFHM. These ratings signify a stable outlook for the Bank. The ratings of KFHM are anchored to MARC's AAA/MARC-1 financial institution ratings of KFH on the basis of the explicit intent of KFH to support KFHM.

KFHM has won numerous awards and has been internationally recognised by various agencies for its multiple successes, leadership qualities as well as both qualitative and quantitative achievements in the Islamic finance industry. In The Halal Journal Awards 2008, KFHM was the recipient of The Best Islamic Financial Service or Product Award. The Bank received several awards for its deals in 2008, during the IFN Awards Deals of the Year 2007. These included the Deal of the Year in India for the Syndicated *Ijarah* facility for SREI Infrastructure Finance Ltd, Trade Finance Deal of the Year for PT Krakatau Steel's international *Murabahah* syndication and *Musyarakah* Deal of the Year for the KL Sentral Sukuk.

The Bank was also a recipient of the RAM Award of Distinction 2007, where KFHM was recognised in the Special League Achievement Award category from RAM Rating Services Berhad. This is in recognition of the Bank's achievements in the RAM League Table, as measured by number of deals, value of deals closed and market share.

KFHM RATINGS HISTORY, ACHIEVEMENTS AND AWARDS

Agency	2006	2007	2008	Remarks
RAM	AA ₂ P1 Stable			Long-term Short-term Outlook
RAM		AA ₂ P1 Stable		Long-term Short-term Outlook
RAM			AA ₂ P1 Stable	Long-term Short-term Outlook
MARC			AA+ MARC-1 Stable	Long-term Short-term Outlook



The Halal Journal Awards 2008 Ceremony



The Halal Journal
Award 2008
Best Islamic Financial
Service or Product



RAM Award of
Distinction 2007
Special League
Achievement Award



IFN Deals of
The Year 2007
Best Country
Deal in India
Trade Finance
Deal of the Year
Best *Musyarakah* Deal



4th KLIFF Award 2007
Most Outstanding
Islamic Project Financing

CORPORATE SOCIAL RESPONSIBILITY PROGRAMME

KFHMB is a strong advocate of generating and imparting knowledge on Islamic banking and finance. The sole purpose of this is to create awareness and understanding and further strengthen the industry's position in the global economy.

As part of the Bank's Corporate Social Responsibility (CSR) programme, as well as to capitalise and tap on its wide knowledge and experience in Shariah-based banking and finance products, KFHM B has attracted students from various tertiary institutions as well as professional course participants to learn more from KFHM B. These awareness programmes have been initiated from within the Bank, as well as being prompted by requests from learning institutions and industry participants. In 2008, KFHM B provided intensive briefings to a total of 335 students from various tertiary institutions from within Malaysia as well as outside the country.

Higher Learning Institution	Field of Studies	No. of Students
Monash University	Business Administration	70
Financial Sector Talent Enrichment Programme (FSTEP)	New Entrants to Banking Industry	50
University Technology MARA (UiTM)	Islamic Banking	40
Islamic Science University of Malaysia (USIM)	Shariah and Law	30
Students from the State of Kuwait	Various Fields of Studies	25
FSTEP & INCEIF	Islamic Finance	50
Indonesian Banking Development Institute	Professional Bankers in Indonesia	30
MBA, Class of 2008 The Wharton School University of Pennsylvania	Business School	40
Total		335

University students visit the Treasury Trading floor



School Landscaping Project



Capitalising on its expertise and leading position as an Islamic financial institution in the region, KFHM B presented students from a wide range of academic fields not only with educational briefings, but also first-hand experience of how Treasury dealings are conducted and Islamic banking and investment tools are utilised at the Kuala Lumpur office. Students were also provided with exclusive, face-to-face interactions with the Managing Director, Deputy Chief Executive Officer and other members of the senior management team from KFHM B during the visits.

Other stakeholders who had also benefitted from KFHM B's awareness briefings include the members of the media, Associated Chinese Chambers of Commerce and Industry of Malaysia, as well as other trade associations and business communities in the Klang Valley, Johor and Penang.

KFHMB will continue to lead knowledge-sharing efforts and align itself with the aspiration of the Malaysian Government for Malaysia to be the centre of knowledge for Islamic finance.

The Bank also believes that there must be proactive engagements, acceptance and integration amongst KFHMB employees, to ensure the CSR goals of the Bank are objectively met and embraced by all. In the middle of 2008, KFHMB undertook a number of CSR projects involving KFHMB employees. These were carried out through the School Landscaping Projects targeting suburb and rural schools in Kuala Lumpur and Selangor.

The schools which benefitted from the landscaping projects for 2008 are:

- Sekolah Kebangsaan Gombak Utara, Gombak, Kuala Lumpur,
- Sekolah Kebangsaan Tun Abdul Aziz Majid, Hulu Langat, Selangor,
- Sekolah Kebangsaan Bukit Naga, Seksyen 32 Shah Alam, Selangor, and
- Sekolah Kebangsaan Kampung Soeharto, Kuala Kubu Bahru, Selangor.

KFHMB employees volunteered to spend their Saturdays to be involved in this community project. The landscaped area is part of the Bank's efforts to support a healthy environment and to provide a shaded recreational area for the school children and teachers of the schools.

To ensure that CSR programmes and charitable activities are monitored effectively, the Bank has established a framework with the setting up of the KFHMB Charity Fund Committee (CFC). The CFC serves as an independent and objective committee within the Bank to consider and approve KFHMB's contributions for charitable purposes. The CFC has to-date, approved numerous contributions which have included providing medical needs for the underprivileged and relief to victims of natural disasters both in the country and abroad, building mosques, providing dialysis machines and supporting the underprivileged students at the International Islamic University of Malaysia. KFHMB has also appointed an independent trustee to manage its two charitable trust funds, namely The Five Pillars Trust Fund and The Awad Trust Fund for all donations and charitable purposes.



Continuous Learning & Development

HUMAN CAPITAL DEVELOPMENT

Since the inception of KFHMB in August 2005, Human Capital Development is and will continue to be one of the main priorities of the Bank, as it will lead to a continuous generation of talent in the Islamic banking and financial industry.

KFHMB's core values initiative, CHIEF, communicates a common way of behaving, designed to enhance business performance and customer orientation. This has been enforced at every level through workshops that encourage teams to apply CHIEF values to their respective work, focussing on improving the experience for all our stakeholders. In addition, human resource processes such as induction and training have been developed to explicitly provide employees with a deeper understanding of how to demonstrate the behaviours in their daily work.

Additionally, the Bank's people strategy is aimed at continuous improvement. The feedback received from the Gallup Q12 Employee Engagement Survey, aims at increasing employee engagement by setting up a framework that enables it to be clear about the employee experience that is created at KFHMB.

Being a key component in delivering innovative and cutting-edge financial solutions to the customer, KFHMB has embarked on intensive trainings for its employees, in learning and developing human capital solutions. Programmes that focus on human capital strategies have also been developed and implemented.

In tandem with the KFH Group's philosophy of being the 'Harvard of Islamic banking', KFHMB aspires to be known as a place where continuous learning and development is a culture. The Bank continues to train its employees and in 2008, more than RM2.1 million was invested in learning and development activities.

Learning and development has not only been confined to the key areas of Islamic banking and banking in general. Given the wide-ranging activities of the Bank, other educational programmes included areas as diverse as real estate, capital markets, personal development, customer service and management development.

PROSPECTS FOR 2009

Economic outlook

The recession in more advanced economies of the world had set the tone for the global economic environment. Nonetheless, the Malaysian economy will remain somewhat insulated from worsening economic conditions as prospects for growth largely depend on

the strength and sustainability of domestic demand. According to official statistics, Malaysia may still register a positive GDP growth in 2009. Even though slower than 2008, it may still be a respectable rate compared to a number of its Asian peers such as Singapore and Hong Kong which are expected to face a more protracted recession in 2009.

To help prop up demand, fiscal pump-priming and easing monetary policies are paramount. With this in mind, the Central Bank - Bank Negara Malaysia (BNM) - in November 2008, cut the Overnight Policy Rate (OPR) by 25 basis points to 3.25% to provide fiscal stimulus to support the domestic economy's growth momentum. The Government is also likely to ramp up its spending and announce further fiscal stimulus packages in 2009.

Meanwhile, the Consumer Price Index (CPI) is expected to moderate in 2009 due to slowing global demand and low crude oil and commodity prices. Inflation is expected to slow from 5.4% in 2008 to 1.5% - 2.0% in 2009, with falling food and fuel prices and cheaper raw materials. The continued easing of inflation should provide room for further monetary easing to stimulate economic growth should the global economic malaise drag into the second half of 2009.

Banking sector outlook

2009 will be a challenging year for the local banking industry as the effects of the global financial crisis is expected to hit Malaysian shores. BNM has put in place several comprehensive and pre-emptive measures to protect the banking system, as well as the public at large, from these effects and any further impact to be felt by the ensuing economic downturn. One of the key measures already introduced by BNM, is the full guarantee of all deposits until the end of 2010 to preserve soundness and confidence in the financial sector. BNM is also diligently monitoring the banks' liquidity in order to avoid a liquidity crunch, similar to that experienced by Western banks, and stands ready to provide liquidity if and when the need arises.

The Malaysian banks are not as exposed to the problems faced by Western banks, in the sense that asset securitisation and collateral debt obligation products, which brought Western banks to their knees, are still at an infant stage of development in the country. The banking sector is also well capitalised, with RWCAR at 12.7% at end 2008, significantly higher than the Basel minimum requirement of 8.0%. Meanwhile, the 3-month net non-performing loan (NPL) ratio continued its downtrend to a record low of 2.2% at end 2008, while the 6-month net NPL ratio fell to 1.7%.

Though not directly exposed to the subprime crisis, Islamic banks are also beginning to feel the impact in terms of slower banking revenues, especially in investment banking, due to the more cautious business environment.

Nonetheless, Islamic banks which must adhere to Shariah principles that prohibit interest and speculation, and generally take a more conservative approach, should possess a stronger foundation than their conventional counterparts to weather global financial maelstrom. The Islamic banking system in Malaysia is expected to remain resilient in 2009, with positive growth prospects for deposits and financing. Islamic banking in Malaysia has now grown to become a viable and vibrant alternative, and this is evident by the growth in the number of Islamic banks in the country.

Given the ample liquidity in the banking system currently, as well as the support from the country's strong fundamentals and comprehensive regulatory framework, the stability of the banking system should remain intact.

KFHMB's business plan

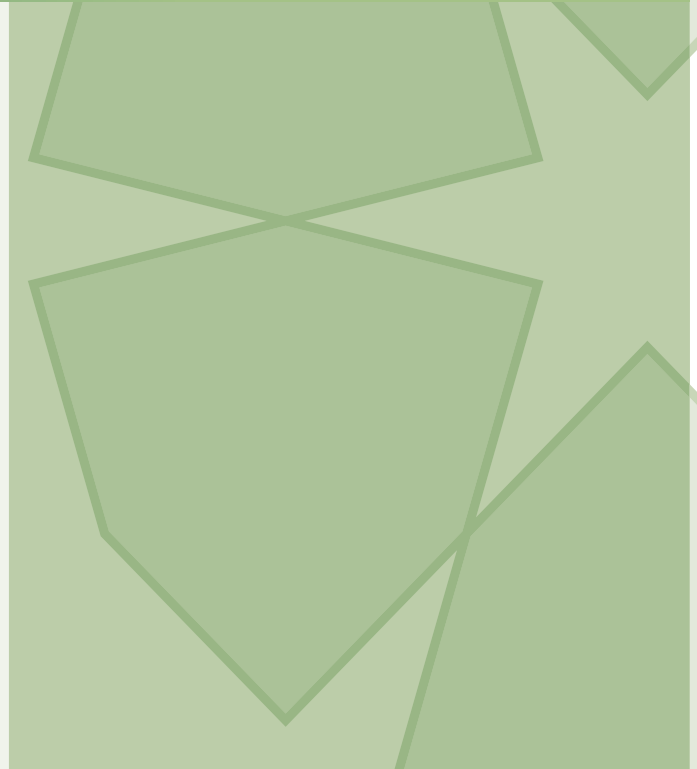
KFHMB is committed to providing continuous support to its customers through life-long and mutually beneficial partnerships. It also endeavours to ensure the highest level of customer satisfaction is achieved. The Bank will strive for sustainable growth in its businesses with specific focus on asset quality by adopting a more prudent approach in managing its costs.

KFHMB's core business strategies remain unchanged and the Bank will continue to grow its business through new product offerings and cross selling, as well as by providing solutions to asset and liquidity requirements.

The Bank will continue to grow its middle market business and concentrate on its small and medium enterprises (SME) clientele. It will also continue to expand its deposit base and serve small businesses and retail consumers. It will further explore the possibility of developing more sources of funds in both local and foreign currencies as well as ensure the maximisation of returns from funding from activities across global markets.

As for its branches, the Bank extended its network in 2008 to the northern and the southern states of Penang and Johor. In 2009, the Bank plans to spread its wings to East Malaysia particularly to Kuching, Sarawak. Plans are also afoot to launch internet banking capabilities in 2009 for the benefit of all KFHMB customers.

On the regional landscape, as mentioned above, the Bank has a funds management business in Australia and a wealth management subsidiary in Singapore. In both countries, the Bank is planning to expand the scope of its licenses with a view to increase the range of their business activities. At the same time, the Bank plans to establish its presence in a few more countries in the Asia-Pacific in the year 2009.



Oval





PARTNERSHIP

A commitment to partnership lies in the heart of Islamic banking. It is our steadfast belief that through partnership we can achieve prosperity no matter what the economic climate - for, if we work together, nothing is impossible.



I. BOARD RESPONSIBILITY AND OVERSIGHT

Kuwait Finance House (Malaysia) Berhad (KFHMB) acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. KFHMB 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 KFHMB with a view to preserve the Bank's long term viability, whereby the Board reviews and evaluates the strategic planning process and monitors the implementation of the strategy carried out by the management.

In safeguarding KFHMB's assets, shareholder's 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 at KFHMB. While the Board is accountable to the shareholder, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its shareholder, 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 which provides a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring the Board's effectiveness, as well as representing the Board to the shareholder.

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

Board Balance

The Board currently has six members, comprising three Independent Non-executive Directors, two Non-independent Non-executive Directors and one Executive Director.

Board Meetings

During the financial year ended 31 December 2008, 15 Board meetings and five Special Board meetings were held and attended by the directors. In the said Special Board and Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals and other matters were tabled for approval, endorsement and review by members 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 directors for their perusal, prior to confirmation of the minutes at the following Board meeting.

Board Committees

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 Independent Non-executive Directors and one Non-independent Non-executive Director and held eight meetings during the 2008 financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Khairil Anuar Abdullah - Member
Dr. Radzuan A. Rahman - Member
Abdul Wahab I.A.A AIRushood - Member
(appointed with effect from 30 May 2008)

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.

Risk Management Committee

The Risk Management Committee consists of three Independent Non-executive Directors and one Non-independent Non-executive Director and had held six meetings during the 2008 financial year. The members are as follows:

Khairil Anuar Abdullah - Chairman
 Mohamed Ismail Mohamed Shariff - Member
 Dr. Radzuan A. Rahman - Member
 Abdul Wahab I.A.A AIRushood - Member
 (appointed with effect from 30 May 2008)

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 risks and to ensure that the risk management process is efficient and functions effectively.

Nomination Committee

The Nomination Committee consists of three Independent Non-executive Directors, two Non-independent Non-executive Directors and one Executive Director. Three meetings were held during the 2008 financial year. Resolution on re-appointment of directors was approved via a Directors' Circular Resolution. The members are as follows:

Dr. Radzuan A. Rahman - Chairman
 Mohamed Ismail Mohamed Shariff - Member
 Shaheen H.A.KH.SH. AIGHanem - Member
 Khairil Anuar Abdullah - Member
 Dato' Khawaja Mohammad Salman Younis - Member
 Abdul Wahab I.A.A AIRushood - Member
 (appointed with effect from 30 May 2008)

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

Remuneration Committee

The Remuneration Committee consists of three Independent Non-executive Directors and one Non-independent Non-executive Director. Seven meetings were held during the 2008 financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
 Dr. Radzuan A. Rahman - Member
 Khairil Anuar Abdullah - Member
 Abdul Wahab I.A.A AIRushood - Member
 (appointed with effect from 30 May 2008)

The roles and responsibilities of the Remuneration Committee are to provide a formal and transparent procedure for developing remuneration policy for directors, the Chief Executive Officer and key management personnel as well as to ensure that KFHM compensation packages are competitive and consistent with its culture, objectives and strategies.

II. INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

The Board is responsible for KFHM system of internal controls and its effectiveness. Such a system is designed to manage the Bank's risks within an acceptable risk level and profile, rather than to eliminate the risk of failure, as well as 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 the 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 until the date of issuance of the financial statements. It is sound and sufficient to safeguard the shareholder's investment, the interests of customers, regulators, 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, as well as 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 mandated by 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 Credit Risk Management Committees which manage Retail, Commercial and Corporate credits respectively, as well as the Management Investment Committee and Private and 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. In addition, it also evaluates 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 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.

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, Bank Negara Malaysia's (BNM) 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 periodical meetings.

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

KFHMB 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 employees, formal training programmes for employees, annual/semi-annual performance appraisals and other relevant procedures to ensure the employees are competent and adequately trained in carrying out their responsibilities.

III RISK MANAGEMENT

The Bank's Commitment to Risk Management

An integral part of the Bank's business strategy is to have robust risk management practices and processes, which are aligned to best practices while supporting the growth of the Bank. Strong risk management capabilities and processes further contribute to the financial soundness of the Bank. The Bank recognises the diversity and complexity of the banking activities as well as its exposure to various types of risks,

including Credit, Market and Operational Risks. Under the Bank's Integrated Risk Management Framework, the BRMC oversees the establishment of a robust enterprise-wide risk management framework and setting the Bank's risk appetite as well as limits to guide the risk-taking activities within the Bank.

In order to raise shareholder value of the Bank, it is imperative that the risk management ethos is fully embedded within the Bank's culture, employees, business processes and technology.

Integrated Risk Management

KFHMB has adopted an Integrated Risk Management framework which provides a holistic approach in managing risks. The framework is based on four key elements of risk:

Strategy, Organisation, Measurement and Operations. In terms of Risk Strategy, the Bank has in place a comprehensive risk management policy. It addresses the management of Bank's key risks, setting of appropriate risk limits, risk organisation structure with clear roles and responsibilities, risk measurement techniques and processes for controlling and monitoring risks and adherence to limits. The Bank reviews its risk management policy on an annual basis or as required, for example, when there is a significant development such as changes to market conditions or regulations.

The various risk management initiatives undertaken by the Bank are as follows:

- a. Recognition of Bank-wide risk appetite in terms of loss tolerance and target credit rating for its customers;
- b. Managing the Bank's capital optimally by allocating risk capital on bank-wide and business level;
- c. Promoting awareness of all risks and their impact on the Bank amongst its employees;
- d. Giving clarity of the Bank's risk objectives and treatment of risks (whether the risks need to be controlled or eliminated, managed or actively taken as an opportunity for gaining competitive advantage);
- e. Aligning of individual risks with the overall business objectives of the Bank;

- f. Defining a comprehensive limit structure for all its risk taking activities;
- g. Establishing a bank-wide risk organisation structure and defining the risk management roles and responsibilities; and
- h. Establishing risk assessment, management and monitoring processes which are regularly benchmarked against the industry's best practices.

Stress Test

Stress test and scenario analysis serve as an important risk management tool as part of the Bank's risk assessment process, and is used to assess the financial risks and management capability of the Bank, to continue to operate effectively under different stressed scenarios. The stress test and scenario analysis will assist the BRMC and Bank's senior management in:

- a. Evaluating the optimal capitalisation level for the Bank to weather extreme banking scenarios;
- b. Understanding the nature and key risk profile of the Bank;
- c. Estimating the adequacy of liquidity contingency planning; and
- d. Assessing the effectiveness of risk mitigants which are already established.

Credit Risk Management

KFHMB defines credit risk, as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. In 2008, the Bank has grown its financing and investment assets substantially mainly in the large Corporate and Commercial segment. The Retail and Consumer segment is relatively small and growing, as the business commenced in early 2008.

Credit risk is restricted by exposure limits set at customer level and at portfolio level. The financing and investment limit structure provides the approval matrix for all types of financing and investments transacted by the Bank which are monitored by various Investment and Credit Committees in the Bank. Numerous broad limits have also been approved by the BRMC at the credit portfolio management level.

The Credit Line Risk Management Division, consisting of independent full time credit personnel, plays a central role in analysing, reviewing and monitoring transactional credits pertaining to corporate, commercial and retail financing activities. Counterparty risk is restricted and monitored at the customer level (which is in accordance to the BNM/GP5 definition and internal practices).

The Bank's credit risk policies set 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. The Bank has adopted BNM's Guideline on Classification of Non-Performing Financing and Provisions for Substandard, Bad and Doubtful Debts (BNM/GP3) in the classification of non-performing financing.

In 2008, KFHMB has successfully implemented a risk rating system for its Corporate and Commercial financing segment. This enables the Bank to incorporate a robust data spreading, financial analysis and credit analysis tool to improve the Bank's credit risk management function, by applying an internal credit risk rating system which enhances the credit underwriting process and rating of credit at regular review intervals. The rating system enables the measurement of credit risk, which differentiates individual credits and groups of credits by the risk ratings, enabling the Bank to monitor changes and trends in credit risk and customer rating migration.

In view that Retail and Consumer credit segment is a volume driven business, the Bank has also invested in a credit application processing solution in 2008. This enabled automation of the upfront credit decision process, and installed a credit application scoring solution, to evaluate the potential applicants' risk exposure.

Market Risk and Asset and Liability Management

KFHMB defines market risk, as the potential risk or loss arising from 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, sukuk and equity prices.

It is also defined as the potential risk or loss arising when transactions become impossible to execute in the market, due to market confusion or lack of participants, or loss arising from transactions at prices that are significantly less favourable than its theoretical price (market liquidity risk). The Bank further defines liquidity risk, as the risk of losses arising from funding difficulties to raise the necessary funds, or when the Bank is forced to obtain funds at much higher rates than usual.

KFHMB manages market and liquidity risks (in accordance to BNM's New Liquidity Framework) as a whole. In addition, the Bank has the Asset and Liability Management policies in place for market and liquidity risk management. The Bank is required to monitor and manage the overall market and liquidity risk profiles on a bank-wide basis.

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

The Risk Management Division is responsible for monitoring market risk, preparing reports, providing risk analysis and commentaries, proposing and setting of market risk and liquidity limits and guidelines, as well as formulating and implementing plans relating to market and liquidity risk management. It also reports on the status of market and liquidity risks, including compliance with the corresponding risk limits.

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.

As part of day-to-day management, the Risk Management Division monitors various key liquidity reports, inter alia, liquidity flow plan and risks arising from committed credit lines. In addition, Treasury Middle Office monitors the key Treasury limits on a daily basis.

Operational Risk Management

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

In the past, financial institutions have experienced detrimental losses attributed to operational risk. The increasingly dynamic pace of banking business and its operations and the rising complexity of products and processes have the potential to cause significant losses, if not controlled or mitigated. Against this backdrop, banking supervisory authorities are paying closer attention to operational risk, in particular requiring banks to allocate capital for operational risk and adopting operational risk management best practices.

To mitigate operational risk, KFHMB has developed a comprehensive operational risk framework that enables the identification, measurement, monitoring and reporting of inherent and emerging operational risks. The operational risk framework also covers the Bank's insurance programme which mitigates the risks of exceptional high impact operational losses.

The governing principles and fundamental components of the Bank's operational risk management framework include:

- a. Accountability of the individual businesses and support units of the key operational risks in the respective areas;
- b. Robust risk control environment;
- c. Risk control and assessment review; and
- d. Processes and controls to identify, assess, monitor and manage operational risks.

The Bank's risk control and assessment programme entails, formal reviews of significant operations to identify and assess key operational risks. With the collaboration efforts of the Bank's Internal Control Unit, Compliance Department and Shariah Unit, this risk control and assessment programme provides a basis for management to ensure that appropriate and effective controls and processes are in place on an ongoing basis to mitigate operational risks. Business and support units are to develop appropriate action plans to mitigate identified risks. Ongoing effort is being made to strengthen the operational risk knowledge, in order to improve the operational risk expertise and capabilities of employees in the Bank.

The Bank relies heavily on communication and information systems to conduct its business activities. Any failure, interruption or breach in security of these systems, could have a material adverse effect on the Bank's customer relationship management, general ledger, deposit, servicing and/or financing systems. Where information technology risk is concerned, the Bank takes this risk seriously. As such, the Bank makes every effort to ensure the stability of its operations and systems, as well as the protection and confidentiality of the customer data in the Bank's systems.

The Bank has developed its Business Continuity Management (BCM) in line with BNM's Guideline on BCM to ensure the Bank's key operations are not interrupted with minimal impact on customers, employees, products and services. BCM constitutes an essential component of the Bank's risk management process, by providing a controlled response to potential operational risk threats, that could have a negative impact on the Bank's critical processes and revenue streams. Some of the activities include the development of BCM action plans, which are then tested to ensure that the results are satisfactory.

Capital Adequacy Framework Initiatives

KFHMB realises the importance of having in place international best practices in managing the Bank's Credit, Market and Operational Risks. With this, the Bank has set up a Capital Planning and Regulatory Standards unit, specifically to complement the risk management practices that are carried out in the Bank, including setting up of an internal capital adequacy and assessment process (ICAAP) and setting internal capital targets.

In June 2007, BNM has issued a new Capital Adequacy Framework for Islamic Banks (CAFIB) which is similar to the IFSB capital adequacy standard, and was made effective from 1 January 2008. CAFIB is a detailed guideline which provides the rules in computing the regulatory capital for Islamic Banks in Malaysia. With effect from 1 January 2008, the Bank has complied with the CAFIB guidelines.

In computing the Bank's capital charge, the Bank has adopted the following approaches as provided for in the CAFIB document, which are:

- a. Credit Risk Charge - Standardised Approach,
- b. Market Risk Charge - Standardised Approach, and
- c. Operational Risk Charge - Basic Indicator Approach.

Effective risk management is essential to ensure the Bank's continued profitability and enhancement of shareholder value, particularly in today's rapidly changing financial landscape. The active involvement from the members of the Board of Directors and BRMC, ensures that the Bank is consistently guided by the Integrated Risk Management principles and framework.

Guidelines on *Musyarakah* and *Mudharabah* Contracts for Islamic Banking Institutions

KFHMB has enhanced its internal credit policy on profit sharing activities, which is now governed by BNM's Guidelines on *Musyarakah* and *Mudharabah* Contracts for Islamic Banking Institutions.

As the equity-based and debt-based structures that encompass *Musyarakah* and *Mudharabah* contracts are principally of higher risks in nature, the Bank has put in place internal guidelines and policies to address critical areas in evaluating such deals. These internal guidelines, among others, cover areas such as appointing the Bank's employees as representatives or Board members in companies undertaking the *Musyarakah* or *Mudharabah* deals, the employee's roles and responsibilities while acting as a Board member on behalf of the Bank, defining appropriate exit mechanism strategies, listing of trigger alerts for classification of watchlists and non-performing accounts for profit sharing deals, reviewing of the Internal Rate of Return on a regular basis, and the inclusion of necessary clauses in the profit sharing contract agreement to minimise potential reputational risk to the Bank.

KFHMB continues to monitor *Musyarakah* and *Mudharabah* portfolios closely and update the relevant policies and guidelines from time to time, which are tabled to BRMC for review and endorsement. The Bank's risk rating policy has also been enhanced, to allow the Bank's Credit Risk Management to impose rating downgrades if necessary as a conservative measure when evaluating the credit profile of *Musyarakah* and *Mudharabah* proposals.

IV MANAGEMENT REPORTS

At every Board meeting, a progress report on on-going projects of the Bank pertaining to recruitment, human resource, information technology, policies and procedures, regulatory requirement, products and services as well as income and expenses, are submitted to the Board for review.

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 2008.

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

	Group RM'000	Bank RM'000
Net profit for the year	56,484	44,357

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial year 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 year. The directors do not recommend any dividend payment for the current financial year.

DIRECTORS

- i. Shaheen H.A.KH.SH. AIGHanem (Chairman)
- ii. Dato' Khawaja Mohammad Salman Younis (Managing Director)
- iii. Khairil Anuar Abdullah
- iv. Dr. Radzuan A. Rahman
- v. Mohamed Ismail Mohamed Shariff
- vi. Abdul Wahab I.A.A AIRushood

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 2008.

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 35 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 38 to the financial statements.

AUTHORISED SHARE CAPITAL

During the financial year, the authorised share capital of the Bank has increased to RM2,000,000,000 from RM800,000,000 via the creation of 1,200,000,000 ordinary shares of RM1 each.

ISSUE OF SHARES

The issued and paid-up share capital of the Bank has also increased to RM1,751,400,000 from RM727,000,000 with an issuance of 1,024,400,000 new ordinary shares of RM1 each at par for cash. 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.
- 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.

OTHER STATUTORY INFORMATION (cont'd.)**f. In the opinion of the directors:**

- i. no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year, which will or may affect the ability of the 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 2009

The Bank's corporate investment banking will continue to grow its business through new product offerings, products cross selling as well as providing solutions on asset and liability requirements to its existing and potential customers. In addition, it will also continue to explore new businesses in the Middle East to bridge the gap between investors and investment opportunities in Malaysia. The commercial banking business will continue to grow in the middle market business and small medium enterprises, as well as consolidating its business portfolio. Retail and Consumer banking business plays its role in complementing the business growth by raising more deposits, serving small businesses, retail consumers, as well as providing internet banking to all existing and potential Bank's customers. The Bank's treasury business will continue to explore the possibility of developing of more sources of funds in both local and foreign currencies, as well as ensures maximisation of returns from funding activities across global markets.

OUTLOOK FOR 2009

Despite the current challenging global financial environment, Islamic banking has, thus far, remained positive due to their strong growth and typically conservative approach, as well as the core principles of Islamic banking as both interest rate and speculation are prohibited, which have protected them from the elements of the crisis. Although Islamic banks are not exposed to the subprime market, Islamic banks are facing the indirect effects of the global financial crisis such as the drying up of interbank liquidity market and declining investment banking revenues. However, the Islamic banking system is expected to remain sound despite the credit crisis, given the excess liquidity in the banking system, as well as the country's strong fundamentals which is well supported by a strong regulatory framework that ensures not only the stability of the system, but also promotes the active and vibrant functioning of the system. This will enable the banking industry to not only meet the rapidly changing requirements of the global economy, but also to remain competitive in a challenging environment ahead.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Classification	Assigned
Rating Agency Malaysia Berhad (RAM)	December 2008	Long-term	AA2
		Short-term	P1
Malaysian Rating Corporation Berhad (MARC)	June 2008	Long-term	AA+
		Short-term	MARC-1

SIGNIFICANT EVENTS

There are no significant events during the financial year ended 31 December 2008.

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 Razzaq Al-Tabtabae (Chairman)
- b. Sheikh Dr. Anwar Shuaib Abdulsalam (Member)
- c. Sheikh Adnan Ali Ibrahim Al-Mulla (Member)

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.
- g. To review computation of zakat and approve the amount to be paid according to Shariah rules and principles.
- h. To 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 shareholder 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 24 February 2009.

DATO' KHAWAJA MOHAMMAD SALMAN YOUNIS

Director

MOHAMED ISMAIL MOHAMED SHARIF

Director

STATEMENT BY DIRECTORS

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

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 40 to 105 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 2008 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 24 February 2009.

DATO' KHAWAJA MOHAMMAD SALMAN YOUNIS

Director

MOHAMED ISMAIL MOHAMED SHARIFF

Director

STATUTORY DECLARATION

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

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 40 to 105, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above
named Dato' Khawaja Mohammad Salman Younis
at Kuala Lumpur, in the Federal Territory on 24 February 2009.

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 2008. 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 2008 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 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 Warahmatullahi Wabarakatuh.

Sheikh Prof. Dr. Mohammed Abdul Razzaq Al-Tabtabae (Chairman)

Sheikh Dr. Anwar Shuaib Abdulsalam (Member)

Sheikh Adnan Ali Ibrahim Al-Mulla (Member)

Kuala Lumpur, Malaysia

18 February 2009

INDEPENDENT AUDITORS' REPORT

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TO THE MEMBERS OF KUWAIT FINANCE HOUSE
(MALAYSIA) BERHAD

Report on the financial statements

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 105.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the principles of Shariah, and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2008 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report the following:

- a. In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries which are incorporated in Malaysia have been properly kept in accordance with the provisions of the Act.
- b. We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Bank, are in a 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.
- c. The auditors' reports on the accounts of the subsidiaries, were not subject to any qualification material to the consolidated financial statements, and for the subsidiaries incorporated in Malaysia did not include any comment required to be made under Section 174(3) of the Act.

Other matters

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

Ernst & Young
AF 0039
Chartered Accountants

Abdul Rauf bin Rashid
No. 2305/05/10(J)
Chartered Accountant

Kuala Lumpur, Malaysia
24 February 2009

BALANCE SHEETS

AS AT 31 DECEMBER 2008

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	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
ASSETS					
Cash and short-term funds	4	2,077,377	1,667,984	2,140,626	1,747,418
Deposits and placements with banks and other financial institutions	5	37,827	53,247	37,827	53,247
Securities held-for-trading	6	–	84,105	–	84,105
Securities available-for-sale	7	855,007	1,043,961	755,639	948,878
Securities held-to-maturity	8	25,474	25,460	25,474	25,460
Financing, advances and other receivables	9	6,157,218	3,162,310	6,160,260	3,162,310
Murabahah trading automobiles	10	61,779	50,260	61,779	50,260
Other assets	11	172,556	83,941	159,804	83,525
Statutory deposits with Bank Negara Malaysia	12	137,644	89,926	137,644	89,926
Musyarakah capital investment	13	5,916	6,080	5,916	6,080
Investment in subsidiaries	14	–	–	37,563	10,200
Property and equipment	15	44,819	22,553	43,340	22,482
Intangible assets	16	11,865	6,452	11,832	6,452
Deferred tax assets (net)	17	49,386	12,796	49,386	12,796
TOTAL ASSETS		9,636,868	6,309,075	9,627,090	6,303,139
LIABILITIES					
Deposits from customers	18	4,293,347	2,198,839	4,306,094	2,200,822
Deposits and placements of banks and other financial institutions	19	2,919,008	2,907,887	2,919,008	2,907,887
Other liabilities	20	252,450	111,306	251,051	111,291
Provision for zakat	21	1,115	220	1,115	220
Murabahah bank financing	22	25,984	–	25,984	–
Subordinated Murabahah Tawarruq	23	365,908	335,764	365,908	335,764
TOTAL LIABILITIES		7,857,812	5,554,016	7,869,160	5,555,984
SHAREHOLDER'S EQUITY					
Share capital	24	1,751,400	727,000	1,751,400	727,000
Reserves	25	27,656	28,059	6,530	20,155
TOTAL SHAREHOLDER'S EQUITY		1,779,056	755,059	1,757,930	747,155
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,636,868	6,309,075	9,627,090	6,303,139
COMMITMENTS AND CONTINGENCIES	39	5,710,207	3,436,840	5,710,207	3,436,840
CAPITAL ADEQUACY					
Core capital ratio	44	17.74%	12.17%	17.73%	12.17%
Risk-weighted capital ratio	44	20.81%	17.42%	20.47%	17.31%
NET ASSETS PER SHARE (RM)		1.02	1.04	1.00	1.03

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

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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(MALAYSIA) BERHAD

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Operating revenue	26	572,954	313,439	548,155	306,251
Income derived from investment of depositors' funds and others	27	379,576	207,153	382,446	210,949
Income derived from investment of shareholder's equity	28	193,378	106,286	165,709	95,302
Total gross income		572,954	313,439	548,155	306,251
Allowance and impairment for losses on financing	29	(135,126)	(43,126)	(135,126)	(43,126)
Impairment loss on Murabahah trading automobile	30	(370)	-	(370)	-
Total distributable income		437,458	270,313	412,659	263,125
Income attributable to the depositors	31	(210,865)	(128,381)	(210,927)	(128,381)
Total net income		226,593	141,932	201,732	134,744
Personnel expenses	32	(112,285)	(70,061)	(103,758)	(69,823)
Other overheads and expenditures	33	(49,009)	(28,824)	(44,720)	(28,537)
Finance cost	34	(14,890)	(5,923)	(14,890)	(5,923)
Profit before zakat and taxation		50,409	37,124	38,364	30,461
Zakat		(905)	(210)	(905)	(210)
Taxation	36	6,980	(9,938)	6,898	(9,918)
Net profit for the year		56,484	26,976	44,357	20,333
Earnings per share (sen)					
- Basic/Diluted	37	5.84	5.26	-	-

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

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	Share Capital RM'000	Non-distributable			Distributable	Total RM'000
		Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain/(Loss) on Securities Available- For-Sale RM'000	Retained Profits RM'000	
Group						
At 1 January 2008	727,000	12,773	(1,679)	(5,388)	22,353	755,059
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(57,982)	-	(57,982)
Transfer to statutory reserve	-	22,179	-	-	(22,179)	-
Foreign currency translation recognised directly in equity	-	-	1,095	-	-	1,095
Net income/(expense) recognised directly in equity	-	22,179	1,095	(57,982)	(22,179)	(56,887)
Net profit for the year	-	-	-	-	56,484	56,484
Total recognised net income/(expense) for the year	-	22,179	1,095	(57,982)	34,305	(403)
Issue of ordinary shares for cash	1,024,400	-	-	-	-	1,024,400
At 31 December 2008	1,751,400	34,952	(584)	(63,370)	56,658	1,779,056
At 1 January 2007	380,000	2,606	(750)	1,685	5,544	389,085
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(7,073)	-	(7,073)
Transfer to statutory reserve	-	10,167	-	-	(10,167)	-
Foreign currency translation recognised directly in equity	-	-	(929)	-	-	(929)
Net expense recognised directly in equity	-	10,167	(929)	(7,073)	(10,167)	(8,002)
Net profit for the year	-	-	-	-	26,976	26,976
Total recognised net (expense)/income for the year	-	10,167	(929)	(7,073)	16,809	18,974
Issue of ordinary shares for cash	347,000	-	-	-	-	347,000
At 31 December 2007	727,000	12,773	(1,679)	(5,388)	22,353	755,059

	Non-distributable			Distributable		Total RM'000
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain/(Loss) on Securities Available- For-Sale RM'000	Retained Profits RM'000	
Bank						
At 1 January 2008	727,000	12,773	-	(5,388)	12,770	747,155
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(57,982)	-	(57,982)
Transfer to statutory reserve	-	22,179	-	-	(22,179)	-
Net expense recognised directly in equity	-	22,179	-	(57,982)	(22,179)	(57,982)
Net profit for the year	-	-	-	-	44,357	44,357
Total recognised net (expense)/income for the year	-	22,179	-	(57,982)	22,178	(13,625)
Issue of ordinary shares for cash	1,024,400	-	-	-	-	1,024,400
At 31 December 2008	1,751,400	34,952	-	(63,370)	34,948	1,757,930
At 1 January 2007	380,000	2,606	-	1,685	2,604	386,895
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(7,073)	-	(7,073)
Transfer to statutory reserve	-	10,167	-	-	(10,167)	-
Net expense recognised directly in equity	-	10,167	-	(7,073)	(10,167)	(7,073)
Net profit for the year	-	-	-	-	20,333	20,333
Total recognised net (expense)/income for the year	-	10,167	-	(7,073)	10,166	13,260
Issue of ordinary shares for cash	347,000	-	-	-	-	347,000
At 31 December 2007	727,000	12,773	-	(5,388)	12,770	747,155

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

CASH FLOW STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2008

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before zakat and taxation	50,409	37,124	38,364	30,461
Adjustments for:				
Allowance for losses on financing	135,126	43,126	135,126	43,126
Amortisation of premium less accretion of discounts	241	166	241	166
Finance cost	14,890	–	14,890	–
Depreciation of property and equipment	6,882	3,952	6,446	3,935
Amortisation of intangible assets	2,648	1,972	2,639	1,972
Net gains on disposal of property and equipment	–	(97)	–	(97)
Dividends from securities available-for-sale	(1,020)	(7,571)	–	–
Dividend from a subsidiary	–	–	(10,452)	–
Net gains on sale of securities available-for-sale	(1,477)	(2,069)	(1,477)	(2,069)
Net gains on sale of securities held-for-trading	(810)	(3,383)	(810)	(3,383)
Short-term accumulated compensated absences	306	8	272	8
Impairment loss on Murabahah trading automobile	370	–	370	–
Unrealised gain on subordinated Murabahah Tawarruq	16,582	–	16,582	–
Unrealised gain on revaluation of Ijarah rental swap	(5,996)	(6,856)	(5,996)	(6,856)
Unrealised loss on securities held-for-trading and Ijarah rental swap	–	432	–	432
Operating profit before working capital changes	218,151	66,804	196,195	67,695
(Increase)/Decrease in operating assets				
Deposits and placements with banks and other financial institutions	15,420	102,751	15,420	102,751
Financing, advances and other receivables	(3,130,034)	(2,401,741)	(3,133,076)	(2,401,741)
Murabahah trading automobiles	(11,889)	(40,862)	(11,889)	(40,862)
Other assets	(51,242)	(28,593)	(28,455)	(27,740)
Statutory deposits with Bank Negara Malaysia	(47,718)	(65,984)	(47,718)	(65,984)
Increase/(Decrease) in operating liabilities				
Deposits from customers	2,094,508	1,167,675	2,105,272	1,158,100
Deposits and placements of banks and other financial institutions	11,121	1,362,097	11,121	1,362,097
Other liabilities	115,955	63,745	114,504	63,812
Cash (used in)/generated from operations	(785,728)	225,892	(778,626)	218,128
Taxes paid	(18,105)	(12,736)	(18,085)	(12,716)
Zakat paid	(10)	–	(10)	–
Net cash (used in)/generated from operating activities	(803,843)	213,156	(796,721)	205,412

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOW FROM INVESTING ACTIVITIES				
Proceeds from disposal/(purchase) of securities	191,942	(405,162)	202,067	(409,605)
Proceeds from disposal of/(investment in) Musyarakah capital	164	(200)	164	(200)
Dividends from securities available for sale	6,859	7,571	-	-
Investment in subsidiaries	-	-	(27,363)	-
Proceeds from disposal of property and equipment	-	397	-	397
Purchase of property and equipment	(29,148)	(12,787)	(27,304)	(12,770)
Purchase of intangible assets	(8,061)	(1,679)	(8,019)	(1,679)
Net cash generated from/(used in) investing activities	161,756	(411,860)	139,545	(423,857)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	1,024,400	347,000	1,024,400	347,000
Proceeds from subordinated Murabahah Tawarruq	-	335,764	-	335,764
Proceeds from Murabahah bank financing	25,984	-	25,984	-
Net cash generated from financing activities	1,050,384	682,764	1,050,384	682,764
Net increase in cash and cash equivalents	408,297	484,060	393,208	464,319
Cash and cash equivalents at beginning of year	1,667,984	1,184,853	1,747,418	1,283,099
Exchange differences on translation of opening balances	1,096	(929)	-	-
Cash and cash equivalents at end of year (Note 4)	2,077,377	1,667,984	2,140,626	1,747,418

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

31 DECEMBER 2008

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 617 (2007: 376) and 604 (2007: 375) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 February 2009.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared under the historical cost convention unless otherwise indicated and comply with the provisions of the Companies Act, 1965, applicable Financial Reporting Standards (FRSs) and Issues Committee (IC) Interpretations in Malaysia as modified by Bank Negara Malaysia Guidelines, and the principles of Shariah.

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

Subsidiaries are entities 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.1 Summary of Significant Accounting Policies (cont'd.)

b. Subsidiaries and Basis of Consolidation (cont'd.)

ii. Basis of Consolidation (cont'd.)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.1 Summary of Significant Accounting Policies (cont'd.)

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 is 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.

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.

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.

iii.i 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.ii 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.

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 assets' 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 are 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
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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 and its partners shall contribute a portion of capital and the proportion of profit to be distributed between the partners must be mutually pre-agreed upon inception of the contract. 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 that an 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 effective yield basis. Income on cash line, house and term financing are accounted for 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 sales proceeds less purchase price.

o. Profit Expense Recognition

Attributable profit expense on deposits and borrowings of the Group and the Bank are recognised on an accrual basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.1 Summary of Significant Accounting Policies (cont'd.)

p. Foreign Currencies

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 not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period, except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. These are initially taken directly to the foreign currency translation reserve within equity, until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, are recognised in profit or loss in the Company's separate financial statements, or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value, are included in profit or loss for the period, except for the differences arising on the translation of nonmonetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

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.

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.

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 (cont'd.)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.1 Summary of Significant Accounting Policies (cont'd.)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.1 Summary of Significant Accounting Policies (cont'd.)

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 as disclosed in the Statement of Corporate Governance.

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 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2008, the Group and the Company adopted the following revised FRS, amendment to FRS and Interpretations:

FRS 107	: Cash Flow Statements
FRS 111	: Construction Contracts
FRS 112	: Income Taxes
FRS 118	: Revenue
FRS 120	: Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	: Interim Financial Reporting
FRS 137	: Provisions, Contingent Liabilities and Contingent Assets
Amendments to FRS 121	: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 1	: Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	: Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	: Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	: Scope of FRS 2

The revised FRSs, amendments to FRSs and IC Interpretations above do not have any significant impact on the financial statements of the Group and the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.3 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:

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
FRS 4: Insurance Contracts	1 January 2010
FRS 7: Financial Instruments: Disclosures	1 January 2010
FRS 8: Operating Segments	1 July 2009
FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010

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 of FRS 7 and FRS 139 by virtue of exemptions provided under paragraphs 44AB and 103AB respectively.

3.4 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

3.4 Significant Accounting Estimates and Judgements (cont'd)

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 the collateral. The values assigned to the 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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	52,073	35,651	45,361	35,614
Money at call and interbank placements with remaining maturity less than one month	2,025,304	1,632,333	2,095,265	1,711,804
	2,077,377	1,667,984	2,140,626	1,747,418

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Licensed Islamic banks	6,698	6,698	6,698	6,698
Other financial institutions	31,129	46,549	31,129	46,549
	37,827	53,247	37,827	53,247

6. SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At fair value				
Bank Negara Malaysia Sukuk Ijarah	-	10,133	-	10,133
Unquoted Islamic private debt securities/sukuk	-	73,972	-	73,972
	-	84,105	-	84,105

7. SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At fair value				
Bank Negara Malaysia Sukuk Ijarah	101,388	121,545	101,388	121,545
Unquoted securities:				
Islamic private debt securities/sukuk	653,731	827,332	653,731	827,333
Property funds *	99,368	95,084	-	-
At cost				
Unquoted shares in Malaysia	520	-	520	-
	855,007	1,043,961	755,639	948,878

* The movement in the carrying value of these securities was solely due to movement in foreign exchange rates. There was no change in the fair value of the underlying assets of the funds since the last financial year based on confirmation from the fund manager.

8. SECURITIES HELD-TO-MATURITY

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At amortised cost				
Unquoted securities:				
Islamic private debt securities	25,474	25,460	25,474	25,460

9. FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
i. By type				
Term Financing				
Murabahah financing	4,139,058	2,123,560	4,139,058	2,123,560
Musyarakah financing	333,830	242,320	333,830	242,320
Ijarah asset financing	1,776,611	730,938	1,776,611	730,938
Mudharabah asset financing	95,712	99,668	95,712	99,668
Musyarakah Mutanaqisah financing	111,584	53,227	111,584	53,227
Istisna' financing	48,405	37,414	48,405	37,414
Qard Hassan financing	-	-	3,042	-
Staff financing	11,288	9,054	11,288	9,054
	6,516,488	3,296,181	6,519,530	3,296,181
Less: Unearned income	(166,726)	(76,455)	(166,726)	(76,455)
	6,349,762	3,219,726	6,352,804	3,219,726
Less: Allowance and impairment for bad and doubtful financing:				
- General allowance	(102,962)	(55,324)	(102,962)	(55,324)
- Specific allowance				
- Non-performing financing	(38,428)	(467)	(38,428)	(467)
- Performing but impaired financing	(51,154)	(1,625)	(51,154)	(1,625)
Total net financing, advances and other receivables	6,157,218	3,162,310	6,160,260	3,162,310

9. FINANCING, ADVANCES AND OTHER RECEIVABLES (cont'd.)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
ii. By contract				
Ijarah Muntahia Bi Tamlik/Al-Ijarah				
Thumma Al-Bai' / (lease ended with ownership)	1,778,129	726,984	1,778,129	726,984
Murabahah (cost-plus)	4,011,825	2,058,701	4,011,825	2,058,701
Mudharabah (profit sharing)	95,712	99,668	95,712	99,668
Musarakah (profit and loss sharing)	446,978	296,595	446,978	296,595
Qardh (benevolent loan)	115	33	3,157	33
Istisna'	17,003	37,745	17,003	37,745
	6,349,762	3,219,726	6,352,804	3,219,726
iii. By type of customer				
Domestic business enterprises				
Small medium enterprises	1,945,872	1,063,253	1,945,872	1,063,253
Others	2,706,098	1,495,297	2,706,098	1,495,297
Individuals	89,509	143,305	89,509	143,305
Other domestic entities	96,686	–	96,686	–
Foreign entities	1,392,027	288,376	1,395,069	288,376
Domestic non-bank financial institutions	119,570	229,495	119,570	229,495
	6,349,762	3,219,726	6,352,804	3,219,726
iv. By profit rate sensitivity				
Fixed rate				
House financing	60,731	18,243	60,731	18,243
Hire purchase receivables	3,522	2,711	3,522	2,711
Syndicated financing	25,987	7,881	25,987	7,881
Term financing	3,354,381	2,166,449	3,357,423	2,166,449
Variable				
House financing	4,355	–	4,355	–
Term financing	2,900,786	1,024,442	2,900,786	1,024,442
	6,349,762	3,219,726	6,352,804	3,219,726

9. FINANCING, ADVANCES AND OTHER RECEIVABLES (cont'd.)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
v. By sector				
Agriculture, hunting, forestry & fishing	277,329	117,523	277,329	117,523
Mining & quarrying	258,525	30,033	258,525	30,033
Manufacturing	1,243,020	549,179	1,243,020	549,179
Electricity, gas and water	4,436	59,710	4,436	59,710
Construction	714,713	275,897	714,713	275,897
Real estate	806,279	334,355	806,279	334,355
Purchase of landed property:				
Residential	66,338	14,031	66,338	14,031
Wholesale, retail trade, restaurants and hotels	648,076	552,753	648,076	552,753
Transports, storage and communication	558,615	324,339	558,615	324,339
Finance, insurance and business services	1,261,387	588,800	1,261,387	588,800
Purchase of securities	99,996	94,928	99,996	94,928
Purchase of transport vehicles	3,623	2,674	3,623	2,674
Consumption credit	18,531	19,466	18,531	19,466
Others	388,894	256,038	391,936	256,038
	6,349,762	3,219,726	6,352,804	3,219,726
vi. Movements in the non-performing financing, advances and other receivables				
At beginning of year	2,334	–	2,334	–
Classified as non-performing	56,263	2,334	56,263	2,334
At end of year	58,597	2,334	58,597	2,334
Less: Specific allowance for non-performing	(38,428)	(467)	(38,428)	(467)
Net non-performing financing, advances and other receivables	20,169	1,867	20,169	1,867
Ratio of net non-performing financing, advances and other receivables to gross financing, advances and other receivables less specific allowance for non-performing financing	0.33%	0.06%	0.33%	0.06%

9. FINANCING, ADVANCES AND OTHER RECEIVABLES (cont'd.)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
vii. Movements in the allowance for bad and doubtful financing				
General allowance				
At beginning of year	55,324	14,291	55,324	14,291
Allowance made	47,638	41,033	47,638	41,033
At end of year	102,962	55,324	102,962	55,324
As % of total gross financing, advances and other receivables less specific allowances	1.64%	1.72%	1.64%	1.72%
Specific allowance				
Non-performing financing				
At beginning of year	467	–	467	–
Allowance made	36,859	467	36,859	467
Transferred from performing but impaired financing	1,625	–	1,625	–
Allowance written back	(523)	–	(523)	–
At end of year	38,428	467	38,428	467
Performing but impaired financing				
At beginning of year	1,625	–	1,625	–
Allowance made	51,154	1,625	51,154	1,625
Transferred to non-performing financing	(1,625)	–	(1,625)	–
At end of year	51,154	1,625	51,154	1,625
viii. Non-performing financing by sector				
Construction	2,425	2,334	2,425	2,334
Manufacturing	56,172	–	56,172	–
	58,597	2,334	58,597	2,334

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

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits and prepayments		6,216	3,537	5,234	3,442
Amount due from holding company	i	1,155	951	1,155	951
Amount due from subsidiaries	i	-	-	11,407	1,981
Amount due from other related parties	i	9,806	10,183	9,806	9,341
Income receivable		5,252	8,353	5,242	7,401
Fee receivable		3,232	10,498	3,232	10,498
Sundry debtors		43,629	4,243	20,544	3,715
Tax recoverable/(payable)		5,449	(2,374)	5,367	(2,354)
Underwriting releases	ii	37,522	37,522	37,522	37,522
Revaluation gain on forward foreign exchange contracts and Ijarah rental swaps	iii	60,295	11,028	60,295	11,028
		172,556	83,941	159,804	83,525

- i. The amount due from holding company, subsidiaries and related parties are unsecured, profit-free and have no fixed terms of repayment.
- ii. 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.
- iii. Included in other assets are revaluation gain on the following financial instruments:

	2008		2007	
	Notional Amount RM'000	Fair Value RM'000	Notional Amount RM'000	Fair Value RM'000
Group and Bank				
Forward foreign exchange related contracts	791,982	12,822	105,548	940
Ijarah rental swap related contracts	373,716	47,473	360,527	10,088
	1,165,698	60,295	466,075	11,028

- iv. 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.

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

	Bank	2007
	2008	2007
	RM'000	RM'000
In Malaysia;		
- Unquoted shares, at cost	37,563	10,200

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%) 2008	2007
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100
Kuwait Finance House (Singapore) Pte. Ltd.	Fund management	Singapore	100	100
Kuwait Finance House (Australia) Pty Ltd	Fund management	Australia	100	100
KFH Asset Management Sdn. Bhd. ^	Asset management	Malaysia	100	-

^ Incorporated on 6 August 2008. The first set of statutory financial statements for this subsidiary are not due as at 31 December 2008. The statutory auditors of this newly-incorporated subsidiary have not been appointed as at the date of the financial statements.

15. PROPERTY AND EQUIPMENT

Group 2008	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost							
At 1 January 2008	7,001	3,792	4,967	7,452	1,603	5,216	30,031
Additions	5,447	3,689	3,640	4,208	-	12,164	29,148
Reclassification	438	279	121	623	-	(1,461)	-
At 31 December 2008	12,886	7,760	8,728	12,283	1,603	15,919	59,179
Accumulated depreciation							
At 1 January 2008	2,295	1,254	1,548	2,233	148	-	7,478
Charge for the year	1,928	1,241	1,342	2,050	321	-	6,882
At 31 December 2008	4,223	2,495	2,890	4,283	469	-	14,360
Net book value							
At 31 December 2008	8,663	5,265	5,838	8,000	1,134	15,919	44,819

15. PROPERTY AND EQUIPMENT (cont'd.)

Bank 2008	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Cost							
At 1 January 2008	6,933	3,774	4,959	7,452	1,603	5,216	29,937
Additions	4,495	3,220	3,540	3,885	-	12,164	27,304
Reclassification	438	279	121	623	-	(1,461)	-
At 31 December 2008	11,866	7,273	8,620	11,960	1,603	15,919	57,241
Accumulated depreciation							
At 1 January 2008	2,276	1,253	1,545	2,233	148	-	7,455
Charge for the year	1,705	1,137	1,320	1,963	321	-	6,446
At 31 December 2008	3,981	2,390	2,865	4,196	469	-	13,901
Net book value							
At 31 December 2008	7,885	4,883	5,755	7,764	1,134	15,919	43,340

The additions for the period in respect of renovations include accrued restoration cost for the Group of RM1,841,917 (2007: RM Nil) and the Bank of RM1,722,469 (2007: RM Nil).

Group 2007	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Cost							
At 1 January 2007	6,170	2,523	3,358	4,774	786	270	17,881
Additions	488	422	1,588	2,678	1,448	6,163	12,787
Disposals	-	-	-	-	(631)	-	(631)
Exchange differences	(4)	(1)	(1)	-	-	-	(6)
Reclassification	347	848	22	-	-	(1,217)	-
At 31 December 2007	7,001	3,792	4,967	7,452	1,603	5,216	30,031
Accumulated depreciation							
At 1 January 2007	1,197	702	672	1,013	274	-	3,858
Charge for the year	1,099	552	876	1,220	205	-	3,952
Disposals	-	-	-	-	(331)	-	(331)
Exchange differences	(1)	-	-	-	-	-	(1)
At 31 December 2007	2,295	1,254	1,548	2,233	148	-	7,478
Net book value							
At 31 December 2007	4,706	2,538	3,419	5,219	1,455	5,216	22,553

15. PROPERTY AND EQUIPMENT (cont'd.)

Bank 2007	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Cost							
At 1 January 2007	6,098	2,520	3,350	4,774	786	270	17,798
Additions	488	406	1,587	2,678	1,448	6,163	12,770
Disposals	–	–	–	–	(631)	–	(631)
Reclassification	347	848	22	–	(1,217)	–	–
At 31 December 2007	6,933	3,774	4,959	7,452	1,603	5,216	29,937
Accumulated depreciation							
At 1 January 2007	1,191	702	671	1,013	274	–	3,851
Charge for the year	1,085	551	874	1,220	205	–	3,935
Disposals	–	–	–	–	(331)	–	(331)
At 31 December 2007	2,276	1,253	1,545	2,233	148	–	7,455
Net book value							
At 31 December 2007	4,657	2,521	3,414	5,219	1,455	5,216	22,482

16. INTANGIBLE ASSETS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Computer software				
Cost				
At 1 January	10,122	8,443	10,122	8,443
Additions	8,061	1,679	8,019	1,679
At 31 December	18,183	10,122	18,141	10,122
Accumulated amortisation				
At 1 January	3,670	1,698	3,670	1,698
Amortisation for the year	2,648	1,972	2,639	1,972
At 31 December	6,318	3,670	6,309	3,670
Carrying amount				
At 31 December	11,865	6,452	11,832	6,452

17. DEFERRED TAXATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	12,796	441	12,796	441
Recognised in equity	19,327	2,388	19,327	2,388
Recognised in income statement (Note 36)	17,263	9,967	17,263	9,967
At 31 December	49,386	12,796	49,386	12,796
Presented after appropriate offsetting as follows:				
Deferred tax assets (net)	49,386	12,796	49,386	12,796

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

	Allowance and impairment for financing losses RM'000	Unrealised gain/(loss) on securities available- for-sale RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets of the Group and Bank:				
2008				
At 1 January 2008	13,831	1,796	1,329	16,956
Recognised in income statement	16,932	–	34	16,966
Recognised in equity	–	19,327	–	19,327
At 31 December 2008	30,763	21,123	1,363	53,249
2007				
At 1 January 2007	3,716	(592)	115	3,239
Recognised in income statement	10,115	–	1,214	11,329
Recognised in equity	–	2,388	–	2,388
At 31 December 2007	13,831	1,796	1,329	16,956

	Accelerated capital allowances RM'000	Total RM'000
Deferred tax liabilities of the Group and Bank:		
2008		
At 1 January 2008	4,160	4,160
Recognised in income statement	(297)	(297)
At 31 December 2008	3,863	3,863
2007		
At 1 January 2007	2,798	2,798
Recognised in income statement	1,362	1,362
At 31 December 2007	4,160	4,160

18. DEPOSITS FROM CUSTOMERS

i. By type of deposit

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Qardh				
Demand deposits	258,488	466,266	261,202	468,248
Mudharabah				
Savings deposits	5,911	1,858	5,911	1,858
General investment deposits	239,894	165,713	239,894	165,714
Murabahah				
Others	3,789,054	1,565,002	3,799,087	1,565,002
	4,293,347	2,198,839	4,306,094	2,200,822

ii. By type of customer

Business enterprises	3,742,346	2,016,878	3,742,005	2,016,878
Individuals	107,126	14,503	107,126	14,503
Subsidiary	–	–	13,088	2,309
Others	443,875	167,458	443,875	167,132
	4,293,347	2,198,839	4,306,094	2,200,822

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Murabahah				
Licensed Islamic banks	50,000	495,000	50,000	495,000
Licensed banks	35,485	–	35,485	–
Bank Negara Malaysia	121,258	377,974	121,258	377,974
Other financial institutions	2,712,265	2,034,913	2,712,265	2,034,913
	2,919,008	2,907,887	2,919,008	2,907,887

20. OTHER LIABILITIES

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income payables		39,295	38,145	39,295	38,145
Sundry creditors		50,425	12,997	50,411	12,996
Amount due to holding company	i	1,140	1,140	1,140	1,140
Project clearing account		82,123	27,234	82,123	27,234
Revaluation loss on forward foreign exchange contracts and Ijarah rental swaps	ii	39,157	5,762	39,157	5,762
Accrued restoration cost		1,842	250	1,722	250
Other provisions and accruals		38,468	25,778	37,203	25,764
		252,450	111,306	251,051	111,291

i. The amount due to holding company is unsecured, profit-free and has no fixed terms of repayment.

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

	2008		2007	
	Notional Amount RM'000	Fair Value RM'000	Notional Amount RM'000	Fair Value RM'000
Group and Bank				
Forward foreign exchange related contracts	84,802	2,670	97,105	652
Ijarah rental swap related contracts	371,421	36,487	99,225	5,110
	456,223	39,157	196,330	5,762

21. PROVISION FOR ZAKAT

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Zakat	1,115	220	1,115	220

22. MURABAHAH BANK FINANCING

The Murabahah bank financing of USD7,500,000 or equivalent RM25,983,750 (2007: nil) is an unsecured financing facility obtained in 2008 with a tenure of two years and is repayable in instalments commencing 2009. The Murabahah price is determined based on effective cost of fund.

23. SUBORDINATED MURABAHAH TAWARRUQ

The subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal amount of USD100,000,000 or equivalent RM346,450,000 (2007: USD100,000,000 or equivalent RM330,750,000) 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).

24. SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Authorised:				
At 1 January	800,000	800,000	800,000	800,000
Additions	1,200,000	–	1,200,000	–
At 31 December	2,000,000	800,000	2,000,000	800,000
Issued and fully paid:				
At 1 January	727,000	380,000	727,000	380,000
Issued during the year	1,024,400	347,000	1,024,400	347,000
At 31 December	1,751,400	727,000	1,751,400	727,000

During the year, the Bank increased its authorised share capital to RM2,000,000,000 from RM800,000,000 on 1 January 2008 via the increase of 1,200,000,000 ordinary shares of RM1 each.

The Bank has also increased its issued and paid-up capital to RM1,751,400,000 from RM727,000,000 via the issuance of 1,024,400,000 new ordinary shares of RM1 each at par for cash.

25. RESERVES

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Non-distributable					
Statutory reserve	i	34,952	12,773	34,952	12,773
Exchange fluctuation reserve	ii	(584)	(1,679)	–	–
Unrealised (loss)/gain on securities available-for-sale	iii	(63,370)	(5,388)	(63,370)	(5,388)
		(29,002)	5,706	(28,418)	7,385
Distributable					
Retained profits	iv	56,658	22,353	34,948	12,770
		27,656	28,059	6,530	20,155

25. RESERVES (cont'd.)

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.

iv. Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders (single tier system). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

As at 31 December 2008, the 108 balance of the Bank is nil (2007: nil). The Bank may distribute dividends out of its entire retained earnings as at 31 December 2008 and 2007 under the single tier system.

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At 1 January	(5,388)	1,685	(5,388)	1,685
Unrealised loss on securities available-for-sale	(57,982)	(7,073)	(57,982)	(7,073)
At 31 December	(63,370)	(5,388)	(63,370)	(5,388)

26. OPERATING REVENUE

Operating revenue of the Group comprises all types of 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.

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of:				
i. General investment deposits	10,388	4,263	10,467	4,343
ii. Other deposits	369,188	202,890	371,979	206,606
	379,576	207,153	382,446	210,949
i. Income derived from investment of general investment deposits				
Financing, advances and other receivables	8,000	2,576	8,000	2,576
Securities available-for-sale				
- Held-for-trading	16	75	16	75
- Available-for-sale	892	746	892	746
- Held-to-maturity	34	25	34	25
Money at call and deposits with financial institutions	1,262	728	1,341	808
	10,204	4,150	10,283	4,230
Amortisation of premium less accretion of discounts	(6)	(3)	(6)	(3)
Total financing income and hibah	10,198	4,147	10,277	4,227
Gain arising from sale of securities				
- Held-for-trading	19	57	19	57
- Available-for-sale	32	35	32	35
Profit from Murabahah trading on automobiles	100	19	100	19
Foreign exchange profit				
- Realised	7	20	7	20
Gain/(Loss) on Ijarah rental swaps obligation	32	(15)	32	(15)
	10,388	4,263	10,467	4,343
ii. Income derived from investment of other deposits				
Financing, advances and other receivables	283,440	121,340	283,440	121,340
Securities				
- Held-for-trading	546	3,487	546	3,487
- Available-for-sale	31,647	35,344	31,647	35,344
- Held-to-maturity	1,198	948	1,198	948
Money at call and deposits with financial institutions	45,911	35,978	48,702	39,694
	362,742	197,097	365,533	200,813
Amortisation of premium less accretion of discounts	(203)	(141)	(203)	(141)
Total financing income and hibah	362,539	196,956	365,330	200,672
Profit from Murabahah trading on automobiles	3,570	903	3,570	903
Gain arising from sale of securities				
- Held-for-trading	677	2,892	677	2,892
- Available-for-sale	1,274	1,774	1,274	1,774
Foreign exchange (loss)/profit				
- Realised	(51)	1,129	(51)	1,129
Gain/(Loss) on Ijarah rental swaps obligation	1,179	(764)	1,179	(764)
	369,188	202,890	371,979	206,606

28. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Financing, advances and other receivables	45,229	19,744	45,229	19,744
Securities				
- Held-for-trading	83	555	83	555
- Available-for-sale	4,987	5,783	4,987	5,783
- Held-to-maturity	188	202	188	202
Money at call and deposits with financial institutions	6,940	5,777	7,383	6,378
	57,427	32,061	57,870	32,662
Amortisation of premium less accretion of discounts	(32)	(23)	(32)	(23)
Total financing income and hibah	57,395	32,038	57,838	32,639
Fee income				
- Commissions	4,028	13,366	4,028	13,366
- Fund management fee	31,480	4,054	-	-
- Other fee income	72,605	38,985	72,578	38,985
Gain arising from sale of securities				
- Held-for-trading	114	434	114	434
- Available-for-sale	171	260	171	260
Unrealised gain on revaluation of securities held-for-trading and Ijarah rental swaps (net)	5,996	6,424	5,996	6,424
Profit from Murabahah trading on automobiles	549	149	549	149
Foreign exchange profit				
- Realised	126	152	126	152
- Unrealised	13,082	2,876	13,553	2,796
Gain/(Loss) on Ijarah rental swaps obligation	184	(120)	184	(120)
Gross dividend from				
- Subsidiary	-	-	10,452	-
Gross dividend from property funds (securities available-for-sale)	7,648	7,571	-	-
Gain on disposal of property and equipment	-	97	-	97
Management fee	-	-	120	120
	193,378	106,286	165,709	95,302

29. ALLOWANCES AND IMPAIRMENT FOR LOSSES ON FINANCING

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Allowance and impairment for bad and doubtful financing				
- General allowance	47,637	41,034	47,637	41,034
- Specific allowance				
- Non-performing financing	36,335	467	36,335	467
- Impaired financing	51,154	1,625	51,154	1,625
	135,126	43,126	135,126	43,126

30. IMPAIRMENT LOSS ON MURABAHAH TRADING AUTOMOBILE

Impairment loss on Murabahah trading automobile is determined at the difference whereby the carrying amount exceeds its recoverable amount on an individual basis.

31. INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits from customers				
- Mudharabah	6,375	2,329	6,375	2,329
- Murabahah	86,833	37,181	86,886	37,181
Deposits and placements of banks and other financial institutions				
- Murabahah	117,657	88,810	117,666	88,810
Others	-	61	-	61
	210,865	128,381	210,927	128,381

32. PERSONNEL EXPENSES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Salaries and wages	56,282	28,905	50,621	28,840
Social security costs	281	141	279	140
Short-term accumulating compensated absences	306	8	272	8
Pension costs - defined contribution plan	14,019	11,657	13,460	11,644
Other staff related costs	41,397	29,350	39,126	29,191
	112,285	70,061	103,758	69,823

Included in personnel expenses of the Group and the Bank are Executive/Managing Director's remuneration amounting to RM3,532,000 (2007: RM2,300,000) as disclosed in Note 35.

33. OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Promotion				
Advertisement and publicity	2,558	1,457	2,528	1,457
Establishment				
Rental	8,108	3,442	6,066	3,373
Depreciation	6,882	3,952	6,446	3,935
Amortisation	2,648	1,972	2,639	1,972
IT expenses	2,243	2,666	2,205	2,666
Hire of equipment	736	270	698	258
General expenses				
Auditors remuneration				
- Audit	266	165	165	150
- Non-audit	200	56	195	41
Professional fees	2,980	751	2,779	701
Non executive directors' remuneration (Note 35)	1,436	808	1,436	808
Shariah Committee's remuneration (Note 35)	420	178	420	178
Others	20,532	13,107	19,143	12,998
	49,009	28,824	44,720	28,537

34. FINANCE COST

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Subordinated Murabahah Tawarruq	14,882	5,923	14,882	5,923
Murabahah bank financing	8	-	8	-
	14,890	5,923	14,890	5,923

35. DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Executive/Managing Director				
Salary and other remuneration	3,322	2,240	3,322	2,240
Fees	210	60	210	60
	3,532	2,300	3,532	2,300
Benefits-in-kind	57	34	57	34
	3,589	2,334	3,589	2,334
Non-Executive Directors				
Fees	1,020	448	1,020	448
Other remuneration	416	360	416	360
	1,436	808	1,436	808
	5,025	3,142	5,025	3,142
Shariah Committee				
Fees	312	117	312	117
Other remuneration	108	61	108	61
	420	178	420	178

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

	Number of directors Bank	
	2008	2007
Executive/Managing Director		
RM2,300,001 - RM2,350,000	-	1
RM3,550,001 - RM3,600,000	1	-
	1	1
Non-Executive Directors		
Less than RM50,000	-	1
RM50,001 - RM100,000	-	1
RM100,001 - RM150,000	-	1
RM150,001 - RM200,000	-	2
RM200,001 - RM250,000	1	1
RM250,001 - RM300,000	3	-
RM300,001 - RM350,000	1	-
	5	6
Total	6	7

36. TAXATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Malaysian income tax				
- Current year	17,393	19,953	17,475	19,933
- Over provision of Malaysian income tax in prior year	(7,111)	(48)	(7,111)	(48)
Deferred tax (Note 17):				
- Relating to origination and reversal of temporary differences	(22,821)	(11,345)	(22,821)	(11,345)
- Relating to changes in tax rates	5,559	1,378	5,559	1,378
	(6,980)	9,938	(6,898)	9,918

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

Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdiction.

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:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Profit before taxation	50,409	37,124	38,364	30,461
Taxation at Malaysian statutory tax rate of 26% (2007: 27%)	13,106	10,023	9,975	8,224
Effect of different tax rate in a subsidiary	34	20	-	-
Deferred tax relating to changes in tax rates	5,559	1,378	5,559	1,378
Income subject to different tax rates	(8,996)	(1,800)	-	-
Income not subject to tax	-	-	(2,718)	-
Expenses not deductible for tax purposes	379	365	379	364
Tax losses not recognised	3,031	-	-	-
Tax incentive on non-taxable ICBU income	(12,982)	-	(12,982)	-
Over provision of tax expense in prior years	(7,111)	(48)	(7,111)	(48)
Taxation for the year	(6,980)	9,938	(6,898)	9,918

37. EARNINGS PER SHARE

Basic and diluted earnings per share of the Group 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.

	Group	
	2008	2007
Net profit for the year (RM'000)	56,484	26,976
Weighted average number of ordinary shares in issues ('000)	967,027	513,096
Basic/diluted earnings per share (sen)	5.84	5.26

38. 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 49.

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) Sdn. Bhd., International Turnkey System Kuwait, KFH Investment Services Ltd., Baitak Realty Investment, Al-Faiz Partners Limited, Zara'ah Partners Limited and KFH Research Limited.

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 Heads 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 in the Director's report.

38. RELATED PARTY TRANSACTIONS (cont'd.)

b. Related party transactions

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding company RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2008						
i. Income						
- Dividend income	-	10,452	-	-	-	-
- Management fees	-	120	-	-	-	-
- Profit income on placements	3,975	3,312	990	-	-	-
- Profit income on financing	-	-	-	-	14,551	-
	3,975	13,884	990	-	14,551	-
ii. Expenditure						
- Profit expense on deposits	12,756	-	2,313	2	-	52
- Profit expense on subordinated Murabahah Tawarruq	14,882	-	-	-	-	-
	27,638	-	2,313	2	-	52
iii. Amount due to related parties						
- Subordinated Murabahah Tawarruq	365,908	-	-	-	-	-
- Deposits from customers	299	13,088	112	184	28,280	4,269
- Interbank borrowing	675,578	-	15,590	-	-	-
	1,041,785	13,088	15,702	184	28,280	4,269
iv. Amount due from related parties						
- Financing	-	-	-	-	185,292	-
- Interbank lending	350,211	69,961	76,219	-	-	-
- Profit income receivable	-	19	-	-	-	-
- Other assets	15	11,407	7,640	-	2,592	-
	350,226	81,387	83,859	-	187,884	-

38. RELATED PARTY TRANSACTIONS (cont'd.)

b. Related party transactions

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding company RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2007						
i. Income						
- Management fees	-	120	-	-	-	-
- Profit income on placements	21	4,397	1,227	-	-	-
- Profit income on financing	-	-	-	46	429	-
	21	4,517	1,227	46	429	-
ii. Expenditure						
- Profit expense on deposits	1,423	-	1,228	-	-	-
- Profit expense on subordinated Murabahah Tawarruq	5,923	-	-	-	-	-
	7,346	-	1,228	-	-	-
iii. Amount due to related parties						
- Subordinated Murabahah Tawarruq	335,764	-	-	-	-	-
- Deposits from customers	165,651	2,309	49,412	3,015	22,912	1,531
- Interbank borrowing	276,176	-	37,930	-	-	-
- Other liabilities	188	-	-	-	-	-
	777,779	2,309	87,342	3,015	22,912	1,531
iv. Amount due from related parties						
- Underwriting releases	-	-	-	-	37,522	-
- Financing	-	-	-	1,579	19,929	-
- Interbank lending	-	79,470	-	-	-	-
- Profit income receivable	-	54	-	-	-	-
- Other assets	-	2,213	4,595	-	4,800	-
	-	81,737	4,595	1,579	62,251	-

38. RELATED PARTY TRANSACTIONS (cont'd.)

c. Key management personnel compensation

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Short-term employee benefits				
- Fees	210	60	210	60
- Salary and other remuneration	9,906	6,788	9,906	6,788
- Benefits-in-kind	57	34	57	34
	10,173	6,882	10,173	6,882

The total key management personnel compensation includes Executive/Managing Director's remuneration of which details are disclosed in Note 35.

d. Credit transactions and exposures with connected parties

As per the guidelines provided by BNM, credit transactions with connected parties encompasses the parties as defined in Note 38(a) as well as officer who is responsible for or has the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and his close relatives.

	As at 31 December 2008			Total non-performing credit exposure RM'000
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	
Financing, credit facility and leasing (except guarantee)	184,611	3	522,000	-
Off-balance sheet exposures	-	1	1,905	-
	184,611	4	523,905	-
Total exposure to connected parties as % capital base			25.62%	-
Total exposure to connected parties as % of total outstanding credit exposures			5.85%	-

* Included total outstanding and unutilised limit.

39. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank and its subsidiaries 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.

	Principal amount RM'000	2008 Credit equivalent amount RM'000	Risk weighted amount* RM'000	Principal amount RM'000	2007 Credit equivalent amount RM'000	Risk weighted amount * RM'000
Group and Bank						
Direct credit substitutes	1,615,024	1,615,024	1,204,674	1,254,633	1,254,633	1,311,133
Transaction related contingencies	187,899	93,950	94,834	994	497	497
Trade related contingencies	109,143	21,829	21,829	128,253	25,650	25,650
Irrevocable commitments to extend credit						
- maturity not exceeding one year	1,223,638	244,727	244,727	781,844	-	-
- maturity exceeding one year	955,312	477,656	555,222	608,711	304,356	304,356
Foreign exchange related contracts *						
- less than one year	874,796	29,701	14,204	202,653	3,693	1,847
- one year to five years	59,763	10,458	8,825	-	-	-
- five years and above	243,686	36,313	18,727	-	-	-
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	440,946	73,766	57,892	459,752	46,588	23,294
	5,710,207	2,603,424	2,220,934	3,436,840	1,635,417	1,666,777
		Note 44 (d)	Note 44 (d)			

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

The credit equivalent and risk-weighted amounts are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) effective from 1 January 2008. However, in line with the exemption under para. 7.2(i) of CAFIB guidelines for first time adoption, the comparative amounts are not adjusted.

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 2008, the amount of contracts which were not hedged in the Group and the Bank and, hence, exposed to market risk was RM29,939,933 (2007: RM224,493,256).

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2008, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM46,903,138 (2007: RM7,211,528). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

40. 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.

Group 2008	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
ASSETS									
Cash and short-term funds	2,025,304	-	-	-	-	52,073	-	2,077,377	2.48
Deposits and placements with banks and other financial institutions	-	-	31,129	6,698	-	-	-	37,827	1.20
Securities available- for-sale	126,584	247,555	142,395	82,014	153,283	103,176	-	855,007	3.54
Securities held- to-maturity	-	-	-	25,474	-	-	-	25,474	5.74
Financing, advances and receivables	1,968,006	1,695,973	1,038,222	1,055,548	299,245	100,224	-	6,157,218	7.39
Murabahah trading automobiles	-	-	-	-	-	-	61,779	61,779	
Musyarakah capital investment	-	-	-	-	-	5,916	-	5,916	
Other assets	-	-	-	-	-	416,270	-	416,270	
TOTAL ASSETS	4,119,894	1,943,528	1,211,746	1,169,734	452,528	677,659	61,779	9,636,868	

40. RATE OF RETURN RISK (cont'd.)

Group 2008 (cont'd.)	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,338,512	854,901	837,955	-	-	261,979	-	4,293,347	3.04
Deposits and placements of banks and other financial institutions	2,205,880	432,763	280,365	-	-	-	-	2,919,008	3.34
Subordinated Murabahah Tawarruq	-	-	-	365,908	-	-	-	365,908	3.82
Murabahah bank financing	-	-	25,984	-	-	-	-	25,984	3.85
Other liabilities	-	-	-	-	-	253,565	-	253,565	
Total Liabilities	4,544,392	1,287,664	1,144,304	365,908	-	515,544	-	7,857,812	
Shareholder's equity	-	-	-	-	-	1,779,056	-	1,779,056	
Total Liabilities and Shareholder's equity	4,544,392	1,287,664	1,144,304	365,908	-	2,294,600	-	9,636,868	
On-balance sheet profit sensitivity gap	(424,498)	655,864	67,442	803,826	452,528	(1,616,942)	61,779	-	
Off-balance sheet profit sensitivity gap	-	(32,910)	-	17,323	15,587	-	-	-	
Total profit sensitivity gap	(424,498)	622,954	67,442	821,149	468,115	(1,616,942)	61,779	-	

40. RATE OF RETURN RISK (cont'd.)

Group 2007	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
ASSETS									
Cash and short-term funds	1,632,333	-	-	-	-	35,651	-	1,667,984	3.81
Deposits and placements with banks and other financial institutions	-	-	46,549	6,698	-	-	-	53,247	3.31
Securities held-for-trading	-	-	-	-	-	-	84,105	84,105	
Securities available-for-sale	-	121,545	25,360	605,563	196,410	95,083	-	1,043,961	4.50
Securities held-to-maturity	-	-	-	25,460	-	-	-	25,460	5.72
Financing, advances and receivables	630,835	1,226,694	569,920	321,248	404,989	8,624	-	3,162,310	7.20
Murabahah trading automobiles	-	-	-	-	-	-	50,260	50,260	
Musarakah capital investment	-	-	-	-	-	6,080	-	6,080	
Other assets	-	-	-	-	-	215,668	-	215,668	
TOTAL ASSETS	2,263,168	1,348,239	641,829	958,969	601,399	361,106	134,365	6,309,075	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	347,782	180,936	1,003,856	200,000	-	466,265	-	2,198,839	2.96
Deposits and placements of banks and other financial institutions	1,213,200	1,000,480	694,207	-	-	-	-	2,907,887	4.18
Subordinated Murabahah Tawarruq	-	-	-	335,764	-	-	-	335,764	5.49
Other liabilities	-	-	-	-	-	111,526	-	111,526	
Total Liabilities	1,560,982	1,181,416	1,698,063	535,764	-	577,791	-	5,554,016	
Shareholder's equity	-	-	-	-	-	755,059	-	755,059	
Total Liabilities and Shareholder's equity	1,560,982	1,181,416	1,698,063	535,764	-	1,332,850	-	6,309,075	
On-balance sheet profit sensitivity gap	702,186	166,823	(1,056,234)	423,205	601,399	(971,744)	134,365	-	
Off-balance sheet profit sensitivity gap	-	(223,260)	-	223,260	-	-	-	-	
Total profit sensitivity gap	702,186	(56,437)	(1,056,234)	646,465	601,399	(971,744)	134,365	-	

40. RATE OF RETURN RISK (cont'd.)

Bank 2008	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
ASSETS									
Cash and short-term funds	2,095,265	-	-	-	-	45,361	-	2,140,626	2.56
Deposits and placements with banks and other financial institutions	-	-	31,129	6,698	-	-	-	37,827	1.20
Securities available-for-sale	126,584	247,555	142,395	82,014	157,091	-	-	755,639	4.03
Securities held-to-maturity	-	-	-	25,474	-	-	-	25,474	5.74
Financing, advances and receivables	1,968,006	1,695,973	1,038,222	1,055,548	299,245	103,266	-	6,160,260	7.39
Murabahah trading automobiles	-	-	-	-	-	-	61,779	61,779	
Musyarakah capital investment	-	-	-	-	-	5,916	-	5,916	
Other assets	-	-	-	-	-	439,569	-	439,569	
TOTAL ASSETS	4,189,855	1,943,528	1,211,746	1,169,734	456,336	594,112	61,779	9,627,090	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,352,037	854,901	837,955	-	-	261,201	-	4,306,094	3.04
Deposits and placements of banks and other financial institutions	2,205,880	432,763	280,365	-	-	-	-	2,919,008	3.34
Subordinated Murabahah Tawarruq	-	-	-	365,908	-	-	-	365,908	3.82
Murabahah bank financing	-	-	25,984	-	-	-	-	25,984	3.85
Other liabilities	-	-	-	-	-	252,166	-	252,166	
Total Liabilities	4,557,917	1,287,664	1,144,304	365,908	-	513,367	-	7,869,160	
Shareholder's equity	-	-	-	-	-	1,757,930	-	1,757,930	
Total Liabilities and Shareholder's equity	4,557,917	1,287,664	1,144,304	365,908	-	2,271,297	-	9,627,090	
On-balance sheet profit sensitivity gap	(368,062)	655,864	67,442	803,826	456,336	(1,677,185)	61,779	-	
Off-balance sheet profit sensitivity gap	-	(32,910)	-	17,323	15,587	-	-	-	
Total profit sensitivity gap	(368,062)	622,954	67,442	821,149	471,923	(1,677,185)	61,779	-	

40. RATE OF RETURN RISK (cont'd.)

Bank 2007	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
ASSETS									
Cash and short-term funds	1,711,804	-	-	-	-	35,614	-	1,747,418	3.86
Deposits and placements with banks and other financial institutions	-	-	46,549	6,698	-	-	-	53,247	3.31
Securities held-for-trading	-	-	-	-	-	-	84,105	84,105	
Securities available-for-sale	-	121,545	25,360	605,563	196,410	-	-	948,878	4.95
Securities held-to-maturity	-	-	-	25,460	-	-	-	25,460	5.72
Financing, advances and receivables	630,835	1,226,694	569,920	321,248	404,989	8,624	-	3,162,310	7.20
Murabahah trading automobiles	-	-	-	-	-	-	50,260	50,260	
Musarakah capital investment	-	-	-	-	-	6,080	-	6,080	
Other assets	-	-	-	-	-	225,381	-	225,381	
TOTAL ASSETS	2,342,639	1,348,239	641,829	958,969	601,399	275,699	134,365	6,303,139	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	347,782	180,936	1,003,856	200,000	-	468,248	-	2,200,822	2.96
Deposits and placements of banks and other financial institutions	1,213,200	1,000,480	694,207	-	-	-	-	2,907,887	4.18
Subordinated Murabahah Tawarruq	-	-	-	335,764	-	-	-	335,764	5.49
Other liabilities	-	-	-	-	-	111,511	-	111,511	
Total Liabilities	1,560,982	1,181,416	1,698,063	535,764	-	579,759	-	5,555,984	
Shareholder's equity	-	-	-	-	-	747,155	-	747,155	
Total Liabilities and Shareholder's equity	1,560,982	1,181,416	1,698,063	535,764	-	1,326,914	-	6,303,139	
On-balance sheet profit sensitivity gap	781,657	1 66,823	(1,056,234)	423,205	601,399	(1,051,215)	134,365	-	
Off-balance sheet profit sensitivity gap	-	(223,260)	-	223,260	-	-	-	-	
Total profit sensitivity gap	781,657	(56,437)	(1,056,234)	646,465	601,399	(1,051,215)	134,365	-	

41. 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:

Group 2008	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,077,377	-	-	-	-	2,077,377
Deposits and placements with banks and other financial institutions	31,129	-	6,698	-	-	37,827
Securities available-for-sale	-	101,388	451,170	301,929	520	855,007
Securities held-to-maturity	-	-	25,474	-	-	25,474
Financing, advances and receivables	2,257,673	478,308	1,722,636	1,698,601	-	6,157,218
Murabahah trading automobiles	-	-	-	-	61,779	61,779
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	416,270	416,270
Total Assets	4,366,179	579,696	2,205,978	2,006,446	478,569	9,636,868
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,587,927	705,420	-	-	-	4,293,347
Deposits and placements of banks and other financial institutions	2,829,008	90,000	-	-	-	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	25,984
Other liabilities	83,869	-	-	-	169,696	253,565
Total Liabilities	6,500,804	795,420	391,892	-	169,696	7,857,812
Shareholder's equity	-	-	-	-	1,779,056	1,779,056
Total Liabilities and Shareholder's equity	6,500,804	795,420	391,892	-	1,948,752	9,636,868
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	745,138	-	4,965,069	-	-	5,710,207
Net maturity mismatch	(2,879,763)	(215,724)	(3,150,983)	2,006,446	(1,470,183)	(5,710,207)

41. LIQUIDITY RISK (cont'd.)

Group 2007	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	1,667,984	-	-	-	-	1,667,984
Deposits and placements of banks and other financial institutions	-	46,549	6,698	-	-	53,247
Securities held-for-trading	-	10,204	-	73,901	-	84,105
Securities available-for-sale	-	-	-	1,043,961	-	1,043,961
Securities held-to-maturity	-	-	25,460	-	-	25,460
Financing, advances and receivables	1,379,673	459,249	474,048	849,340	-	3,162,310
Murabahah trading automobiles	-	-	-	-	50,260	50,260
Musarakah capital investment	-	-	-	6,080	-	6,080
Other assets	-	-	-	-	215,668	215,668
Total Assets	3,047,657	516,002	506,206	1,973,282	265,928	6,309,075
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	328,495	-	1,870,344	-	-	2,198,839
Deposits and placements of banks and other financial institutions	2,627,013	-	280,874	-	-	2,907,887
Subordinated Murabahah Tawarruq	-	-	335,764	-	-	335,764
Other liabilities	27,270	-	-	-	84,256	111,526
Total Liabilities	2,982,778	-	2,486,982	-	84,256	5,554,016
Shareholder's equity	-	-	-	-	755,059	755,059
Total Liabilities and Shareholder's equity	2,982,778	-	2,486,982	-	839,315	6,309,075
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	459,752	-	2,977,088	-	-	3,436,840
Net maturity mismatch	(394,873)	516,002	(4,957,864)	1,973,282	(573,387)	(3,436,840)

41. LIQUIDITY RISK (cont'd.)

Bank 2008	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,140,626	-	-	-	-	2,140,626
Deposits and placements with banks and other financial institutions	31,129	-	6,698	-	-	37,827
Securities available-for-sale	-	101,388	451,170	202,561	520	755,639
Securities held-to-maturity	-	-	25,474	-	-	25,474
Financing, advances and receivables	2,260,715	478,308	1,722,636	1,698,601	-	6,160,260
Murabahah trading automobiles	-	-	-	-	61,779	61,779
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	439,569	439,569
Total Assets	4,432,470	579,696	2,205,978	1,907,078	501,868	9,627,090
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,600,674	705,420	-	-	-	4,306,094
Deposits and placements of banks and other financial institutions	2,829,008	90,000	-	-	-	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	25,984
Other liabilities	82,123	-	-	-	170,043	252,166
Total Liabilities	6,511,805	795,420	391,892	-	170,043	7,869,160
Shareholder's equity	-	-	-	-	1,757,930	1,757,930
Total Liabilities and Shareholder's equity	6,511,805	795,420	391,892	-	1,927,973	9,627,090
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	745,138	-	4,965,069	-	-	5,710,207
Net maturity mismatch	(2,824,473)	(215,724)	(3,150,983)	1,907,078	(1,426,105)	(5,710,207)

41. LIQUIDITY RISK (cont'd.)

Bank 2007	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	1,747,418	-	-	-	-	1,747,418
Deposits and placements with banks and other financial institutions	-	46,549	6,698	-	-	53,247
Securities held-for-trading	-	10,204	-	73,901	-	84,105
Securities available-for-sale	-	-	-	948,878	-	948,878
Securities held-to-maturity	-	-	25,460	-	-	25,460
Financing, advances and receivables	1,379,673	459,249	474,048	849,340	-	3,162,310
Murabahah trading automobiles	-	-	-	-	50,260	50,260
Musarakah capital investment	-	-	-	6,080	-	6,080
Other assets	-	-	-	-	225,381	225,381
Total Assets	3,127,091	516,002	506,206	1,878,199	275,641	6,303,139
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	330,478	-	1,870,344	-	-	2,200,822
Deposits and placements of banks and other financial institutions	2,627,013	-	280,874	-	-	2,907,887
Subordinated Murabahah Tawarruq	-	-	335,764	-	-	335,764
Other liabilities	27,234	-	-	-	84,277	111,511
Total Liabilities	2,984,725	-	2,486,982	-	84,277	5,555,984
Shareholder's equity	-	-	-	-	747,155	747,155
Total Liabilities and Shareholder's equity	2,984,725	-	2,486,982	-	831,432	6,303,139
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)

42. 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.

Group 2008	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	1,550,609	83,582	423,809	4,504	6,343	8,530	2,077,377
Deposits and placements with banks and other financial institutions	6,698	31,129	-	-	-	-	37,827
Securities available-for-sale	362,331	-	492,676	-	-	-	855,007
Securities held-to-maturity	25,474	-	-	-	-	-	25,474
Financing, advances and receivables	4,578,208	9,058	1,525,204	-	-	44,748	6,157,218
Murabahah trading automobiles	50,027	-	427	10,078	-	1,247	61,779
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	386,964	4,326	22,637	-	-	2,343	416,270
Total Assets	6,966,227	128,095	2,464,753	14,582	6,343	56,868	9,636,868
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,880,510	94,977	305,398	1,287	6,093	5,082	4,293,347
Deposits and placements of banks and other financial institutions	1,757,372	36,197	1,027,224	51,277	-	46,938	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	-	25,984
Other liabilities	245,160	574	7,505	311	-	15	253,565
Total Liabilities	5,883,042	131,748	1,732,019	52,875	6,093	52,035	7,857,812
Shareholder's equity	1,779,056	-	-	-	-	-	1,779,056
Total Liabilities and Shareholder's equity	7,662,098	131,748	1,732,019	52,875	6,093	52,035	9,636,868
On-balance sheet open position	(695,871)	(3,653)	732,734	(38,293)	250	4,833	-
Off-balance sheet open position	-	-	(679,761)	(247)	-	-	(680,008)
Net open position	(695,871)	(3,653)	52,973	(38,540)	250	4,833	(680,008)

42. FOREIGN EXCHANGE RISK (cont'd.)

Group 2007	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	1,196,671	2,646	428,587	38,786	24	1,270	1,667,984
Deposits and placements with banks and other financial institutions	6,698	31,863	–	14,686	–	–	53,247
Securities held-for-trading	84,105	–	–	–	–	–	84,105
Securities available-for-sale	493,842	–	550,119	–	–	–	1,043,961
Securities held-to-maturity	25,460	–	–	–	–	–	25,460
Financing, advances and receivables	2,365,307	–	797,003	–	–	–	3,162,310
Murabahah trading automobiles	25,520	–	–	24,740	–	–	50,260
Musarakah capital investment	6,080	–	–	–	–	–	6,080
Other assets	198,307	384	16,517	460	–	–	215,668
Total Assets	4,401,990	34,893	1,792,226	78,672	24	1,270	6,309,075
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	1,898,875	35,370	263,624	713	5	252	2,198,839
Deposits and placements of banks and other financial institutions	1,717,800	–	1,096,138	93,949	–	–	2,907,887
Subordinated Murabahah Tawarruq	–	–	335,764	–	–	–	335,764
Other liabilities	55,374	–	55,513	–	17	622	111,526
Total Liabilities	3,672,049	35,370	1,751,039	94,662	22	874	5,554,016
Shareholder's equity	755,059	–	–	–	–	–	755,059
Total Liabilities and Shareholder's equity	4,427,108	35,370	1,751,039	94,662	22	874	6,309,075
On-balance sheet open position	(25,118)	(477)	41,187	(15,990)	2	396	–
Net open position	(25,118)	(477)	41,187	(15,990)	2	396	–

42. FOREIGN EXCHANGE RISK (cont'd.)

Bank 2008	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	1,523,996	83,582	486,322	31,852	6,343	8,531	2,140,626
Deposits and placements with banks and other financial institutions	6,698	31,129	-	-	-	-	37,827
Securities available-for-sale	362,330	-	393,309	-	-	-	755,639
Securities held-to-maturity	25,474	-	-	-	-	-	25,474
Financing, advances and receivables	4,581,249	9,058	1,525,204	-	-	44,749	6,160,260
Murabahah trading automobiles	50,027	-	427	10,078	-	1,247	61,779
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	410,263	4,326	22,637	-	-	2,343	439,569
Total Assets	6,965,953	128,095	2,427,899	41,930	6,343	56,870	9,627,090
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,889,765	94,977	308,889	1,287	6,093	5,083	4,306,094
Deposits and placements of banks and other financial institutions	1,757,372	36,197	1,027,224	51,277	-	46,938	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	-	25,984
Other liabilities	243,763	574	7,505	311	-	13	252,166
Total Liabilities	5,890,900	131,748	1,735,510	52,875	6,093	52,034	7,869,160
Shareholder's equity	1,757,930	-	-	-	-	-	1,757,930
Total Liabilities and Shareholder's equity	7,648,830	131,748	1,735,510	52,875	6,093	52,034	9,627,090
On-balance sheet open position	(682,877)	(3,653)	692,389	(10,945)	250	4,836	-
Off-balance sheet open position	-	-	(679,761)	(247)	-	-	(680,008)
Net open position	(682,877)	(3,653)	12,628	(11,192)	250	4,836	(680,008)

42. FOREIGN EXCHANGE RISK (cont'd.)

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

43. CAPITAL COMMITMENTS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Capital expenditure:				
Authorised and contracted for				
- purchase of equipment	16,942	3,817	16,942	3,817
- renovation	2,569	5,200	2,569	5,200
Authorised but not contracted for				
- purchase of equipment	850	-	850	-
	20,361	9,017	20,361	9,017

44. CAPITAL ADEQUACY

The Group has adopted Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) guidelines effective from 1 January 2008 to further improve capital adequacy assessment; enhance risk management processes, measurements and management capabilities; as well as to promote thorough and transparent reporting.

As such, the Group has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk, in the computation of capital adequacy ratios for the current financial year. However, the comparative capital adequacy ratios for 31 December 2007 have not been adjusted.

In addition, in accordance with para. 4.3 of Bank Negara Malaysia's Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and CAFIB - Disclosure Requirements (Pillar 3), the Group has also provided detailed disclosures on risk-weighted assets, as set out in Notes 44 (c), (d), (e) and (g), effective for financial year beginning 1 January 2008. However, the comparative amounts as per Note 44 (f) are not restated as exempted under para 7.2(i) of the same concept paper.

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

	Group		Bank	
	2008	2007	2008	2007
Core capital ratio				
Credit risk	18.66%	13.70%	18.62%	13.72%
Credit, market, operational and large exposure risks	17.74%	12.17%	17.73%	12.17%
Risk-weighted capital ratio				
Credit risk	21.89%	19.60%	21.49%	19.52%
Credit, market, operational and large exposure risks	20.81%	17.42%	20.47%	17.31%

44. CAPITAL ADEQUACY (cont'd.)

b. The Tier I and Tier II capital of the Group and the Bank as at 31 December, are as follows:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Tier I capital				
Paid-up share capital	1,751,400	727,000	1,751,400	727,000
Statutory reserve	34,952	12,773	34,952	12,773
Other reserves	56,658	22,353	34,948	12,770
	1,843,010	762,126	1,821,300	752,543
Less: Deferred tax assets (net)	(49,386)	(12,796)	(49,386)	(12,796)
Total Tier-I capital	1,793,624	749,330	1,771,914	739,747
Tier II capital				
Subordinated Murabahah Tawarruq	207,870	267,768	207,870	267,768
General allowance for bad and doubtful financing	102,962	55,324	102,962	55,324
Total Tier-II capital	310,832	323,092	310,832	323,092
Less: Investment in subsidiaries	-	-	(37,563)	(10,200)
Capital base	2,104,456	1,072,422	2,045,183	1,052,639

c. The Core Capital Ratio and the Risk-Weighted Capital Ratio of the Group and the Bank as at 31 December 2008, are as follows:

2008	Group RM'000	Bank RM'000
Computation of Total Risk-Weighted Assets (RWA)		
Total Credit RWA	9,614,653	9,516,704
Total Market RWA	110,707	110,707
Total Operational RWA	383,025	360,978
Large Exposure Risk RWA for Equity Holdings	2,956	2,956
Total Risk-Weighted Assets	10,111,341	9,991,345
Computation of Capital Ratios		
Core Capital	1,793,624	1,771,914
Capital Base	2,104,456	2,045,183
Core Capital Ratio	17.74%	17.73%
Risk-Weighted Capital Ratio	20.81%	20.47%

44. CAPITAL ADEQUACY (cont'd.)

d. The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

Group 2008	Gross Exposures RM'000	Net Exposures** RM'000	Risk Weighted Assets RM'000	Total Risk Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
i. Credit Risk					
a. On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,596,808	1,596,808	-	-	-
Banks, Development Financial Institutions & MDBs	1,190,237	1,190,237	342,683	342,683	27,415
Corporates	5,647,141	5,647,141	5,470,417	5,470,417	437,633
Higher Risk Assets ¹	419,515	419,515	629,272	629,272	50,342
Other Assets	182,170	182,170	173,015	173,015	13,841
Defaulted Exposures ²	532,490	532,490	778,332	778,332	62,267
	9,568,361	9,568,361	7,393,719	7,393,719	591,498
b. Off-Balance Sheet Exposures*					
OTC Derivatives ³	150,238	150,238	99,647	99,647	7,972
Off balance sheet exposures other than OTC derivatives or credit derivatives ⁴	2,451,119	2,451,119	2,118,187	2,118,187	169,455
Defaulted Exposures ²	2,067	2,067	3,100	3,100	247
	2,603,424	2,603,424	2,220,934	2,220,934	177,674
Total On and Off-Balance Sheet Exposures	12,171,785	12,171,785	9,614,653	9,614,653	769,172
ii. Large Exposures Risk Requirement					
	2,956	2,956	2,956	2,956	236
iii. Market Risk					
Benchmark Rate Risk	821,309	(810,602)	10,707	25,598	2,048
Foreign Currency Risk ⁵	12,117	(14,838)	(2,721)	14,838	1,187
Inventory Risk	61,779	-	61,779	70,271	5,622
			69,765	110,707	8,857
iv. Operational Risk					
			383,025	383,025	30,642
v. Total RWA and Capital Requirements					
		12,244,506	10,111,341	10,111,341	808,907

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

- Higher risk assets are defined in section C.2.10 of CAFIB guidelines issued by Bank Negara Malaysia which comprised Musyarakah, Musyarakah Mutanaqisah and Mudharabah contracts.
- Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikelihood to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.
- Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.
- Comprising trade finance facilities, underwriting and undrawn balances.
- Representing the sum of all individual non-Ringggit Net Open Positions. Computation is as per section D.8.2 paragraph 224 of CAFIB guidelines issued by Bank Negara Malaysia.

44. CAPITAL ADEQUACY (cont'd.)

d. The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

Bank 2008	Gross Exposures RM'000	Net Exposures** RM'000	Risk Weighted Assets RM'000	Total Risk Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
i. Credit Risk					
a. On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,596,807	1,596,807	-	-	-
Banks, Development Financial Institutions & MDBs	1,253,479	1,253,479	355,331	355,331	28,426
Corporates	5,550,815	5,550,815	5,374,091	5,374,091	429,927
Higher Risk Assets ¹	419,480	419,480	629,220	629,220	50,338
Other Assets	167,949	167,949	158,796	158,796	12,704
Defaulted Exposures ²	532,490	532,490	778,332	778,332	62,267
	<u>9,521,020</u>	<u>9,521,020</u>	<u>7,295,770</u>	<u>7,295,770</u>	<u>583,662</u>
b. Off-Balance Sheet Exposures*					
OTC Derivatives ³	150,238	150,238	99,647	99,647	7,972
Off balance sheet exposures other than OTC derivatives or credit derivatives ⁴	2,451,119	2,451,119	2,118,187	2,118,187	169,455
Defaulted Exposures ²	2,067	2,067	3,100	3,100	247
	<u>2,603,424</u>	<u>2,603,424</u>	<u>2,220,934</u>	<u>2,220,934</u>	<u>177,674</u>
Total On and Off-Balance Sheet Exposures	12,124,444	12,124,444	9,516,704	9,516,704	761,336
ii. Large Exposures Risk Requirement					
	2,956	2,956	2,956	2,956	236
iii. Market Risk					
Benchmark Rate Risk	821,309	(810,602)	10,707	25,598	2,048
Foreign Currency Risk ⁵	12,117	(14,838)	(2,721)	14,838	1,187
Inventory Risk	61,779	-	61,779	70,271	5,622
			<u>69,765</u>	<u>110,707</u>	<u>8,857</u>
iv. Operational Risk					
			360,978	360,978	28,879
v. Total RWA and Capital Requirements					
		12,197,165	9,991,345	9,991,345	799,308

44. CAPITAL ADEQUACY (cont'd.)

The breakdown of credit risk disclosure by risk-weights (including deducted exposures) for the current financial year as at 31 December 2008, are as follows:

Group 2008	Exposures after Netting and Credit Risk Mitigation							Total Exposures after	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Corporate RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Specialised Financing/ Investment RM'000	Netting and Credit Risk Mitigation RM'000	
Risk-Weights									
0%	1,596,808	-	-	90,216	-	9,154	-	1,696,178	-
20%	-	7,622	864,571	92,214	-	-	-	964,407	192,881
50%	-	-	400,780	337,996	-	-	521,000	1,259,776	629,888
100%	-	-	19,722	6,888,767	-	173,016	89,000	7,170,505	7,170,505
150%	-	-	-	459,815	621,104	-	-	1,080,919	1,621,379
								12,171,785	9,614,653
Bank 2008									
Risk-Weights									
0%	1,596,808	-	-	90,216	-	9,152	-	1,696,176	-
20%	-	7,622	927,812	92,214	-	-	-	1,027,648	205,530
50%	-	-	400,780	337,996	-	-	521,000	1,259,776	629,888
100%	-	-	19,722	6,792,441	-	158,797	89,000	7,059,960	7,059,960
150%	-	-	-	459,815	621,069	-	-	1,080,884	1,621,326
								12,124,444	9,516,704

f. The breakdown of risk-weighted assets by risk-weights for the previous financial year are as follows:

2007	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	1,355,084	-	1,355,084	-
20%	1,077,216	215,443	1,172,300	234,460
50%	571,281	285,641	571,281	285,641
100%	4,967,997	4,967,997	4,872,219	4,872,219
Risk-weighted assets for credit risk	7,971,578	5,469,081	7,970,884	5,392,320
Risk-weighted assets for market risk		686,428		686,428
Total risk-weighted assets		6,155,509		6,078,748

44. CAPITAL ADEQUACY (cont'd.)

g. The risk-weighted assets and capital requirements for the various categories of risk under market risk are as follows:

Group and Bank 2008	Risk- Weighted Assets Equivalent RM'000	Capital Required RM'000
Benchmark Rate Risk	25,598	2,048
Foreign Exchange Risk	14,838	1,187
Inventory Risk	70,271	5,622
Total	110,707	8,857

45. 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 amount 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.

45. SEGMENT INFORMATION (cont' d.)

a. Primary Segment - By Business Segment

Group 2008	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	112,795	215,036	223,252	21,871	–	572,954
Revenue from other segments	114,201	–	–	1,796	(115,997)	–
Total Revenue	226,996	215,036	223,252	23,667	(115,997)	572,954
Segment results	17,414	67,102	39,645	(20,339)	–	103,822
Unallocated expenses						(53,413)
Profit from operations						50,409
Zakat						(905)
Taxation						6,980
Net profit for the year						56,484
Other information						
Segment assets	3,042,438	2,713,234	3,243,900	322,188	–	9,321,760
Unallocated corporate assets						315,108
Total assets						9,636,868
Segment liabilities	6,707,716	173,479	235,586	303,149	–	7,419,930
Unallocated corporate liabilities						437,882
Total liabilities						7,857,812
Other segment items						
Purchase of property and equipment	–	–	–	29,148	–	29,148
Purchase of intangible assets	–	–	–	8,061	–	8,061
Depreciation	–	–	–	6,882	–	6,882
Amortisation	241	–	–	2,648	–	2,889
Other non-cash (income)/ expense other than depreciation	–	43,046	89,693	3,063	–	135,802

b. Secondary Segment - By Geographical Locations

Group 2008	Operating Revenue/(Loss) RM'000	Profit/(Loss) Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	573,308	62,506	9,626,564
Outside Malaysia	(354)	(12,097)	10,304
	572,954	50,409	9,636,868

The Group has fund management operations in Australia and Singapore.

45. SEGMENT INFORMATION (cont' d.)

a. Primary Segment - By Business Segment

Group 2007	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	116,127	108,240	78,043	11,029	–	313,439
Revenue from other segments	37,740	–	–	2,553	(40,293)	–
Total Revenue	153,867	108,240	78,043	13,582	(40,293)	313,439
Segment results	21,042	43,616	19,358	(11,747)	–	72,269
Unallocated expenses						(35,145)
Profit from operations						37,124
Zakat						(210)
Taxation						(9,938)
Net profit for the period						26,976
Other information						
Segment assets	2,885,438	1,457,059	1,683,978	119,124	–	6,145,599
Unallocated corporate assets						163,476
Total assets						6,309,075
Segment liabilities	4,515,596	5,489	65	664,352	–	5,185,502
Unallocated corporate liabilities						368,514
Total liabilities						5,554,016
Other segment items						
Purchase of property and equipment	–	–	–	12,787	–	12,787
Purchase of intangible assets	–	–	–	1,679	–	1,679
Depreciation	–	–	–	3,952	–	3,952
Amortisation	166	–	–	1,972	–	2,138
Other non-cash (income)/expense other than depreciation	–	18,375	23,446	1,313	–	43,134

b. Secondary Segment - By Geographical Locations

The Group has operations only in Malaysia.

46. 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 exchanged 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 sheet 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 using discounted cash flow techniques. Where the 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 instalment 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 Placements 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.

47. OPERATING LEASES

The Group and the Bank lease a number of premises under operating leases. The leases typically run for an initial period of three 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:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Within one year	7,319	5,822	7,205	5,753
Between one and five years	10,072	3,838	6,777	3,827
	17,391	9,660	13,982	9,580

48. 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.

49. HOLDING COMPANY

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

Islamic Law / Shariah:

Shariah refers to the law and rules prescribed by the *Quran* and by the traditions of Prophet Muhammad (*Sunnah*). These were then further interpreted, elaborated and explained by Scholars in Islamic jurisprudence within the framework of the *Quran* and *Sunnah*.

Shariah Committee:

The Committee is responsible for maintaining a system of rules and interpretations (*fatwa*) to guide KFH's business in complying with Islamic banking laws and principles. KFH's scholars are made up of eminent Islamic scholars held in high regard by the global Islamic finance community. As a result, the Committee is often used as the benchmark for Shariah certification of products that are distributed in the Middle East.

Riba (Interest):

Islamic law prohibits the payment and collection of interest, or *Riba (usury)*. The prohibition on interest stipulates that money itself shall not be used as a commodity to derive financial gains other than its normal purpose as means to purchase goods and services. The literal meaning of *Riba* is an increment of anything of value from its original amount. In some instances, money as a medium of exchange for goods and services may increase in value resulting from fluctuations in business activities. In this case, the increase is not considered as *Riba* at all. The increase, instead of being prohibited (*Haram*), is approved (*Halal*) in Islam. Islam prohibits only increases that are charged on a loan.

Unlawful Activities:

Islamic law also prohibits gambling (such as trading in risk separated from any commodity), investing in businesses that are considered unlawful or *haram* (such as businesses related to the sale of alcohol or pork, or produce media materials related to gossip or pornography, which are contrary to Islamic beliefs and values) and the existence of uncertainties in transactions.

Profit Sharing:

Profit sharing is a major principle of operation based on Islamic principles of transactions in which profit and loss sharing ensures justice and equity in the economy. As a result, it fosters closer relations between banks and customers. It helps develop financial expertise for non-financial entities and also enables the Bank to assume the role of technical consultant and financial adviser, which acts as catalyst in the process of industrialisation and development. Investment under this system of banking must serve simultaneously to benefit both the investors and the local community.

Partnership:

As a result of a partnership focussed on investments, Islamic banks provide services more reflective of universal or multi-purpose banks compared to conventional banks. These banks are conceived to be a cross-breed of commercial and investment banks, investment trusts and investment-management institutions, and offer a variety of services to their customers. A substantial part of their financing would be for specific projects or ventures. As a result of the entrepreneurial focus of this industry, Islamic banking system is essentially a profit and loss sharing system and not merely an interest (*Riba*) banking system. This financial partnership as pointed out above is referred to in Islamic jurisprudence as *Mudharabah*.

Mudharabah (Profit Sharing):

Mudharabah means partnership in profit whereby one party provides capital (*rabb al-mal*) and the other party acts as an entrepreneur (*mudharib*) who solely manages the project. If the venture is profitable, the profit will be distributed based on a pre-agreed ratio. In the event of a business loss, the loss shall be borne solely by the provider of the capital unless it is due to the misconduct or negligence of the *mudharib*.

Murabahah (Cost Plus Profit Sale):

Murabahah means cost plus profit based on a trust sale. It refers to the sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase can be either on a cash basis, a deferred lump sum basis or on an instalment basis, which will be specified in the agreement.

Musarakah (Partnership):

Musarakah means partnership. *Musarakah* is established by means of an agreement or arrangement whereby two or more persons agree that each of them contributes to the capital of the partnership either in the form of cash or in kind and shares its profit and loss. Any profit derived from the venture will be distributed based on a pre-agreed profit sharing ratio, but a loss will be shared on the basis of equity participation.

Musarakah Mutanaqisah (Diminishing Partnership):

Musarakah Mutanaqisah or diminishing partnership is a form of *Musarakah* (partnership) in which one of the partner promises to purchase the equity share of other partner gradually until the title of the equity is completely transferred to him. This transaction starts with the formation of partnership, after which buying and selling of the equity takes place between the two partners. One partner may lease his share of the asset to the other partner on *Ijarah* (lease) basis. The partnership will come to an end with one partner being the sole owner of the asset or business venture.

Kafalah (Guarantee):

The Shariah principle of guarantee means a guarantor will guarantee the performance, action and undertaking of a third party. The guarantor will underwrite any claim and obligation that should be fulfilled by the principal. This concept is also applicable to a guarantee provided on a debt transaction in the event a debtor fails to fulfil his obligation. This is one of the gratuitous contracts in Islam.

Qardh (Benevolent Loan):

Qardh is another gratuitous contract which is a benevolent loan. This could be referred to a loan given by a person (lender) to the borrower without any expectation of extra returns or also be referred to a non-interest bearing loan. The borrower is only obliged to pay the loan at its original amount to the lender within the agreed or stipulated period of time.

Ijarah (Operating Lease):

Ijarah means leasing of an asset pursuant to a contract under which a specified permissible benefit in the form of a usufruct is obtained for a specified period in return for a specified permissible consideration. It is a *manfaah* (usufruct) type of contract whereby a lessor (owner) leases out an asset to its customer at an agreed rental fee and pre-determined lease period upon the *'aqad* (contract). The ownership of the leased equipment remains in the hands of the lessor.

Ijarah Mausufah Fi Zimmah (Forward Lease):

Ijarah Mausufah Fi Zimmah means an *ijarah* contract which is executed for an asset undertaken by the lessor to be delivered to the lessee according to accurate specifications, even if the asset is not owned by the lessor. During the period that the leased asset/property is under construction, the lessor may ask the lessee to pay a certain portion of pre agreed lease rental as a forward lease. The forward lease rental payment will be considered as a debt to the lessor until the delivery of the leased asset to the lessee. *Ijarah Mausufah Fi Zimmah* can be in a form of *Ijarah* or *Ijarah Muntahiyah Bi Tamlik*.

Ijarah Muntahiyah Bi Tamlik (Financial Lease):

Ijarah Muntahiyah Bi Tamlik is similar to the ordinary *Ijarah* except that in the latter, it is associated with a promise by the lessor to transfer ownership at the end of the *Ijarah* period via a separate sale agreement or gift.

Wakalah (Agency):

Wakalah is a contract of agency which gives the power to a person to nominate another person to act on his behalf as long as he is alive based on the agreed terms and conditions.

Istisna' (Purchase Order):

Istisna' means a purchase contract of an asset whereby a buyer will place an order to purchase the asset which will be delivered in the future. In other words, the buyer will require a seller or a contractor to deliver or construct the asset that will be completed in the future according to the specifications given in the sale and purchase contract. Both parties of the contract will decide on the sale and purchase prices as they wish, and the settlement can be delayed or arranged based on the schedule of the work completed.

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