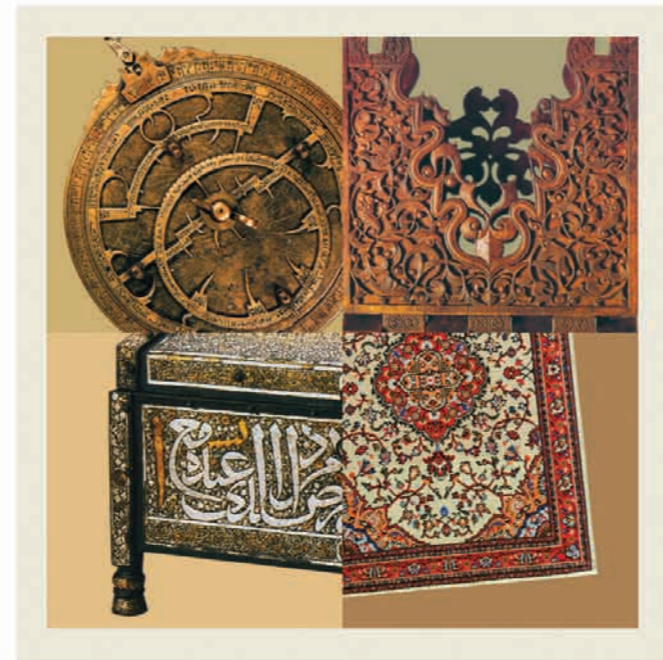


BANK MUAMALAT
Menara Bumiputra, Jalan Melaka, 50100 Kuala Lumpur

BANK MUAMALAT (6175-W)

ANNUAL REPORT 2007

ANNUAL REPORT
2007



CREATING OPPORTUNITY

Vision

To be a strong, progressive and modern Islamic Bank offering innovative, quality and competitive products and services.

Mission

To build the Bank into a modern, dynamic and strong Islamic Bank that would play a role in providing a viable alternative to the conventional system and contribute to the development of modern Malaysia.

MAJOR EVENTS 2007



2006 FINANCIAL RESULTS ANNOUNCEMENT

2006 Financial Results Announcement was held on 27 February 2007 with historical high net earnings, advanced 129% to RM74 million.



TAMAN CHENG BARU, MELAKA

New branch officiated on 20 October 2007 by Y. Bhg. Datuk Seri Mohd Ali Rustam.



MALAYSIA FINANCIAL EXHIBITION (MYFEX '07)

MYPEX '07 was officiated by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Governor Bank Negara Malaysia at Mid Valley Exhibition centre.



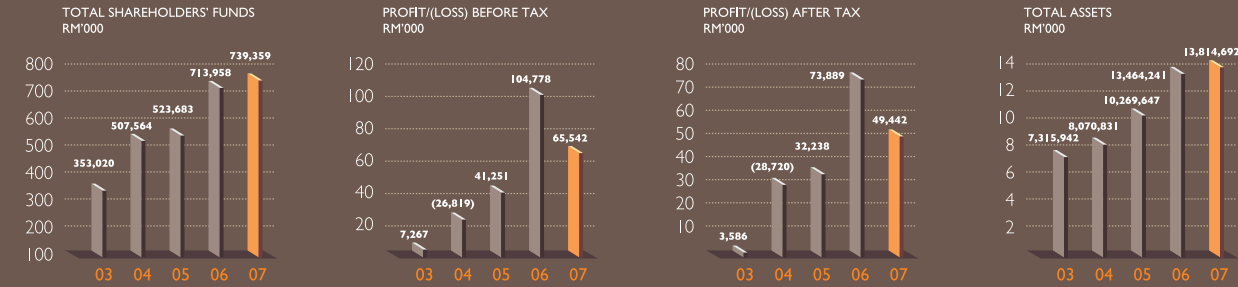
CORPORATE HI-TEA

BMMB hosted its 2007 Corporate Hi-Tea on 11 July 2007. It was attended by Bank's top management and customers from various companies.

CREATING OPPORTUNITY

The four items are elements of Islamic faith. Basic tools of faith used for prayer for generations and still used today. Old values, principles and customs are common in Islamic banking. Bank Muamalat continually uphold these values via our personnel, it is then translated into a modern progressive business.

FINANCIAL HIGHLIGHTS



5-YEAR FINANCIAL HIGHLIGHTS

	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000
Total Shareholders' Funds	353,020	507,564	523,683	713,958	739,359
Profit / (Loss) Before Taxation & Zakat	7,267	(26,819)	41,251	104,778	65,542
Profit / (Loss) After Taxation & Zakat	3,586	(28,720)	32,238	73,889	49,442
Total Assets	7,315,942	8,070,831	10,269,647	13,464,241	13,814,692
Total Deposits	6,846,533	7,455,010	9,373,971	12,195,372	12,180,247
Total Financing	2,272,526	2,887,415	4,154,021	5,373,343	5,870,585
No. of Branches	40	41	42	43	48
No. of Service Centres	7	7	6	6	3
No. of Offshore Branches / Labuan	1	1	1	1	1
No. of Staff	1,244	1,241	1,145	1,380	1,454



Bank Muamalat's logo and identity is formed by a dynamic line in a continuous motion. The principle objectives of efficiency and dynamism are reflected by a single line. The single line linking the 5 domes signifies the efficient, clear and focused vision, reflecting the strong relationship between the Bank, customers and its external environment.

The dome is a basic design element of Islamic Architecture. It is used to signify the place for prayers and shelter. This represents the products and services that the Bank can offer to its customers. The 5 domes are representatives of the 5 tenets of Islam and the 5 times Muslims are called to pray. The 5 points are also used in relation to the 5 principles of the Rukun Negara, giving a truly Malaysian object to its existence. An hour glass embedded in the centre within the logo design stands for the time which is essence of a Bank. Investments grow over time. The whole design translates the very meaning of Muamalat itself, which is "relationship between mankind".

Two colours are used within the logo. Sultan blue, a royal colour is used to provide a feeling of strength and confidence. Orange is a warm and exciting colour. It gives light and signifies growth. The orange is used to signify the warmth of the Bank, which is in continuous growth, never static but always dynamic.

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Folding Quran Stand or Rehal

The Rehal is crafted from a single piece of wood and combination of carvings of geometric and floral motifs, interlaced with Kufic inscription



MESSAGE FROM THE HOLY QU'RAN

Bismillahir Rahmanir Raheem

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

(Surah An-Nisaa: 29)

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

(Surah Al-Baqarah: 275)

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

(Surah Al-Baqarah: 276)

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

(Surah Al-Baqarah: 278)

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

(Surah Al-Baqarah: 279)

“Bridging your
dreams with
the best of
banking”



Astrolabe

A portable instrument for sighting the fixed stars and planets. Also used for measuring time at places with known geographical coordinates, for determining the direction and the daily times for prayer

CHAIRMAN'S STATEMENT

Assalamualaikum w.b.t

“Growth was driven by increased bank intermediation and fee-based activity”

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements of Bank Muamalat Malaysia Berhad for the year ended 31 December 2007.

Operating Environment

Global growth was strong in 2007, driven by above-trend growth in most industrial economies and buoyant growth in emerging market economies, despite moderation in the economy of the United States, higher crude oil prices and the onset of financial market turbulence in the latter half of the year.

In contrast to the trends in the developed economies, the strong growth momentum in the Asian region accelerated in 2007 as domestic demand and other growth drivers more than compensated for moderation in external demand due to the adjustment in the global

electronics cycle and developments in the United States. Domestic demand was buoyant, sustained by favourable labour market conditions, rising commodity prices and increased infrastructure spending. Growth also benefited from growing intra-regional trade, driven in part by strong performance of People's Republic of China economy which expanded strongly during the period under review.

On the domestic front, the Malaysian economy continued its sturdy growth momentum, expanding by 6.3% in 2007. Growth was driven by robust domestic demand despite a weaker external environment which led to moderation in export growth. Private consumption and investment activities expanded strongly during the year. Private consumption recorded the highest growth rate since 2000, buoyed by rising disposable income following high



DATO' SERI ISMAIL SHAHUDIN
Chairman

CHAIRMAN'S STATEMENT (CONT'D)

commodity prices, salary increments in both, the public and private sectors, as well as favourable labour market conditions.

A significant development during the year was the robust growth in the finance and insurance sub-sectors that grew by almost 11% in 2007 and had accounted for some 10% of total GDP during the year. The growth was driven by increased bank intermediation and fee-based activity. Fee-based revenue grew strongly by 33% during the year under review, supported by underwriting and corporate advisory activity as well as innovation of products and services in wealth and portfolio management, remittances and trade finance services.

Growth in the finance segment was also supported by expansion in Islamic finance. Initiatives under the Malaysia International Islamic

Financial Centre (MIFC) gathered momentum with approval given to Islamic banks to set up International Currency Business Units (ICBU). One foreign-owned Islamic bank and two takaful companies (including one retakaful operator) commenced operation in 2007, bringing the total to 11 Islamic banks and nine takaful companies in operation. In 2007, total Sukuk approved amounted to RM121 billion, an annual increase of 189%.

Performance

For the year ended 31 December 2007, the Bank recorded a pre-tax profit of RM65.5 million, lower compared to RM104.8 million recorded in the preceding period. Similarly, the pre-tax at the group level stood at RM64.2 million compared to RM103.4 million in the previous year.

The modest performance registered in the year under review was attributed to higher allowance for losses on financing, which had increased to RM117 million from RM53.8 million in the preceding year that in part reflected the shift in provision policies, measured on the more stringent three-month basis beginning January 2007 compared to the six-month basis previously. Allowance for losses on financing by business segment had also revealed increased exposure from consumer-based banking activities, which had accounted for almost 60% of the total allowance made. At the same time, the performance in 2007 had also included the one-off voluntary separation scheme costs totalling RM1.6 million.

Consequently, the net profit for the financial year ended 31 December 2007 eased to RM49.4 million from RM73.9 million previously,

which broadly characterised the continued steady contribution from the wholesale-based banking activities. The net profit at the group level stood at RM48.1 million during the same period under review compared to RM72.5 million in the preceding period.

Total assets was sustained at RM13.8 billion in 2007, little changed compared to RM13.5 billion a year ago. Financing-based activities increased to RM5.6 billion from RM5.1 billion in 2006, matching the industry growth momentum of about 8%. Risk Weighted Capital Ratio remained steady as at end 2007, equivalent to 13.6% compared to 15.8% in the preceding corresponding period.

Prospects

The rough economic climate to-date portends another challenging year

for the bank and the financial industry at large. The broadening signals of a stalling global demand suggest an economic downturn may be inevitable in the immediate term. Still, in these challenging times, there remains enormous opportunity to further differentiate Bank Muamalat. In essence, its potential in the burgeoning Islamic financial markets.

Acknowledgement

On behalf of the Board, our gratitude to the Management and staff for their passion, unflagging professionalism and commitment.

I would like at this stage to thank my fellow Board members for their support during the year and in particular make mention of YBhg. Dato' Abdul Manap Abd. Wahab, the Chief Executive Officer until February this year, our deep appreciation for the contributions he has made

during his tenure at the Bank and at the same time, welcome Tuan Syed Abdull Aziz Jailani Syed Kechik as Acting Chief Executive Officer. I would also like to pay tribute to Encik Zafer Hashim, the Chief Financial Officer, whom will be leaving the Group soon and takes with him the best wishes of myself and the Board in his future career and endeavour. He has made significant contributions during his stint at the bank.

On behalf of the Board and Management, our appreciation to the shareholders, customers and business associates and partners for their support of the Bank, and our thanks to the relevant authorities, especially Bank Negara Malaysia and the Ministry of Finance, for their valuable guidance and assistance.

BOARD OF DIRECTORS



Left to right:

- EN. ABDUL JABBAR ABDUL MAJID
Independent Non-Executive Director
- EN. ISMAIL IBRAHIM
Non-Independent Non-Executive Director
- DATO' SERI ISMAIL SHAHUDIN
Chairman
- DATIN AZIZAH MOHD JAAFAR
Independent Non-Executive Director
- DATO' ABDUL MANAP ABD WAHAB
Chief Executive Officer
- PROFESSOR DATO'
DR. AZIUDDIN AHMAD
Non-Independent Non-Executive Director
- YM TENGKU DATO' HASMUDDIN
TENGKU OTHMAN
Non-Independent Non-Executive Director

DIRECTORS' PROFILE



- DATO' SERI
ISMAIL SHAHUDIN

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

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

In 1988, he joined United Asian Bank Berhad (UAB) as its Deputy General Manager until 1992 when UAB was taken over by Bank of Commerce. Subsequently, he joined Maybank

as its General Manager, Corporate Banking Division. In September 1997, he was appointed as the Executive Director of Maybank. He left Maybank in July 2002 to assume the post as the Group Chief Executive for MMC Corporation Berhad until 31st March 2006. Dato' Seri Ismail also sits on the Board of Aseana Properties Limited, Rahman Hydraulic Tin Sdn Bhd and Perbadanan Kemajuan Ekonomi Islam Negeri Perak (PKEINPK) and he is also the President of Outward Bound Malaysia.

- PROFESSOR DATO'
DR. AZIUDDIN AHMAD

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

DIRECTORS' PROFILE (CONT'D)

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

In 1987 he had entered the financial services sector. From 1994 to 2005 he had been a holder of a Fund Management Representative's License practicing Islamic Finance. He had provided Islamic & Corporate Finance Advisory to the Founder Executive Chairman of AlBukhary Foundation. He had sat as a Fellow of the AlBukhary Foundation and Member of the Board of Directors of MMC Corporation Bhd, Amanah Raya Asset Management Sdn Bhd, Express Rail Link Sdn Bhd, Eastern Pacific Industrial Corporation Bhd and was also the Group Financial Adviser to the Sapura Group of Companies and an Investment Panel Member at Lembaga Tabung Haji.

Currently he serves as a Board Director of MEMS Technology Bhd, Valuecap Sdn Bhd,

Kumpulan Perintis Utama Sdn Bhd, Minaret Business Forum Sdn Bhd and I-Vcap Management Sdn Bhd.

From June 2002 to May 2003, he was Adjunct Professor, at the Faculty of Engineering University Putra Malaysia where he taught Engineering & Society, covering diverse topics such as Entrepreneurship, Corporate Governance, Management, Finance, Ethics, Values & Moral expected in business. For three years from March 2003, he was also Adjunct Professor at the Centre for Civilisational Dialogue at University of Malaya. He had taught Science & Technology: Policy & Strategy to University of Malaya Master's degree students.

He is now a fulltime faculty member at the Graduate School of Management of University Putra Malaysia where he is a Professor in the field of Risk Management. Apart from his teaching in Risk Management and Corporate Governance, his current applied interests are in Education, Geo-Political Economy, Islamic Finance and Human Development.

His reading and research interests cover the New Sciences of Quantum Theory, Complexity, Chaos, Cosmology & Parapsychology and their relationships with Mysticism, Ontology, Eschatology, Consciousness and Al Tawhid.

- EN. ISMAIL IBRAHIM

Encik Ismail Ibrahim was appointed Non-Independent Non-Executive Director of Bank Muamalat since 23 March 2001. He holds a Degree in Accounting from Universiti Kebangsaan Malaysia in 1985. He is currently the Vice President of Khazanah Nasional Berhad. He joined Khazanah Nasional Berhad as Accountant/Finance Manager in 1995. He started his career in 1985 with the Accountant General's Department during which he served as Treasury Accountant in the Investment and Loan Division until 1991 and from 1991 to 1995, he was appointed as Assistant Director in the Funds Management Division. He is a member of the Malaysian Institute of Accountants.

- ENCIK ABDUL JABBAR
ABDUL MAJID

Encik Abdul Jabbar Abdul Majid was appointed Independent Non-Executive Director of Bank Muamalat since 13 October 2004. Currently he sits on the Boards of Tradewinds Corporation Berhad, Perusahaan Otomobil Nasional Berhad (Proton), Opcom Holdings Berhad and Golden Pharos Berhad as a Non-Executive Independent Director.

Abdul Jabbar is a fellow of the Institute of Chartered Accountants, Australia and a member of the Malaysian Institute of Certified Public Accountants. His career includes a two-year stint with Bank Pertanian Malaysia in the early 70's followed by 23 years at KPMG Malaysia where he was a Senior Partner from 1995-2000.

- DATIN AZIZAH
MOHD JAAFAR

Datin Azizah Mohd Jaafar was appointed Independent Non-Executive Director of Bank Muamalat since 17 September 2001. She is qualified as

a chartered accountant in the United Kingdom. She is a Fellow of the Institute of Chartered Accountants in England & Wales (ICAEW) and also a member of the Malaysian Institute of Certified Public Accountants (MICPA).

Her career in the Government sector included various positions held in among others, the Public Trustee Department, the Ministry of Finance, the Ministry of Health and the Accountant General Department where she last served as the Deputy Accountant General. As nominee of the Government she sat on the boards of several Government enterprises. She had also served as Deputy Commissioner of Commodities Trading as a seconded officer with the Commodities Trading Commission. She left Government service and joined the Securities Commission Malaysia where she served as general manager in the Research and Development Department and the Financial Reporting Surveillance and Compliance Department.

- YM TENGKU DATO'
HASMUDDIN
TENGKU OTHMAN

YM Tengku Dato' Hasmuddin Tengku Othman was appointed Non-Independent Non-Executive Director of Bank Muamalat since 18 April 2006. He is the Managing Partner of Hisham, Sobri & Kadir and also the Head of the Muamalat and Islamic Banking Department of the Firm. He completed his legal studies at the University of Malaya and was admitted to the Bar in 1987. He was a partner in Messrs Suhaimi & Abdullah, where he had earlier read in chambers, and subsequently became a partner of the current Firm following its amalgamation with Messrs Suhaimi & Abdullah. He is actively involved in various aspects of corporate, banking and litigation matters as well as Shariah matters. Since the introduction of the first Islamic Bank in Malaysia, he has taken an active role in the development of the Islamic banking and finance and has been at the forefront in developing structural framework of documentation for

DIRECTORS' PROFILE (CONT'D)

Islamic banking products. He has successfully established himself as one of the local legal expert in this industry.

He is currently a member of Task Force on Islamic Finance for Labuan IOFC and Law Review Committee for Islamic Banking and Financial transactions under the auspices of the Central Bank of Malaysia and acted as an adviser for the Association of Islamic Banking in Malaysia (AIBIM) as well as for “Skim Projek Usahawan Dalam Bidang Peruncitan (Prosper)”. He also sits on the board of Aliran Ihsan Resources Berhad.

He is also active in social and charitable activities and has been appointed as trustee for Tuanku Najihah Foundation, Institute Quran Kuala Lumpur, Tabung Amanah Pesakit Malaysia and Institute Quran Tuanku Jaafar.

• DATO' ABDUL MANAP ABD WAHAB

YBhg Dato' Abdul Manap bin Abdul Wahab joined Bank Muamalat as Chief Operating Officer in January, 2005 and was promoted to Chief Executive Officer in March 2006. He acquired his banking experience while serving in various capacities working with the largest bank in Malaysia for 22 years.

He has served as Branch Manager, Regional Manager and General Manager of Branch Operations Division. While holding the position of General Manager he was also Project Manager of the Bank's Retail Development Project – a project aimed at transforming the Bank's Retail Business capabilities working with a leading Bank in Europe. He has also worked in the United Kingdom as General Manager of the Bank's London operations.

His last position in the Bank before he left in early 2003 was as Head of Retail Marketing. He also sat as Director at the Bank's unit trust subsidiary. While serving in these positions he acquired a wide range of experience in banking operations, credit and sales management, project management and people management.

He has a Diploma in Accountancy (ITM), a Degree in Business Administration from Ohio University and a Master in Business Administration (Finance) from the University of Hull, UK.

Dato' Abdul Manap's contract of service as CEO has ceased since 29 February 2008.

In the interim and pending the appointment of a new CEO, the Board has appointed Syed Abdull Aziz Jailani Syed Kechik as the Acting CEO / COO.

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

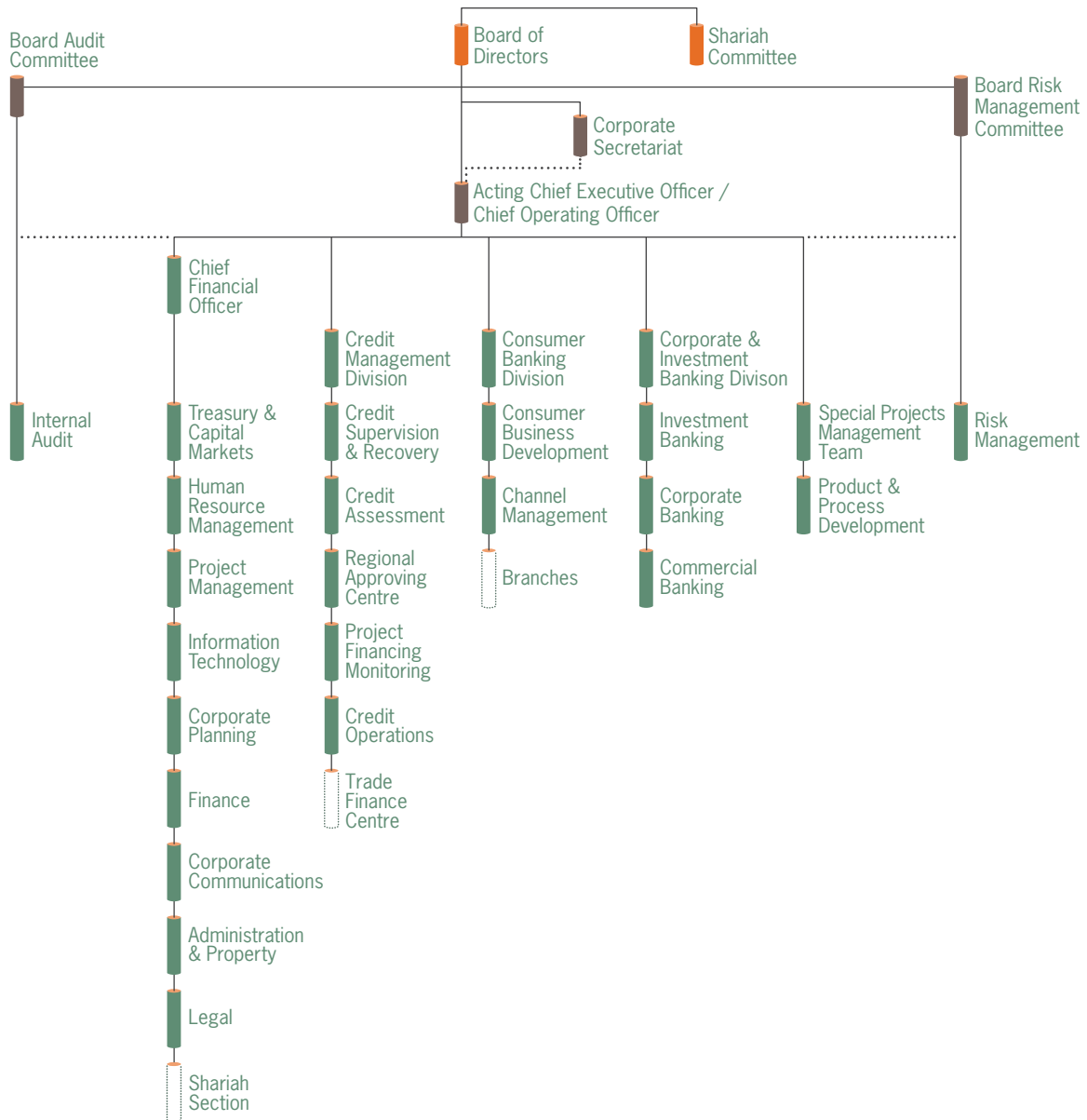


Quran box

This wooden box, normally paneled with brass sheets decorated with Quranic verses is crafted exclusively to store the Holy Quran



ORGANISATION STRUCTURE



MANAGEMENT TEAM
WITH EFFECT 1 MARCH 2008

SYED ABDULL AZIZ
JAILANI SYED KECHIK
*Acting Chief Executive Officer /
Chief Operating Officer
Corporate & Investment
Banking Division*

ZAFER HASHIM
Chief Financial Officer

AZIZAN AHMAD
Credit Management Division

AZADDIN NGAH TASIR
Consumer Banking Division

MOHD ZAKI ABDULLAH
Internal Audit

HELMI IZHAM
HARUNARASHID
Treasury & Capital Markets

ZAINUDDIN AHMAD
Human Resource Management

MOHD FUAD MUSLIM
Project Management

LUKMAN ISMAIL
Information Technology

NIK AHMAD FAUZAN
NIK MOHAMED
Corporate Planning

FIRUZ IZUALFIAN
ABD RAHIM
Finance

ABDUL HANIF ABU BAKAR
Corporate Communications

ZANA RUDIN UJANG
Administration & Property

MEGAT SUFFIAN MERICAN
YAACOB HUSSAIN
MERICAN
Legal

MUHAMMAD FIRDAUS
ABDULLAH
Corporate Secretariat

MOHD HAFIZ FAUZI
Shariah Section

KHADIJAH MUSA
Credit Supervision & Recovery

ZARINA OSMAN
Credit Assessment

MUHAMAD RADZUAN
AB RAHMAN
Regional Approving Centre

MOSTAPA OTHMAN
Project Financing Monitoring

ABU YAZIZ BRAHIM
Credit Operations

HAYATEY BAHARUM
Trade Finance Centre

ABDUL KHALIB
ABDUL RASHID
Consumer Business Development

JAMEL JAMALUDDIN
Channel Management

ROSLAN OTHMAN
Investment Banking, Acting Head

LATIFAH RAHIM
Corporate Banking, Acting Head

ABDULLAH SIKANDAR ALI
Commercial Banking

MOHD ASRI AWANG
Special Projects Management Team

ABDUL RASHID IBRAHIM
Product & Process Development

SITI ROHANI ATAN
Risk Management

SHARIAH COMMITTEE



Left to right:

- USTAZ AZIZI BIN CHE SEMAN
- USTAZ ENSKU AHMAD FADZIL
BIN ENSKU ALI
- DATO' HAJI MD. SALEH BIN HAJI
MD @ HAJI AHMAD
- ASSOC. PROF. DR. MOHAMAD
SABRI BIN HARON

SHARIAH COMMITTEE PROFILE



- USTAZ AZIZI BIN CHE SEMAN

Ustaz Azizi Bin Che Seman is currently a lecturer at the Islamic Studies Academy, University of Malaya, a position he has held since 2002. He has been with Bank Muamalat Malaysia Berhad since 1 April 2005. Until now, he has been entrusted to be the Chairman for the Bank's Shariah Committee. In terms of qualifications, he holds a Masters Degree in Economics from International Islamic University Malaysia in 2001 and a Bachelor of Islamic Studies from University of Malaya in 1996.

- ASSOC. PROF. DR. MOHAMAD SABRI BIN HARON

Assoc. Prof. Dr. Mohamad Sabri Bin Haron is a senior lecturer and Deputy Dean of the General Studies Centre, National University of Malaysia. He obtained a Diploma in Islamic Studies from Kolej Sultan Zainal Abidin in 1985 and Bachelor of Islamic Studies (al-Quran and al-Sunnah) from National University of Malaysia in 1988.

He completed his studies at the masters level in 1993 in Comparative Law at International Islamic University Malaysia. He succeeded in obtaining his Ph.d. in Islamic Law (Fiqh and Usul Fiqh) in 1998 from University of Jordan. He has been with Bank Muamalat since December 2003.

- USTAZ ENSKU AHMAD FADZIL BIN ENSKU ALI

Ustaz Engku Ahmad Fadzil Bin Engku Ali graduated in 1993 with a Bachelor Degree in Laws from International Islamic University Malaysia. In subsequent year, he graduated from the same university with a Bachelor Degree in Shariah Laws and was called to the Bar in 1995. He pursued his studies at Jordan University and in the year 2000, he successfully obtained a Masters Degree in Islamic Judiciary. Since then, he served as a lecturer at International Islamic University Malaysia. Some of the subjects that he teaches are; Islamic Law of Successions, Islamic Jurisprudence and Islamic Criminal Laws. He has been a member of the Bank's Shariah Committee since 2005.

SHARIAH COMMITTEE PROFILE (CONT'D)

- DATO' HAJI MD. SALEH BIN HAJI MD @ HAJI AHMAD

Dato' Haji Md. Saleh bin Haji Md @ Haji Ahmad has been engaged as a Shariah consultant of Bank Muamalat since 2002. He obtained a Bachelor Degree in Shariah from Yayasan Pengajian Tinggi Islam Kelantan in 1974 and the same degree from University of al-Azhar in 1976. He completed his Masters Degree in Shariah from the same university in 1978. Currently, he is a lecturer at International Islamic University Malaysia on a contract basis. Prior to that, he served as a lecturer at University of Malaya from 1981 to 2004. Other than Bank Muamalat, he is also a committee member of the Perak Islamic Affairs Council, Islamic Religious Council of Penang, Shariah Research Panel of Jabatan Kemajuan Islam Malaysia and several other councils.

The Shariah Committee has its own terms and references. The said terms and references are as follows:

To provide the Bank with guidelines and advice on religious matters .
To ensure that the Bank's overall activities are in line with Shariah.
To make decisions on matters arising from existing and future activities of the Bank which have religious repercussions. To report to the shareholders and the depositors that all the Bank's activities are in accordance with Shariah

It is undeniably true to contend that the Shariah Committee is the backbone to any Islamic banking institution. It is extremely crucial to ensure that Shariah compliance is practiced in all aspects of the banking operations and activities. Some of the fundamental roles and responsibilities of the Shariah Committee are as follows:

To provide Shariah advisory and consultancy services in all matters relating to Bank's products, transactions and activities as well as other businesses involving the Bank. To scrutinize and endorse the annual financial report of the Bank. To provide training to the staff as well as notes or relevant materials for their reference.

To represent the Bank or to attend any meetings with the Shariah Advisory Council from the Central Bank of Malaysia or other relevant bodies concerning any Shariah issues relating to the Bank.

Most of the issues submitted to the Shariah Committee for clarification are resolved via meetings. For the 2007, 33 series of meetings were held. The details of their attendance are as follows:

Shariah Committee Members	Attendance
Azizi Bin Che Seman	31/33
Assoc. Prof. Dr. Mohamad Sabri Bin Haron	29/33
Engku Ahmad Fadzil Bin Engku Ali	33/33
Dato' Haji Md. Saleh bin Haji Md @ Haji Ahmad	20/33

“In these challenging times, there remains enormous opportunity to further differentiate Bank Muamalat”



Prayer Mat or Sejadah

The Sejadah is used to perform the daily prayers and is placed according to Kiblat or direction of prayer towards Mecca



BOARD AUDIT COMMITTEE



Left to right:

- EN. ABDUL JABBAR ABDUL MAJID
- DATIN AZIZAH MOHD JAAFAR
- YM TENGKU DATO' HASMUDDIN
TENGKU OTHMAN
- EN. ISMAIL IBRAHIM



Composition

The Board Audit Committee (“Committee”) consists of members of the Board of Directors responsible to fulfil the oversight function in relation to the adequacy and integrity of system of internal controls and financial reporting, risk management and the compliance with internal policies, procedures and external applicable rules and regulations. The Committee members are:

- **Encik Abdul Jabbar Abdul Majid**
Chairman / Independent Non-Executive Director
- **Datin Azizah Mohd Jaafar**
Member / Independent Non-Executive Director
- **Encik Ismail Ibrahim**
Member / Non-Independent Non-Executive Director
- **Tengku Dato’ Hasmuiddin Tengku Othman**
Member / Non-Independent Non-Executive Director

Authority

In carrying out its duties and responsibilities, the Committee shall have full and unrestricted access to the Bank’s records, properties and officers. The Committee has the authority and empowered to:

- meet and discuss with members of Management, internal auditors and external auditors or external parties, where necessary;
- retain independent counsel or other relevant parties deemed fit by the Committee to advise or assist in the conduct of an investigation;
- recommend to the Board of Directors the appointment and removal of the external auditor;
- oversee and assess the performance of the external auditor who will report directly to the Committee; and
- seek any information it requires from employees, all of whom are directed to cooperate with the committee’s requests or external parties.

BOARD AUDIT COMMITTEE (CONT'D)

Duties & Responsibilities

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

- review significant accounting and reporting issues, recent professional and regulatory pronouncements and understand their impact on the financial statements;
- review the annual audited financial statements of the Bank and the Group to ensure compliance with appropriate accounting policies, accounting standards and disclosure requirements before submission to the Board and the regulators;
- review the adequacy and effectiveness of the Bank's internal control, risk management and governance processes instituted by the Bank;
- review and approve the Internal Audit charter, strategy and annual plans prepared by the Chief Internal Auditor;
- review the effectiveness of the internal audit function and its compliance with the Institute of Internal Auditors Malaysia's Standards for the Professional Practice of Internal Auditing;
- review the external auditors' proposed audit plan, scope and approach and their audit reports;
- review the performance of the external auditors and recommend for final approval on the appointment or discharge of the auditors;
- review the effectiveness of the system for monitoring compliance with laws and regulations; and
- regularly report to the Board of Directors on the Committee's activities, issues and related recommendations.

Attendance of Meetings

In 2007, there were thirteen (13) Board Audit Committee meetings and six (6) Special Board Audit Committee meetings. Details of attendance of the Committee members are as follows:

Committee Members	Attendance / No of Meetings held
Encik Abdul Jabbar Abdul Majid	19/19
Datin Azizah Mohd Jaafar	19/19
Encik Ismail Ibrahim	19/19
Tengku Dato' Hasmuddin Tengku Othman	17/19

Statement on Internal Control

The Committee affirms that it is responsible to ensure that the Bank's systems of internal control is adequate and effective to manage the risk profile within the Bank's risk appetite and recognizes the need for, and the value of, a sound system of internal control Bank-wide.

For the period under review, the Committee is of the view that the systems of internal control is in place up to the date of issuance of the annual report and financial statements to safeguard the shareholders' investment, the interests of customers, regulators and employees, and the Group's assets.

The Committee is supported by the internal audit function, which forms an integral part of the governance processes in the Bank. It assists the

Committee by providing reasonable assurance and value-added service on the adequacy, integrity and effectiveness of the system of internal control and financial reporting, risk management and compliance with internal policies, procedures and external applicable rules and regulations..

The Internal Audit Department ("IAD") undertakes internal audit functions based on an annual audit plan reviewed and approved by the Board Audit Committee. In preparation of the audit plan, IAD has taken into consideration the strategy, objectives, risk and internal controls environment of the Bank and all its operating units.

The IAD monitors the risks, internal controls and compliance matters through a structured approach and periodic audit visits to operating units and branches, frequency of

which is determined by the level of risk assessed and provides reports for the Committee's review and deliberation in their monthly or periodic meeting.

The Committee reviews all the significant findings and recommendations reported by the IAD, Management, external auditors and regulators and decide on the action plans, moving forward. It also reviews the internal audit functions with particular emphasis on the scope, quality of audits and independence of the IAD.

Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, guidelines and directives issued by the Bank, which are updated from time to time.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Bank Muamalat Malaysia Berhad (BMMB) adopts the corporate governance framework as stipulated in the Malaysian Code of Corporate Governance as well as the Guidelines on Corporate Governance for licensed Islamic Banks issued by Bank Negara Malaysia (Revised BNM/GP1-i). Although the Bank is not a listed entity, BMMB nonetheless is committed to ensure highest standards of corporate governance are observed at all times.

The Board of Directors

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

There is a clear division of responsibility between the Chairman and the Chief Executive Officer (CEO) to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the long-term strategic plan of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines and shariah compliance. Whilst, the Management Committee, headed by the CEO, is responsible for the implementation of the strategies and internal control as well as monitoring the performance of the Bank. The Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

a) Board Balance

The Board currently has six (6) members, comprising two (2) independent, non-executive directors and four (4) non-independent, non-executive directors (including the Chairman.) The contract of service of the Chief Executive Officer (CEO) who is also a board member had expired on 29 February 2008. In the interim and pending the appointment of the new CEO, the board has appointed Syed Abdull Aziz Jailani Syed Kechik as the Chief Operating Officer/Acting CEO effective from 1 March 2008. The non-independent, non-executive directors are the representatives of the major shareholders namely Bukhary Capital Sdn Bhd and Khazanah Nasional Berhad. The current board composition complies with the requirement set by Bank Negara Malaysia which requires at least 1/3 of the board members to be independent.

The current Board comprise of members with a mix of skill and experience from various professional background namely banking, legal, accounting and engineering. A brief profile of each Director is presented on pages 9 to 12 of the Annual Report.

b) Board Meetings

The Board of Directors meets on a scheduled basis once every month and special Board meetings may also be convened should the need arise. Board papers are sent in advance ahead of Board meetings to facilitate focused and constructive discussions. Permanent issues discussed at each scheduled board meeting include the monthly financial performance, Risk Management,

Information Technology, Human Resource Management, Shariah Compliance and any other operational matters. The Board has developed a formalized “matters reserved for Board” which provide clarity in terms of key matters that needs to be approved by the Board exclusively.

For the financial year ended 31 December 2007, the Board met twenty one (21) times to deliberate

on and consider a variety of significant matters that requires its guidance and approval. All the Board members have attended at least 75% of the total board meetings held during the year, thus complies with the requirements set by BNM under GP1-i. The details of attendance of each Board member at meetings held during the year under review are set out below:

Name of Members	Attendance Record and Number of Meetings Held	Percentage of Attendance (%)
Dato' Seri Ismail Shahudin (Chairman)	21/21	100%
Dato' Abdul Manap Abd Wahab (contract of service ended on 29 February 2008)	19/21	91%
Datin Azizah Mohd Jaafar	20/21	95%
En. Ismail Ibrahim	20/21	95%
En. Abdul Jabbar Abdul Majid	18/21	85%
Prof. Dato' Dr. Aziuddin Ahmad	19/21	91%
Tengku Dato' Hasmuddin Tengku Othman	21/21	100%

c) Board's Appointment

The Board has a formal and transparent procedure for appointment of new directors/ re-appointment of existing directors. The Board upon recommendation of the Nomination Committee and will

consider the proposed candidate for appointment of new directors based on the “fit and proper” criteria and it is subject to approval by Bank Negara Malaysia.

For re-appointment of directors, Nomination Committee will consider

and make its recommendation to the Board within 3 months before the expiry of the director's term. The details of attendance at Board/committee meetings, training/seminar attended level of interaction/contribution at meeting and skill and expertise will be

CORPORATE GOVERNANCE STATEMENT (CONT'D)

taken into consideration before the Nomination Committee makes its recommendation to the Board for re-appointment of the existing director. The re-appointment of directors is also subject to BNM's approval.

d) Board's Access to Information

A formal procedure is in place for the Board to seek information/clarification on certain issues which in turn will facilitate them to discharge their duties effectively. The Company Secretary's office is the central reference to assist and facilitate the Directors to seek further information or clarification. Alternatively, the Board may address or have access to the office of the Senior Management team, Head of Departments/Head of Business Units to seek further information and clarification about any issue or concern.

e) Board's Assessment

The board evaluation will be carried out annually in the month of December/January. Each and every board member will be required to self assess the board based on the pre-agreed questionnaires.

The completed questionnaires will need to be returned to the Company's Secretary Office, who will then forward the same to the Nomination Committee (NC) Chairman. The Chairman of the NC together with the Company Secretary will analyze, summarize and conclude the results of the evaluation exercise and present the final results for Board's attention. Any recommendation or suggestion from Board in relation to board evaluation will be then discussed in detail at NC meeting for future improvement.

f) Board's Training

Training and seminar will be organized from time to time either internally or externally to enable the Directors to keep abreast with latest developments in the banking industry, particularly on relevant new laws, regulations and changing commercial risks. An in house orientation program is available for new directors on board to educate them on the overall Islamic Banking business, current issues in the Bank, the Bank's corporate strategy as well as general responsibilities of directors.

g) Board Committees

The Board is assisted by four (4) committees with specific terms of reference. This enables the committees to focus on areas or issues of critical importance to the operations of the Bank. Composition, functions and brief terms of reference of each committee are as follows:

1. Audit Committee

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

The committee is authorized by the Board to investigate any activities within its terms of reference and has unrestricted access to both the internal and external auditors and Management team of the Bank. Further details on its composition, terms of reference, roles and responsibilities and activities carried out during the year is presented on Page 20 to 23 of this Annual Report.

2. Nomination Committee

The Nomination Committee provides a formal and transparent procedure for the appointment of Directors, CEO and members of Shariah Committee as well as assessment of effectiveness of board as a whole, Shariah Committee members and performance of CEO and key senior management officers.

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

The committee is headed by YBhg Datin Azizah Mohd Jaafar and the

other members are Encik Abdul Jabbar Abdul Majid, Encik Ismail Ibrahim, Prof Dato' Dr. Aziuddin Ahmad and Tengku Dato' Hasmuddin Tengku Othman. During the financial year ended 31 December 2007, the Committee met four (4) times and details of attendance of each member are as follows:

Name of Members	Attendance Record and Number of Meetings Held	Percentage of Attendance (%)
Datin Azizah Mohd Jaafar (Chairman)	4/4	100%
En. Ismail Ibrahim	4/4	100%
En. Abdul Jaabar Abdul Majid	3/4	75%
Prof Dato' Dr. Aziuddin Ahmad	3/4	75%
Tengku Dato' Hasmuddin Tengku Othman (appointed w.e.f. 27 February 2007)	2/4	50%

3. Remuneration Committee

The Remuneration Committee provides a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer and Key Senior Management officers and ensuring that the compensation is competitive and consistent with the Islamic bank's culture, objectives and strategy. In addition,

the Remuneration committee is also responsible for developing remuneration policy for the Shariah Committee members that commensurate with their roles and responsibilities. The Remuneration Committee will then recommend the proposed remuneration package to the Board.

The determination of the remuneration package of the

directors, Chief Executive Officer, Shariah Committee members and Key Senior Management officers will be a matter for the board as a whole. The individual concerned will abstain from participating and discussion of his/her own remuneration package. The committee comprises of wholly non-executive directors and chaired by Encik Abdul Jabbar Abdul Majid. The other members are Encik Ismail Ibrahim, Prof Dato' Dr. Aziuddin

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Ahmad and Datin Azizah Mohd Jaafar. For the financial year ended 31 December 2007, the committee had three (3) meetings. The attendance details of the committee members are set out below:

4. Board Risk Management Committee

The committee is authorized to oversee Management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management

process is in place and functioning. In addition, the risk management committee is also responsible for ensuring that a comprehensive risk management infrastructure is in place for managing the risk associated with Mudharabah and

Name of Members	Attendance Record and Number of Meetings Held	Percentage of Attendance (%)
En. Abdul Jabbar Abdul Majid (<i>Chairman</i>)	3/3	100%
En. Ismail Ibrahim	3/3	100%
Prof Dato' Dr. Aziuddin Ahmad	3/3	100%
Datin Azizah Mohd Jaafar (<i>appointed w.e.f. 27 February 2007</i>)	1/2	50%

Musharakah financing or investments. The committee is chaired by YBhg Datin Azizah Mohd Jaafar and the other three members are Encik Ismail Ibrahim, Encik Abdul Jabbar Abdul Majid and Prof Dato' Dr. Aziuddin Ahmad.

For the financial year ended 31 December 2007, the committee had twelve (12) meetings. The attendance details of the committee members are set out below:

h) Shariah Committee

The Shariah Committee was established in accordance with the requirements of the Islamic Banking Act, 1983 as well as the Bank's Articles of Association,

Name of Members	Attendance Record and Number of Meetings Held	Percentage of Attendance (%)
Datin Azizah Mohd Jaafar (<i>Chairman</i>)	12/12	100%
En. Ismail Ibrahim	11/12	92%
En. Abdul Jabbar Abdul Majid	11/12	92%
Prof. Dato' Dr. Aziuddin Ahmad	9/12	75%

which prescribe the setting up a Shariah body to ensure that the Bank's conduct its affairs in accordance with the Shariah principles. Members of the Shariah are scholars renowned for their knowledge and experience in Fiqh Muamalat.

Further details of this committee are set out on Pages 16 to 18 of this Report.

In addition to the above committees, the Board has also established two other sub committees' i.e. Special Board Committee and Muamalat Banking Solution Board Steering Committee. The Special Board committee is formed to guide and engage with Management and to provide Board Governance, Supervision and Leadership in ensuring that all recommendations as contained in the Lampiran 1 of the BNM's Examination Report dated 6th April 2007 and the undertaking given as resolved at the Special Board Meeting of 28th June 2007 and submitted to Bank Negara via letter of 4th July 2007 be complied and adhered to.

The Muamalat Banking Solution Board Steering Committee is the forum for the Board to provide strategic business direction and oversees the progress of the Project. Its main responsibility is to ensure project objectives and targets are aligned in accordance to the business strategies and implement according to project schedule.

The above two committees is set up on an ad-hoc basis and will cease once the objective / target of the project is being achieved.

i) Internal Audit and Control Activities

The statement of internal control and activities of the Bank are summarized on pages 21 to 23 of this Report.

j) Related Party Transactions

The details of related party transactions of the Bank are disclosed on page 118 of the Audited Financial Statement section of this Annual Report.

k) Non - adherence to the Guidelines on Corporate Governance for Licensed Islamic Banks (Revised BNM/GP1-i) dated January 2007

As at the date of this annual report, the Bank has not complied with the revised BNM / GP1-i, on the following matters:

Principle 7 of the BNM / GP1-i – there should be a formal and ongoing assessment of the effectiveness of the board as a whole, each individual director and the CEO to ensure their effectiveness.

The Board is of the view that the assessment of Directors are done on a totality basis which also encompasses and take into consideration each individual director's performance and contribution.

BOARD RISK MANAGEMENT COMMITTEE



Left to right:

- DATIN AZIZAH MOHD JAAFAR
- EN. ABDUL JABBAR ABDUL MAJID
- PROF. DATO' DR. AZIUDDIN AHMAD
- EN. ISMAIL IBRAHIM

RISK MANAGEMENT



Overview

The integrated risk management system enables the Bank to achieve a single view of risks across its various business operations in order to gain strategic competitive advantage from its capabilities. It can be described as the strategy and technique of managing risks by taking a holistic approach towards risk management process, which includes risk identification, measurement and management. It also aims at integrating the control and optimization of the principal risk areas of Market Risk (MR), Asset and Liability Management (ALM), Credit Risk (CR) and Operational Risk (OR); and building the requisite risk management organization, infrastructure, process and technology with the objective of advancing the Bank towards value protection and creation.

Generally, the objectives of the Bank's integrated risk management system include the following:

- Identifying all the risks exposures and their impact.
 - Establishment of sound policies and procedures in line with the Bank's strategy, lines of business and nature of operations.
 - Set out an enterprise-wide organization structure and defining the appropriate roles and responsibilities.
 - Instill the risk culture within the Bank.
- Various initiatives have been carried out in line with the implementation of Integrated Risk Management Framework (IRMF), which include the following:
- Engagement of external consultant to assist the Bank in the implementation of IRMF and Basel II, Islamic Financial Services Board (IFSB) and Bank Negara Malaysia (BNM) Capital Adequacy Framework for Islamic Banks (CAFIB).
 - Extensive investment in advanced risk systems infrastructure. Through Muamalat Banking Solutions (MBS), it is envisaged the system will be able to address

RISK MANAGEMENT (CONT'D)

the compliance with Basel II/ CAFIB Pillar 1, Pillar 2 and Pillar 3 as well as risk adjusted performance management capabilities.

- Continuous risk management awareness programs encompassing all areas of risks. Target audience of the programs will cover members of the Board and staff at all levels.

Risk Governance

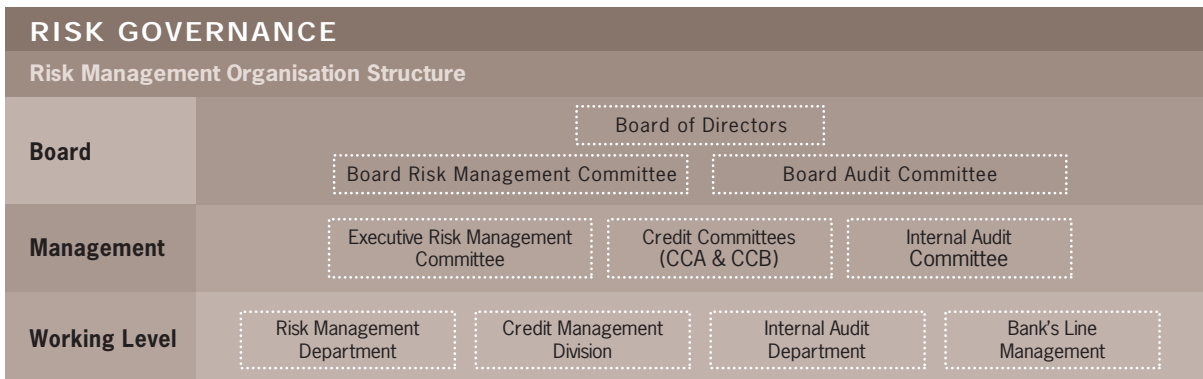
A stable enterprise-level organisation structure for risk management is necessary to ensure a uniform view of risks across the Bank and form strong risk governance.

The Board of Directors has the overall responsibility for understanding the risks undertaken by the Bank and ensuring that these risks are properly managed. While the Board of Directors is ultimately responsible for risk management of the Bank, it has entrusted the Board Risk Management Committee (BRMC) to carry out its functions. BRMC, which is chaired by an independent director of the Board, oversees the overall management of risks.

The execution of the Board's risk strategies and policies is the responsibility of the Bank's Management and the conduct of these functions are being exercised

under a committee structure, namely the Executive Risk Management Committee (ERMC). The Chief Executive Officer (CEO) chairs the ERMC. The Committee focuses on the overall business strategies and day-to-day business operations of the Bank in respect of risk management.

To carry out the day-to-day risk management functions, a dedicated Risk Management Department (RMD) that is independent of profit and volume target, supports the committees below.



Credit Risk Management

The primary objective of Credit Risk Management is to identify, quantify, aggregate and manage credit risk exposures of the Bank. The output and analysis of these objectives has become extremely important in risk management in order to ensure that

the Bank's exposures to credit risk is always kept within the Bank's risk appetite and able to identify the Bank's risk tolerance level. Not only could the needs for credit risk form the base for decisions in credit portfolio management, but also support for equity-capital allocation by the Bank.

Credit Risk Management Framework

The Bank's Credit Risk Management Framework (CRMF) comprises Strategic Framework, Organizational Structure, Core Process and Service processes covering the following areas:

CREDIT RISK MANAGEMENT FRAMEWORK			
Strategic Framework	Organisational Structure	Core Process	Service Process
<ul style="list-style-type: none"> i) Credit risk strategy; and ii) New product / new markets 	<ul style="list-style-type: none"> i) Segregation of functions and duties ii) Approving authority 	<ul style="list-style-type: none"> i) Credit Granting Process ii) Exposure Maintenance Process iii) Remedial and Collection iv) Credit Risk Controlling v) Control and Compliance of Credit Process 	<ul style="list-style-type: none"> i) Human Resources ii) Information Technology (IT) iii) Accounting (Finance) iv) Internal Audit

Credit Risk Management Achievement

The Bank has succeeded in streamlining Credit Risk Policies & Guidelines in compliance with IRMF, BNM's Regulations and BNM's CAFIB. The policies & guidelines have been

reviewed and updated according to the Bank's latest risk tolerance.

At present, the Bank adopts the Standardized Approach to meet the basic capital requirement calculation. Nevertheless, the Bank is heading

towards adopting the Comprehensive Approach. To achieve the said approach, the Bank has through aggressive efforts also started its implementation of Credit Risk Mitigation Techniques (CRMT) in accordance with Basel II and CAFIB.

RISK MANAGEMENT (CONT'D)

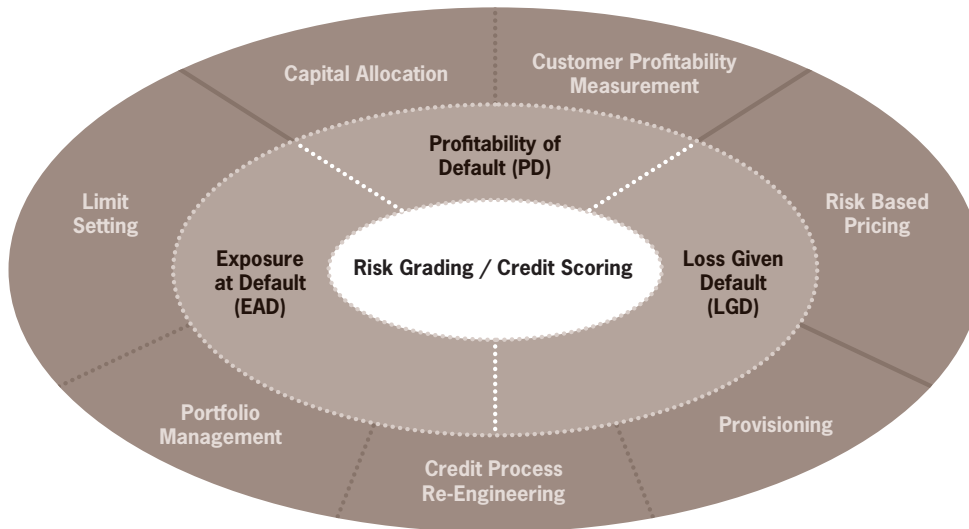
Credit Risk Management Initiatives

1. Credit Risk Grading

The Bank is in the midst of formulating an internal credit risk

rating incorporating quantitative and qualitative factors of the counter parties. The credit risk rating is an important tool in monitoring the quality of individual credits, as well as the total portfolio. The rating system shall be consistent with the

nature, size and complexity of the Bank's activities, of which the risk grading also enables for broad range activities not only related to risk. As a result, the bank shall be using a Comprehensive Risk Grading System as shown below:



2. Muamalat Banking Solution (MBS)

From Credit Risk Management's perspective, the Bank is embarking

on a new system (bankwide), namely MBS. The MBS should cater for, amongst others, Collateral Management System, Credit

Analytics for both consumer and business financing and Portfolio Management.

Market Risk Management (MRM) and Asset Liability Management (ALM)

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. ALM refers to the coordinated management of the

Bank's balance sheet, which includes assets, liabilities and capital. The main focus of ALM is on the Bank's overall performance that can be measured in terms of net income. In turn, the primary determinant of net income will be the overall risk-return position of the Bank.




In order for the Bank to achieve its objectives, the Bank has put in place an effective market risk and ALM management process as depicted below:



RISK MANAGEMENT (CONT'D)

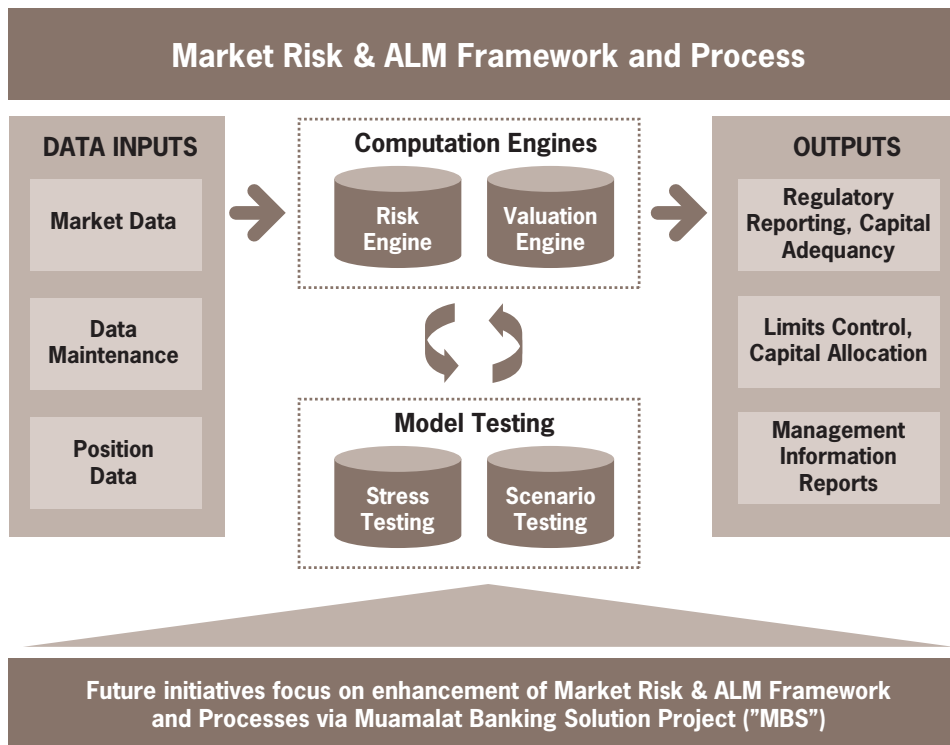
MR and ALM Initiatives 2007/ 2008

For year 2007 to 2008, the Bank has embarked on several initiatives to improve the market risk and ALM management framework.

MARKET RISK AND ALM	
Key Initiatives 2007	Deliverables
Phase I ASSESSMENT OF INTERNAL MODEL <ul style="list-style-type: none"> Assess, Review and Enhance the Bank's existing internal models used in: Market Risk Management i.e. Market to Market (MTM), Modified duration (Mduration) and Hedge Effectiveness ALM – Economic Value Loss (EVL) Review and Enhance the data sources, transformation process from raw data to input data and the model theory 	 <p>MARKET RISK MEASUREMENT & FINANCIAL MODEL VALIDATION & RECOMMENDATION REPORT</p>
Phase II MARKET RISK AND ALM POLICY REVIEW <ul style="list-style-type: none"> Review, Update and Enhance the Bank's existing Market Risk and ALM Policies Incorporate recommendations of Market Risk Measurement and Financial Model Validation Report 	 <p>MARKET RISK & ALM POLICY</p>
Phase III STRESS TESTING FRAMEWORK DEVELOPMENT <ul style="list-style-type: none"> Develop a Market Risk and ALM Stress Testing Framework <p>Review existing stress testing principle, policies, action plans, organisation and roles and responsibilities. Establish design principles incorporating internal and BNM's requirements.</p>	 <p>MARKET RISK AND ALM STRESS TESTING FRAMEWORK</p>

Future Initiatives

Forging ahead, the Bank via MBS Project will enhance the overall framework and process of Market Risk and ALM. The enhancement focuses on the automation of the current processes and directed towards achieving the Pillar 2 requirements in Basel II with regards to economic capital.



RISK MANAGEMENT (CONT'D)

Operational Risk Management (ORM)

ORM Governance Structure

The Bank's overall governance model for Operational Risk Management (ORM) is based on the concept of three lines-of-defence:

- 1st line of defense
Risk Taking Units
(Business and Support Units)

- 2nd line of defence
Risk Control Units
(Operational Risk Management Unit)

- 3rd line of defence
Internal Audit Function
(Internal Audit)

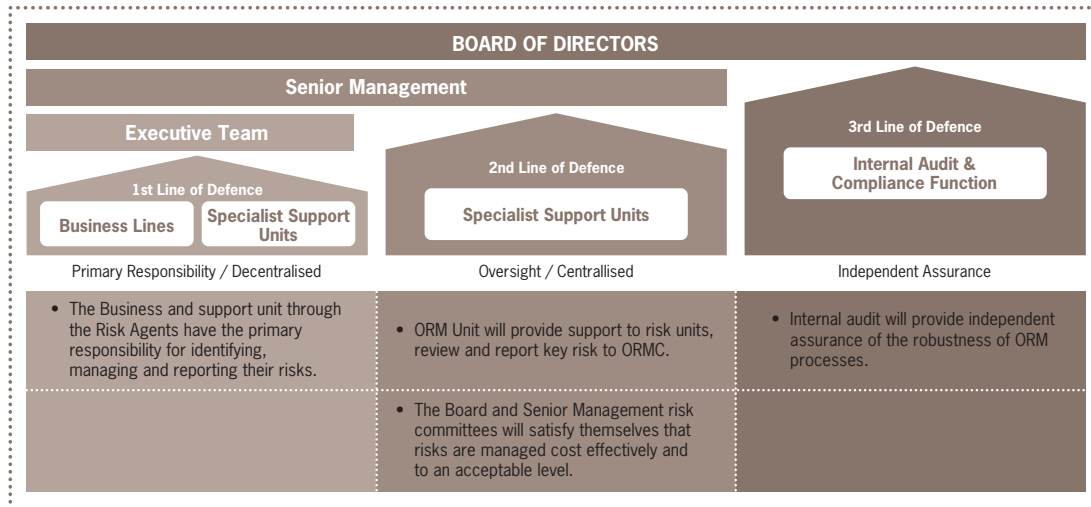
Risk Agents and the Operational Risk Management Committee (ORMC) are two critical components of ORM. Risk Agents will be appointed to all Business and Support Units and their primary responsibilities are to:

- implement the risk and control self assessment (RCSA) process at the unit level

- assist in the collation and analyses of operational loss data

- inculcate the risk awareness culture at the unit level

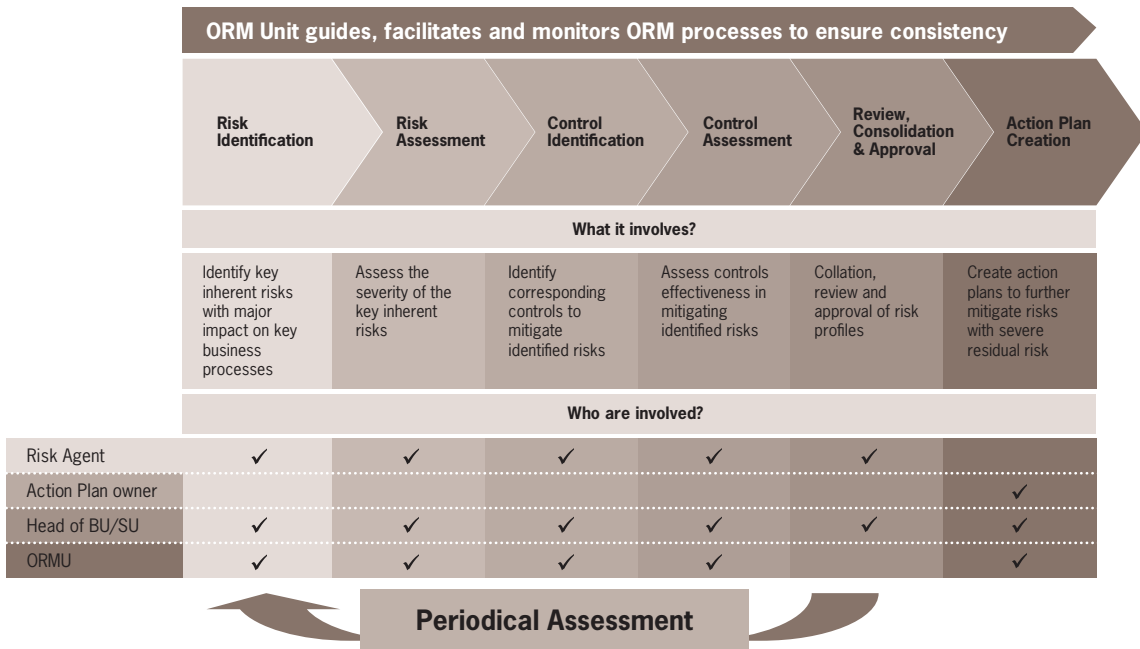
ORMC is a dedicated management committee at department head level, to govern operational risk in a centralised and integrated manner.



ORM Initiatives 2007/2008
 RCSA is an important tool to facilitate the understanding of the operational risk exposures throughout the Bank.

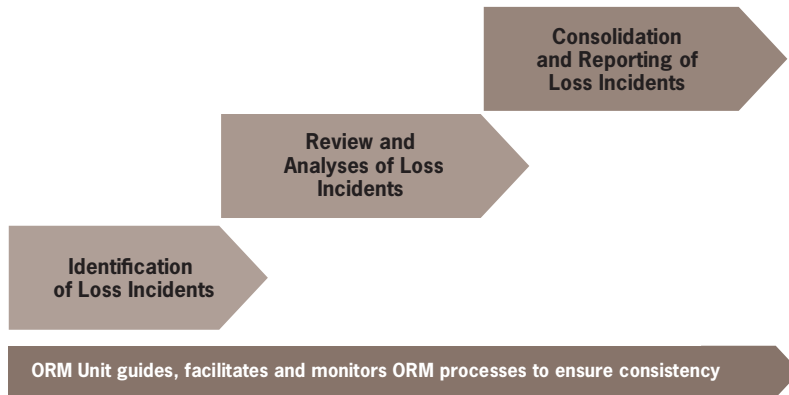
This is achieved through pro-active management and mitigation of risks by systematically identifying the causes, events and consequences to the risks. The Bank will conduct RCSA process

at unit level to be facilitated by the Risk Agents. The overview of RCSA process is illustrated in the diagram below:



RISK MANAGEMENT (CONT'D)

Incident Management and Data Collection (IMDC) is another significant ORM process that the Bank will operate. This process refers to collection of operational loss incidents which will provide an accurate reflection from the historical perspective of the operational risk profile of the Bank. Incident Management process shall encompass the processes illustrated in the diagram below:



Implementation Of Capital Adequacy Framework For Islamic Banks (CAFIB)

With effect from 1 January 2008, under the CAFIB requirements, the Bank has adopted the following risk measurement methodologies for the purpose of calculating a minimum capital requirement to be held by Islamic banks:

- (i) Standardised Approach for Credit Risk;
- (ii) Standardised Approach for Market Risk; and
- (iii) Basic Indicator Approach for Operational Risk.

A number of initiatives under the CAFIB program are currently in the pipeline. Apart from addressing the basic approaches for credit, market and operational risks, the initiatives also serve as the platform for advanced risk measurement methodologies.

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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are as disclosed in Note 13 to the financial statements.

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

RESULTS

	<u>Group</u>	<u>Bank</u>
	RM'000	RM'000
Profit for the year	48,138	49,442

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

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.

DIVIDEND

The amount of dividend paid by the Bank since 31 December 2006 were as follow:

In respect of the financial year ended 31 December 2006 as reported in the directors' report of that year.

DIRECTORS' REPORT

DIVIDEND (CONT'D)

The amount of dividend paid by the Bank since 31 December 2006 were as follows: (Cont'd)

RM'000

Final dividend of 5.55% less 27% taxation on 250,000,000 Musharakah Irredeemable Non-Cumulative Convertible Preference Shares ("MINCCPS"), declared on 27 February 2007 and paid on 10 July 2007.

The directors do not recommend the payment of any dividend in respect of the current financial years.

10,128

DIRECTORS

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

Dato' Ismail Shahudin
 Dato' Abdul Manap Abd Wahab
 Ismail Ibrahim
 Datin Azizah Mohd. Jaafar
 Prof. Dato' Dr. Aziuddin Ahmad
 Abdul Jabbar Abdul Majid
 Tengku Dato' Hasmuddin Tengku Othman

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Bank as shown in Note 29 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' REPORT

DIRECTORS' INTEREST

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

OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Group and the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and have satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for bad and doubtful financing; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.
- (b) As at the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad financing, or the amount of the allowance for bad and doubtful financing in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the value attributed to current assets in the financial statements of the Group and of the Bank misleading.
- (c) As 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 valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) As at the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (CONT'D)

- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent 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 or of the Bank to meet their obligations 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 Group and of the Bank for the financial year in which this report is made.

BUSINESS REVIEW 2007

Net profit for the financial year ended 31 December 2007 amounted to RM49.4 million, compared to RM73.9 million recorded in previous year.

The modest performance registered in the year under review was attributed to higher allowance for losses on financing, increasing to RM117.0 million from RM53.8 million in the preceding year, in part reflected the shift in accounting policies on impaired financing, measured on more stringent basis beginning January 2007.

Total assets were sustained at RM13.8 billion in 2007, slight increase from RM13.5 billion a year ago. Financing-based activities increased to RM6.0 billion excluding sale to Cagamas from RM5.2 billion in 2006, reflecting an increase of 15% against industry growth at about 8%. Risk Weighted Capital ratio remained steady as at end 2007, equivalent to 13.6% compared to 15.7% in the preceding corresponding period.

DIRECTORS' REPORT

PROSPECTS 2008

The uncertain economic climate to-date portends another challenging year for the bank and the financial industry at large. The broadening signals of a stalling global demand suggest an economic downturn may be inevitable in the immediate term. Still, in these challenging times, there remains enormous opportunity to further differentiate Bank Muamalat in essence, its potential in the burgeoning Islamic financial markets.

RATING BY EXTERNAL RATING AGENCIES

Rating Agency	Date	Classification	Received
Rating Agency Malaysia Berhad	October, 2007	Long term Short term Subordinated Bond Outlook	A2 P1 A3 Negative

SIGNIFICANT EVENTS

Significant events are disclosed in notes 13(a) to the financial statements.

SUBSEQUENT EVENTS

Subsequent events are disclosed in note 45 to the financial statements.

DISCLOSURE OF SHARIAH COMMITTEE

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

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

DIRECTORS' REPORT

DISCLOSURE OF SHARIAH COMMITTEE (CONT'D)

- (b) To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shariah principle; and
- (c) To advice the Bank on matters to be referred to the Shariah Advisory Council.

ZAKAT OBLIGATIONS

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2008.

Dato' Ismail Shahudin

Kuala Lumpur, Malaysia

Ismail Ibrahim

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

We, Dato' Ismail Shahudin and Ismail Ibrahim, being two of the directors of Bank Muamalat Malaysia Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 52 to 139 are drawn up in accordance with the provisions of the Companies Act, 1965, applicable Financial Reporting Standards in Malaysia, as modified by Bank Negara Malaysia Guidelines, so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2007 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2008.

Dato' Ismail Shahudin

Ismail Ibrahim

Kuala Lumpur, Malaysia

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

I, Mohd Zafer Mohd Hashim, being the officer primarily responsible for the financial management of Bank Muamalat Malaysia Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 52 to 139 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Mohd Zafer Mohd Hashim
at Kuala Lumpur in Federal Territory
on 25 February 2008

Mohd Zafer Mohd Hashim

Before me,

Commissioner for Oaths

REPORT OF THE SHARIAH COMMITTEE

We, the Shariah Committee of Bank Muamalat Malaysia Berhad, do hereby confirm that in our opinion, the operations of the Bank, to the best of its effort for the year ended 31 December 2007 and to the best of our knowledge, have been conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee,

Azizi Che Seman

Kuala Lumpur, Malaysia
25 February 2008

Associate Professor Dr. Mohamad Sabri Haron

REPORT OF THE AUDITORS
TO THE MEMBERS OF BANK MUAMALAT MALAYSIA BERHAD

We have audited the financial statements set out on pages 52 to 139. These financial statements are the responsibility of the Bank's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Bank as at 31 December 2007 and of the results and the cash flows of the Group and of the Bank for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

REPORT OF THE AUDITORS
TO THE MEMBERS OF BANK MUAMALAT MALAYSIA BERHAD

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

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young

AF: 0039

Chartered Accountants

Nik Rahmat Kamarulzaman bin Nik Ab. Rahman

No. 1759/02/10(J)

Partner

Kuala Lumpur, Malaysia

25 February 2008

BALANCE SHEETS
AS AT 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
ASSETS					
Cash and short-term funds	4	4,466,215	4,995,840	4,465,895	4,995,376
Deposits and placements with banks and other financial institutions	5	-	63,000	-	63,000
Securities:					
Held-to-maturity	6 (a)	30,891	33,186	30,891	33,186
Available-for-sale	6 (b)	3,302,350	2,817,688	3,302,350	2,817,688
Financing of customers	7	5,585,247	5,148,171	5,585,247	5,148,171
Statutory deposits with Bank Negara Malaysia	9	288,471	279,260	288,471	279,260
Other assets	10	63,152	48,357	63,406	56,466
Property, plant and equipment	11	44,530	47,965	44,427	47,847
Prepaid land lease payment	12	269	273	269	273
Investment in subsidiaries	13	-	-	10,723	6,305
Deferred tax assets (net)	14	23,013	16,669	23,013	16,669
Goodwill	15	1,219	227	-	-
Total assets		13,805,357	13,450,636	13,814,692	13,464,241
LIABILITIES					
Deposits from customers	16	12,172,868	12,178,691	12,180,247	12,195,372
Deposits and placements of banks and other financial institutions	17	228,014	100,150	228,014	100,150
Bills and acceptances payable		343,940	118,563	343,940	118,563
Other liabilities	18	72,774	84,914	72,702	84,479
Provision for zakat and taxation	19	430	1,681	430	1,719
Subordinated bonds	21	250,000	250,000	250,000	250,000
Total liabilities		13,068,026	12,733,999	13,075,333	12,750,283

BALANCE SHEETS
AS AT 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
SHAREHOLDERS' EQUITY					
Share capital	20	500,000	500,000	500,000	500,000
Reserves	22	237,331	213,126	239,359	213,958
		737,331	713,126	739,359	713,958
Minority interest		-	3,511	-	-
Total shareholders' equity		737,331	716,637	739,359	713,958
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		13,805,357	13,450,636	13,814,692	13,464,241
COMMITMENTS AND CONTINGENCIES	37	4,690,562	3,211,850	4,690,562	3,211,850
CAPITAL ADEQUACY *	41				
Core capital ratio		9.3%	10.7%	9.3%	10.7%
Risk-weighted capital ratio		13.7%	15.8%	13.6%	15.7%
Core capital ratio net of proposed dividends**		9.3%	10.5%	9.3%	10.4%
Risk-weighted capital ratio net of proposed dividends**		13.7%	15.6%	13.6%	15.5%

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

** No dividend was proposed in the financial year ended 31 December 2007.

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

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income derived from investment of depositors' funds and others	23	678,510	573,497	678,510	573,497
Income derived from investment of shareholders' funds	24	85,140	53,773	84,750	53,583
Allowance for losses on financing	25	(117,048)	(53,814)	(117,048)	(53,814)
Provision for commitments and contingencies		-	668	-	668
Impairment loss	26	(34,649)	(17,403)	(34,649)	(17,403)
Marked to market (loss)/gain from derivatives		(1,128)	469	(1,128)	469
Other expenses directly attributable to the investment of the depositors and shareholders' funds		(19,869)	(10,398)	(19,869)	(10,369)
Total distributable income		590,956	546,792	590,566	546,631
Income attributable to depositors	27	(325,542)	(274,007)	(325,742)	(274,007)
Total net income		265,414	272,785	264,824	272,624
Personnel expenses	28	(91,480)	(79,577)	(90,597)	(78,879)
Other overheads and expenditures	31	(94,151)	(84,748)	(93,630)	(83,916)
Finance cost	32	(15,545)	(5,051)	(15,055)	(5,051)
Profit before zakat and taxation		64,238	103,409	65,542	104,778
Zakat	33	(207)	(540)	(207)	(540)
Taxation	34	(15,893)	(30,349)	(15,893)	(30,349)
Net profit for the financial year		48,138	72,520	49,442	73,889

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Attributable to:					
Equity holders of the parent		-	73,057	-	-
Minority interest		-	(537)	-	-
		-	72,520	-	-
Earnings per share (sen):					
Basic	35 (a)	19.3	29.0	19.8	29.6
Diluted	35 (b)	9.6	14.5	9.9	14.8

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

Group	← Attributable to Equity Holders of the Parent →							
	Share capital	Musharakah irredeemable non- cumulative convertible preference shares	Statutory reserve*	Net unrealised gains/ (losses) on available- for-sale securities	Distributable Retained profits	Total	Minority Interest	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2006	225,846	171,429	79,019	(4,374)	51,763	523,683	-	523,683
Acquisition of a subsidiary	-	-	-	-	-	-	4,048	4,048
Net gains and losses not recognised in the income statement	-	-	-	13,661	-	13,661	-	13,661
Net profit for the year	-	-	-	-	73,057	73,057	(537)	72,520
Transfer to statutory reserve	-	-	36,944	-	(36,944)	-	-	-
Issuance of preference shares for cash	-	102,725	-	-	-	102,725	-	102,725
Converted to ordinary shares during the year	24,154	(24,154)	-	-	-	-	-	-
At 31 December 2006	250,000	250,000	115,963	9,287	87,876	713,126	3,511	716,637
At 1 January 2007	250,000	250,000	115,963	9,287	87,876	713,126	3,511	716,637
Acquisition of a subsidiary	-	-	-	-	-	-	(3,511)	(3,511)
Net gains and losses not recognised in the income statement	-	-	-	(13,805)	-	(13,805)	-	(13,805)
Net profit for the year	-	-	-	-	48,138	48,138	-	48,138
Transfer to statutory reserve	-	-	24,750	-	(24,750)	-	-	-
Dividend paid	-	-	-	-	(10,128)	(10,128)	-	(10,128)
At 31 December 2007	250,000	250,000	140,713	(4,518)	101,136	737,331	-	737,331

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

Bank	Share capital RM'000	Musharakah irredeemable non- cumulative convertible preference shares RM'000	◀ Non-distributable ▶		Distributable Retained profits RM'000	Total RM'000
			Statutory reserve * RM'000	Net unrealised gains/ (losses) on available- for-sale securities RM'000		
At 1 January 2006	225,846	171,429	79,019	(4,374)	51,763	523,683
Net gains and losses not recognised in the income statement	-	-	-	13,661	-	13,661
Net profit for the year	-	-	-	-	73,889	73,889
Transfer to statutory reserve	-	-	36,944	-	(36,944)	-
Issuance of preference shares for cash	-	102,725	-	-	-	102,725
Converted to ordinary shares during the year	24,154	(24,154)	-	-	-	-
At 31 December 2006	250,000	250,000	115,963	9,287	88,708	713,958
At 1 January 2007	250,000	250,000	115,963	9,287	88,708	713,958
Net gains and losses not recognised in the income statement	-	-	-	(13,913)	-	(13,913)
Net profit for the year	-	-	-	-	49,442	49,442
Transfer to statutory reserve	-	-	24,721	-	(24,721)	-
Dividend paid	-	-	-	-	(10,128)	(10,128)
At 31 December 2007	250,000	250,000	140,684	(4,626)	103,301	739,359

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

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOW FROM OPERATING ACTIVITIES				
Income from financing	357,120	290,202	357,120	290,202
Income/profit paid to depositors	(346,329)	(256,166)	(346,529)	(256,166)
Operating fees and commission receipts	52,515	37,813	52,515	37,813
Guarantee fees receipts	13,644	5,697	13,644	5,697
Service charges receipts	10,899	3,508	10,521	3,508
Recoveries of non-performing financing	40,431	42,220	40,431	42,220
Cash payments to employees and others	(198,538)	(134,956)	(197,151)	(132,922)
Cash flow used for operating profit before changes in operating assets and liabilities	(70,258)	(11,682)	(69,449)	(9,648)
Increase in Operating Assets				
Financing, advances and other loans	(437,070)	(1,185,063)	(437,070)	(1,185,637)
Other assets	(22,131)	(11,570)	(11,358)	(25,752)
Statutory deposits with Bank Negara Malaysia	(9,211)	(36,265)	(9,211)	(36,265)
(Decrease)/Increase in Operating Liabilities				
Deposits from customers	(5,823)	2,804,720	(15,125)	2,821,401
Deposits and placements of banks and other financial institutions	127,864	(132,212)	127,864	(132,212)
Bills and acceptances payable	225,376	53,520	225,376	53,520
Other payables	(14,176)	6,494	(13,000)	11,515
Net cash (used in)/from operating activities before zakat and taxation	(205,429)	1,487,942	(201,973)	1,496,922
Zakat paid	(317)	(247)	(317)	(247)
Taxes paid (net)	(19,810)	(33,891)	(19,810)	(33,891)
Net cash (used in)/generated from operating activities	(225,556)	1,453,804	(222,100)	1,462,784

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
CASH FLOW FROM INVESTING ACTIVITIES				
Dividend from available-for-sale securities	105,235	122,460	105,235	122,460
Proceeds from disposal of available-for-sale securities	2,806,898	2,543,364	2,806,898	2,543,364
Purchase of available-for-sale securities	(3,408,993)	(3,189,733)	(3,408,993)	(3,189,733)
Acquisition of a subsidiary company, net of cash acquired	(1,090)	3,171	(4,418)	(6,300)
Dividend from money market	150,562	114,958	150,562	114,958
Proceeds from disposal of property, plant and equipment	31	358	31	358
Purchase of property, plant and equipment	(9,584)	(11,659)	(9,568)	(11,632)
Net cash used in investing activities	(356,941)	(417,081)	(360,253)	(426,525)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of preferences shares	-	102,725	-	102,725
Proceeds from issuance of subordinated bonds	-	250,000	-	250,000
Dividend paid	(10,128)	-	(10,128)	-
Net cash (used in)/generated from financing activities	(10,128)	352,725	(10,128)	352,725
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(592,625)	1,389,448	(592,481)	1,388,984
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	5,058,840	3,669,392	5,058,376	3,669,392
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4,466,215	5,058,840	4,465,895	5,058,376

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (21 ZULHIJAH 1428)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and cash equivalents comprise:				
Cash and short-term funds	4,466,215	4,995,840	4,465,895	4,995,376
Deposits and placements with financial institutions	-	63,000	-	63,000
	4,466,215	5,058,840	4,465,895	5,058,376

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

1. CORPORATE INFORMATION

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

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

The principal activities of the subsidiaries are as disclosed in Note 13 to the financial statements.

The Bank is a licensed Islamic Bank under the Islamic Banking Act, 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 28th Floor, Menara Bumiputra, Jalan Melaka, 50100, Kuala Lumpur.

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

The total number of branches are 48 as at 31 December 2007 (2006: 43) while the total number of employees are 1,454 (2006: 1,380).

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 February 2008.

2. BASIS OF PREPARATION

The financial statements comply with the provisions of the Companies Act, 1965, applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia (BNM) Guidelines and Shariah requirements. At the beginning of the current financial year, the Group and the Bank had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2007 as described fully in Note 3.2.

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(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.

(ii) Basis of Consolidation

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

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.

Acquisitions of subsidiaries are 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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)

Any excess of the cost of the 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 interest represents the portion of profit and 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 the changes in the subsidiaries' equity since then.

(c) 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 net 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. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(d) Financing of Customers

Financing are stated after deducting the allowance for possible losses.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(e) Allowances for Impaired Financing

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

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

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

Specific allowance provided for impaired financing had been made in full compliance with the BNM/GP3. Additional allowances for impaired financing are provided when the recoverable amount is lower than the net book value of financing (outstanding amount of financing, net of specific allowances) and long outstanding non-performing financing on the following basis:

- (i) assigning fifty percent (50%) of the force sale value of the properties held as collateral for non-performing financing which are outstanding for more than five (5) years but less than seven (7) years; and
- (ii) no value will be assigned for the collateral of non-performing financing which are outstanding for seven (7) years and above.

Any allowance made during the year is charged to the income statement.

During the year, the Bank has adopted a more stringent classification policy on non-performing financing, whereby financing are classified as non-performing and sub-standard when repayments are in arrears for more than three (3) months from the first day of defaults or after maturity date.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(e) Allowances for Impaired Financing (Cont'd)

The Bank has also adopted a more stringent basis for specific allowances on non-performing financing by making 20% specific allowance on non-performing financing which are more than 5 months-in-arrears, 50% for non-performing financing in arrears of 8 months and 100% for non-performing financing in arrears of 11 months and above. Previously, specific allowances was only made at 20% when a non-performing financing was in arrears of 6 months, 50% for non-performing financing in arrears of 9 months and 100% for non-performing financing in arrears of 12 months and above.

The Bank is not able to quantify the effect of the change in the basis of provisioning for specific allowance on non-performing financing.

(f) Securities

The holding of securities of the Group and of the Bank are segregated based on the categories and valuation methods:

(i) Securities Held-For-Trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement.

(ii) Securities Available-For-Sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(f) Securities (Cont'd)

(iii) Securities Held-To-Maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intent and ability to hold to maturity. The securities held-to-maturity are measured at accreted/amortised cost based on effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

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.

(g) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part 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, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has unlimited useful life and therefore is not depreciated. Renovation work-in-progress are also not depreciated as these assets are not available for use.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(g) Property, Plant and Equipment and Depreciation (Cont'd)

Depreciation of other property, plant 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:

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

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

An item of property, plant 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 and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(h) Foreign Currencies

(i) Functional and Presentation 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(h) Foreign Currencies (Cont'd)

(i) Functional and Presentation Currency (Cont'd)

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. Gains or losses arising from foreign currency transactions are only recognised when realised to comply with the principles of Shariah.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the year.

(i) Derivatives

(a) Foreign Exchange Contract

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.

(b) Profit Rate and Foreign Currency Swaps

All derivatives 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 the derivatives 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:

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(i) Derivatives (Cont'd)

(b) Profit Rate and Foreign Currency Swaps (Cont'd)

(i) Fair value hedge

Where a derivative 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.

(ii) 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.

(j) Bills and Acceptances Payable

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

(k) Provision for Liabilities

Provisions 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, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(l) Liabilities

Deposits from customers, deposits and placement 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 the future for goods and services received.

(m) Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Bank. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase 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 plans are post-employment benefit plans 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 as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(n) Income Recognition

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(n) Income Recognition (Cont'd)

(i) Income from Financing

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

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

(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 is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

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

(o) Income Tax

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(o) Income Tax (Cont'd)

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 not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or 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, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

(p) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5% of the shareholders' funds growth method.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(q) Profit Equalisation Reserve ("PER")

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

The Bank did not maintain "PER" due to insufficient income from depositors funds, to cover the funding cost. In mitigating this, the Bank has utilised income from shareholders' fund.

(r) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents includes cash and bank balances and short-term funds with remaining maturity of less than one month.

(s) Financial Instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(t) Impairment of Non-Financial Assets

The carrying amounts of assets, other than 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 goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Summary of Significant Accounting Policies (Cont'd)

(t) Impairment of Non-Financial Assets (Cont'd)

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

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

On 1 January 2007, the Group and the Bank adopted the following FRSs mandatory for financial periods beginning on or after 1 October 2006:

FRS 117	117 Leases
FRS 124	124 Related Party Disclosures

(a) FRS 117: Leases

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and building elements of a lease of land and building are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

(a) FRS 117: Leases (Cont'd)

The Group and the Bank have applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2006, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed below, certain comparatives have been restated. The effects on the balance sheets as at 31 December 2006 and income statements for the year ended 31 December 2006 are set out below.

(i) Effects on Balance Sheets as at 31 December 2006

<u>Description of change</u>	<u>As previously stated</u> RM'000	<u>Increase/ (Decrease)</u> RM'000	<u>Restated</u> RM'000
Group			
Property, plant and equipment	48,238	(273)	47,965
Prepaid land lease payments	-	273	273
Bank			
Property, plant and equipment	48,120	(273)	47,847
Prepaid land lease payments	-	273	273

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

(a) FRS 117: Leases (Cont'd)

(ii) Effects on Income Statements for the year ended 31 December 2006

	As previously stated	Increase/ (Decrease)	Restated
	RM'000	RM'000	RM'000
Group and Bank			
Depreciation of property, plant and equipment	13,544	(4)	13,540
Amortisation of prepaid land and lease payments	-	4	4

(b) FRS 124: Related Party Disclosures

The adoption of FRS 124 did not result in significant changes in accounting policies of the Group and the Bank and did not have a significant impact on the Group and the Bank.

The following new and revised FRSs which are mandatory for companies with financial periods beginning on or after 1 January 2007 are not relevant to the Group and the Bank:

FRS	Effective for financial periods beginning on/after
FRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2007

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

(b) FRS 124: Related Party Disclosures (Cont'd)

The Group and the Bank have not adopted the following new and revised FRSs which have been issued but not yet effective.

FRS	Effective for financial periods beginning on/after
Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operations	1 July 2007
FRS 107: Cash Flow Statements	1 July 2007
FRS 111: Construction Contracts	1 July 2007
FRS 112: Income Taxes	1 July 2007
FRS 118: Revenue	1 July 2007
FRS 120: Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134: Interim Financial Reporting	1 July 2007
FRS 137: Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
IC Interpretation 1: Changes in Existing, Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under FRS 1292004 Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

(b) FRS 124: Related Party Disclosures (Cont'd)

The impact of applying the above FRSs, amendments to accounting standards and IC interpretations on these financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors are not disclosed as FRS 107, 112, 118, 134 and 137, Amendment to FRS 121 and IC Interpretation 1 do not have any significant financial impact on the financial statements, and FRS 111, 120 and IC Interpretation 2, 5, 6, 7 and 8 are not applicable to the Group and the Bank.

In the previous financial year, the MASB had also issued FRS 139 Financial Instruments: Recognition and Measurement for which the MASB has yet to announce the effective date. The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

3.3 Significant Accounting Estimates and Judgements

Preparation of the financial statements involved making certain estimates and assumptions concerning the future judgements. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions by management may have an effect on the balances as reported in financial statements.

(a) Fair value estimation of securities

As disclosed in Note 3.1(f), 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Significant Accounting Estimates and Judgements (Cont'd)

(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) Allowances for losses on loans, advances and financing

As stated in Note 3.1(e), specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as substandard, bad or doubtful. The individual assessment of financing may include making estimates and judgements about the counterparty's financial position, fair value of the underlying collaterals and future recoverable cash flows in workout/restructuring arrangements.

4. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	247,056	150,376	246,736	150,376
Money at call and interbank placements with remaining maturity not exceeding one month	4,219,159	4,845,464	4,219,159	4,845,000
	4,466,215	4,995,840	4,465,895	4,995,376

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Bank Negara Malaysia	-	63,000

6. SECURITIES

	Group and Bank	
	2007	2006
	RM'000	RM'000
(a) Held-to-maturity		
At amortised cost		
Corporate bonds	32,952	35,247
Accumulated impairment loss	(2,061)	(2,061)
Total held-to-maturity securities	30,891	33,186
(b) Available-for-sale		
At fair value		
Quoted securities:		
Malaysian government investment certificate	351,254	792,294
Cagamas bonds	35,402	110,093
Khazanah bonds	350,427	340,978
Islamic private debt securities	2,114,739	1,358,837
Sukuk	362,814	130,800
Negotiable instrument of deposit certificates	84,134	81,106
	3,298,770	2,814,108
Unquoted securities:		
Shares	3,580	3,580
Total available-for-sale securities	3,302,350	2,817,688

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

7. FINANCING OF CUSTOMERS

(i) By type

	Group and Bank	
	2007	2006
	RM'000	RM'000
Cash line	470,707	326,408
Term financing		
Home financing	3,714,761	3,416,531
Syndicated financing	149,536	72,863
Hire purchase receivables	1,708,600	1,532,320
Leasing receivables	145,378	143,957
Other term financing	1,504,361	1,110,294
Trust receipts	175,834	81,621
Claims on customers under acceptance credits	734,316	651,055
Staff financing	97,895	100,370
Revolving credit	612,934	659,425
	9,314,322	8,094,844
Less : Unearned income	(3,064,364)	(2,687,401)
	6,249,958	5,407,443
Less : Financing sold to Cagamas	(379,373)	(34,100)
	5,870,585	5,373,343
Less : Allowance for bad and doubtful financing:		
- General	(90,832)	(81,453)
- Specific	(194,506)	(143,719)
Total net financing, advances and other loans	5,585,247	5,148,171

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

7. FINANCING OF CUSTOMERS (CONT'D)

(ii) By contract

	Group and Bank	
	2007	2006
	RM'000	RM'000
Bai' Bithaman Ajil (deferred payment sale)	1,903,291	1,977,474
Ijarah (lease)	80,125	73,970
Ijarah Thumma Al-Bai (lease ended with ownership)	1,399,032	1,239,488
Inah (purchase of debt)	689,272	629,677
Murabahah (cost-plus)	1,277,156	1,075,754
Musharakah (profit and loss sharing)	7,838	60
Mudharabah (profit sharing)	-	504
Istisna' (sale order)	508,219	369,861
Qard Hasan (benevolent loan)	5,652	6,555
	5,870,585	5,373,343

(iii) By type of customer

Domestic non-banking institutions	42,300	47,363
Domestic business enterprises		
- Small business enterprises	923,564	594,538
- Others	1,707,842	1,467,750
Government and statutory bodies	57,877	56,960
Individuals	3,053,412	3,155,184
Other domestic entities	2,750	4,826
Foreign entities	82,840	46,722
	5,870,585	5,373,343

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

7. FINANCING OF CUSTOMERS (CONT'D)

(iv) By profit rate sensitivity

	Group and Bank	
	2007	2006
	RM'000	RM'000
Fixed rate:		
Home financing	868,032	1,311,767
Hire purchase receivables	1,399,305	1,239,488
Others	2,928,270	2,436,378
Variable rate:		
Home financing	478,679	263,210
Others	196,299	122,500
	5,870,585	5,373,343

(v) By sector

Agriculture	79,868	85,980
Mining and Quarrying	467	-
Manufacturing	813,055	829,439
Electricity, gas and water	21,470	15,293
Construction	982,282	659,957
Purchase of landed property:		
- Residential	1,346,710	1,574,975
- Non-residential	289,235	266,389
General commerce	471,584	203,664
Transport, storage and communication	140,198	80,693
Finance, insurance and business services	159,645	138,717
Purchase of securities	4,714	25,678
Purchase of transport vehicles	1,399,305	1,239,719
Consumption credit	162,052	206,241
Others	-	46,598
	5,870,585	5,373,343

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

8. NON-PERFORMING FINANCING

	Group and Bank	
	2007	2006
	RM'000	RM'000
(i) Movements in the non-performing financing, advances and other financing		
As at 1 January	354,492	281,472
Classified as non-performing during the year	609,604	293,124
Reclassified as performing during the year	(330,416)	(142,391)
Recovered during the year	(70,574)	(53,566)
Written off during the year	(56,904)	(24,147)
As at 31 December	506,202	354,492
Less : Specific allowance	(194,506)	(143,719)
Net non-performing financing*	311,696	210,773
Ratio of net non-performing financing to total net financing	5.1%	4.0%
* Total net financing is inclusive of amount sold to Cagamas		
(ii) Movements in the allowance for bad and doubtful financing		
General allowance		
As at 1 January	81,453	75,948
Allowance made during the year	9,379	5,505
As at 31 December	90,832	81,453
As % of total gross financing, advances and other loans less specific allowance	1.5%	1.6%

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

8. NON-PERFORMING FINANCING (CONT'D)

	Group and Bank	
	2007	2006
	RM'000	RM'000
(ii) Movements in the allowance for bad and doubtful financing (Cont'd)		
Specific allowance		
As at 1 January	143,719	115,546
Allowance made during the year	158,078	99,565
Amount recovered	(50,387)	(50,610)
Amount written off	(56,904)	(24,101)
Transferred from provision for doubtful debts	-	3,319
As at 31 December	194,506	143,719
(iii) Non-performing financing by sector		
Agriculture	217	229
Manufacturing	69,676	17,614
Electricity, gas and water	41	227
Construction	53,572	64,372
Purchase of landed property:		
- Residential	243,679	162,055
- Non-residential	48,106	40,272
General commerce	10,705	6,119
Transport, storage and communication	1,343	364
Finance, insurance and business services	1,761	10,716
Purchase of securities	1,735	16,608
Purchase of transport vehicles	49,525	18,856
Consumption credit	25,842	17,060
	506,202	354,492

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

10. OTHER ASSETS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits	2,366	2,447	2,366	2,447
Prepayments	6,097	7,543	6,097	7,543
Income receivables	36,704	30,262	36,704	30,262
Other debtors	17,985	8,105	18,239	16,214
	63,152	48,357	63,406	56,466

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
At 31 December 2007					
Cost					
At 1 January 2007	2,958	14,092	119,457	1,289	137,796
Additions	-	-	7,153	2,431	9,584
Disposals	-	-	(101)	-	(101)
Reclassification	-	-	1,824	(1,824)	-
At 31 December 2007	2,958	14,092	128,333	1,896	147,279

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group (Cont'd)

	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Accumulated Depreciation					
At 1 January 2007	571	2,557	86,703	-	89,831
Charge for the year	103	353	12,560	-	13,016
Disposals	-	-	(98)	-	(98)
At 31 December 2007	674	2,910	99,165	-	102,749
Carrying Amount at 31 December 2007	2,284	11,182	29,168	1,896	44,530

At 31 December 2006

Cost

At 1 January 2006	3,163	14,092	107,292	1,801	126,348
Subsidiary acquired	-	-	120	-	120
Additions	-	-	8,763	2,896	11,659
Disposals	(205)	-	(126)	-	(331)
Reclassification	-	-	3,408	(3,408)	-
At 31 December 2006	2,958	14,092	119,457	1,289	137,796

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group (Cont'd)

	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Accumulated Depreciation					
At 1 January 2006	494	2,204	73,725	-	76,423
Subsidiary acquired	-	-	29	-	29
Charge for the year	77	353	13,110	-	13,540
Disposals	-	-	(161)	-	(161)
At 31 December 2006	571	2,557	86,703	-	89,831
Carrying Amount at 31 December 2006	2,387	11,535	32,754	1,289	47,965

Bank

At 31 December 2007

Cost

At 1 January 2007	2,958	14,092	119,310	1,289	137,649
Additions	-	-	7,136	2,432	9,568
Disposals	-	-	(101)	-	(101)
Reclassification	-	-	1,824	(1,824)	-
At 31 December 2007	2,958	14,092	128,169	1,897	147,116

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Bank (Cont'd)

	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Accumulated Depreciation					
At 1 January 2007	571	2,557	86,674	-	89,802
Charge for the year	103	353	12,529	-	12,985
Disposals	-	-	(98)	-	(98)
At 31 December 2007	674	2,910	99,105	-	102,689
Carrying Amount at 31 December 2007	2,284	11,182	29,064	1,897	44,427

At 31 December 2006

Cost

At 1 January 2006	3,163	14,092	107,292	1,801	126,348
Additions	-	-	8,736	2,896	11,632
Disposals	(205)	-	(126)	-	(331)
Reclassification	-	-	3,408	(3,408)	-
At 31 December 2006	2,958	14,092	119,310	1,289	137,649

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Bank (Cont'd)

	Freehold land and building RM'000	Office building RM'000	Furniture, fixtures, fittings, motor vehicle and equipment RM'000	Renovation work in progress RM'000	Total RM'000
Accumulated Depreciation					
At 1 January 2006	494	2,204	73,725	-	76,423
Charge for the year	77	353	13,110	-	13,540
Disposals	-	-	(161)	-	(161)
At 31 December 2006	571	2,557	86,674	-	89,802
Carrying Amount at 31 December 2006	2,387	11,535	32,636	1,289	47,847

Transfer of the title deed for office building with a net book value of RM867,502 (2006: RM893,856) is pending approval from the relevant authorities.

12. PREPAID LAND LEASE PAYMENTS

	Group and Bank	
	2007 RM'000	2006 RM'000
At 1 January	273	277
Amortisation	4	4
At 31 December	269	273

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

12. PREPAID LAND LEASE PAYMENTS (CONT'D)

	Group and Bank	
	2007	2006
	RM'000	RM'000
Analysed as:		
Long term leasehold land	269	273
	269	273

13. INVESTMENT IN SUBSIDIARIES

	Group and Bank	
	2007	2006
	RM'000	RM'000
Unquoted shares at cost - in Malaysia	10,723	6,305

Details of the subsidiary companies are as follows:

Name	Principal activities	Country of incorporation	Percentage of equity held		Paid up capital
			2007	2006	31/12/2007
			%	%	
Muamalat Nominees (Tempatan) Sdn. Bhd.	Dormant	Malaysia	100	100	2
Muamalat Nominees (Asing) Sdn. Bhd.	Dormant	Malaysia	100	100	2
Muamalat Venture Sdn. Bhd.	Islamic Venture Capital Business	Malaysia	100	100	2

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

Details of the subsidiary companies are as follows: (Cont'd)

Name	Principal activities	Country of incorporation	Percentage of equity held		Paid up capital 31/12/2007
			2007	2006	
			%	%	
Muamalat Invest Sdn. Bhd.* (formerly known as Muamalat Avenue Sdn. Bhd.)	Provision of Fund Management Services	Malaysia	100	60	10,000,000

* On 29 March 2007, the Bank's wholly owned subsidiary Muamalat Avenue Sdn. Bhd. changed its name to Muamalat Invest Sdn Bhd.

(a) Acquisition of additional interest in Muamalat Invest Sdn Bhd (formerly known as Muamalat Avenue Sdn. Bhd.) ("MISB")

On 29 March 2007, the Bank completed the acquisition of 4,000,000 ordinary shares of RM1.00 each in MISB representing 40% of the issued and paid up share capital of MISB not already owned by the Bank, for cash consideration of RM4,418,000, thereby making MISB a wholly owned subsidiary of the Bank.

	RM'000
Purchase consideration satisfied by cash	4,418

The effect of the acquisition of MISB on the financial results of the Group for the financial year is as follows:

	2007 RM'000
Revenue	210
Loss for the year	1,189

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Acquisition of additional interest in Muamalat Invest Sdn Bhd (formerly known as Muamalat Avenue Sdn. Bhd.) ("MISB") (Cont'd)

The fair value of assets and liabilities assumed arising from the acquisition were as follows:

	Fair value recognised on acquisition RM'000
Property, plant and equipment	50
Deposits with financial institutions	3,120
Other receivables, deposits and prepaid expenses	70
Cash and bank balances	208
	3,448
Trade and other payables	22
Fair value of net assets	3,426
Less: Minority interests	-
	3,426
Group's share of net assets	3,426
Goodwill on acquisition	992
	4,418
Total cost of acquisition	4,418

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Acquisition of additional interest in Muamalat Invest Sdn Bhd (formerly known as Muamalat Avenue Sdn. Bhd.) ("MISB") (Cont'd)

The cash outflow on acquisition is as follows:

	RM'000
Purchase consideration satisfied by cash representing total cash outflow of the Bank	4,418
Cash and cash equivalents of subsidiary acquired	(3,328)
Net cash outflow of the Group	1,090

14. DEFERRED TAX ASSETS (NET)

	Group and Bank	
	2007	2006
	RM'000	RM'000
At 1 January	16,669	20,856
Recognised in the income statement	1,549	(640)
Recognised in the equity	4,795	(3,547)
At 31 December	23,013	16,669

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Deferred tax assets	27,831	25,340
Deferred tax liabilities	(4,818)	(8,671)
	23,013	16,669

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

Deferred Tax Assets of the Group and the Bank:

	General allowance for bad and doubtful financing RM'000	Provision for liabilities RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2007	22,805	2,378	157	25,340
Recognised in income statements	1,508	(108)	(157)	1,243
Recognised in the equity	-	-	1,248	1,248
At 31 December 2007	24,313	2,270	1,248	27,831
At 1 January 2006	21,266	4,061	-	25,327
Recognised in income statements	1,539	(1,683)	157	13
At 31 December 2006	22,805	2,378	157	25,340

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

Deferred Tax Liabilities of the Group and the Bank:

	Property, plant and equipment RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2007	(4,834)	(3,837)	(8,671)
Recognised in the income statement	16	290	306
Recognised in the equity	-	3,547	3,547
At 31 December 2007	(4,818)	-	(4,818)
At 1 January 2006	(4,471)	-	(4,471)
Recognised in the income statement	(363)	(290)	(653)
Recognised in the equity	-	(3,547)	(3,547)
At 31 December 2006	(4,834)	(3,837)	(8,671)

15. GOODWILL

	Group	
	2007 RM'000	2006 RM'000
At beginning of year	227	-
Arising on acquisition of equity interest in MISB	992	227
At 31 December	1,219	227

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

15. GOODWILL (CONT'D)

At the date of acquisition, goodwill is allocated to the Group's cash generating units ("CGU") for impairment testing purposes. The recoverable amount of the CGU, is based on their value in use, computed by discounting the expected future cash flows of the units. The key assumptions for the computation of value in use include the discount rates and growth rates applied.

The management believes that any reasonably, possible change in the assumptions would not cause the carrying amount of the goodwill to exceed the recoverable amount of the CGU.

16. DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Non-Mudharabah Fund				
Demand deposits	3,431,110	2,620,473	3,431,110	2,620,473
Savings deposits	531,678	472,532	531,678	472,532
Negotiable Islamic debt certificate	2,101,518	2,123,434	2,101,518	2,123,434
Others	21,478	17,734	28,857	34,415
	6,085,784	5,234,173	6,093,163	5,250,854
Mudharabah Fund				
General investment deposits	4,893,023	5,960,122	4,893,023	5,960,122
Special general investment deposits	1,194,061	984,396	1,194,061	984,396
	6,087,084	6,944,518	6,087,084	6,944,518
	12,172,868	12,178,691	12,180,247	12,195,372

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

16. DEPOSITS FROM CUSTOMERS (CONT'D)

(ii) By type of customer

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	3,890,880	3,445,569	3,890,880	3,445,569
Business enterprises	5,740,568	5,732,944	5,747,947	5,749,625
Individuals	886,771	957,164	886,771	957,164
Others	1,654,649	2,043,014	1,654,649	2,043,014
	12,172,868	12,178,691	12,180,247	12,195,372

17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group	
	2007	2006
	RM'000	RM'000
Non-Mudharabah		
Bank Negara Malaysia	7,076	3,966
Licensed banks	33,151	34,242
Licensed Islamic banks	130,318	31,748
Others financial institutions	57,469	30,194
	228,014	100,150

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

18. OTHER LIABILITIES

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Sundry creditors	9,234	11,174	9,170	11,174
Income payable to depositors	42,212	46,895	42,212	46,895
Provision for commitments and contingencies [Note (a)]	8,494	8,494	8,494	8,494
Accrual for bonus	8,321	8,085	8,321	8,085
Others	4,513	10,266	4,505	9,831
	72,774	84,914	72,702	84,479

(a) Movement in provision for commitments and contingencies

	Group	
	2007	2006
	RM'000	RM'000
At 1 January	8,494	9,162
Write back in the year	-	(668)
At 31 December	8,494	8,494

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJJAH 1428)

19. PROVISION FOR ZAKAT AND TAXATION

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Zakat	430	540	430	540
Taxation	-	1,141	-	1,179
	430	1,681	430	1,719

20. SHARE CAPITAL

	Number of shares of RM1 each		Amount	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Authorised:				
Ordinary shares of RM1 each	3,000,000	3,000,000	3,000,000	3,000,000
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares of RM1 each	1,000,000	1,000,000	1,000,000	1,000,000
Total	4,000,000	4,000,000	4,000,000	4,000,000

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

20. SHARE CAPITAL (CONT'D)

	Number of shares of RM1 each		Amount	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 January	250,000	225,846	250,000	225,846
Converted during the year	-	24,154	-	24,154
At 31 December	250,000	250,000	250,000	250,000
Musharakah Irredeemable Non-Cumulative Convertible Preference Shares of RM1 each				
At 1 January	250,000	171,429	250,000	171,429
Issued during the year	-	102,725	-	102,725
Converted during the year	250,000	274,154 (24,154)	250,000	274,154 (24,154)
At 31 December	250,000	250,000	250,000	250,000
Total	500,000	500,000	500,000	500,000

The terms of the MINCCPS are as follows:

- (a) The dividends rate for the MINCCPS will be decided by the Board of Directors upon management recommendation based on the proceeding year's profit after tax the annual results have been presented.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

20. SHARE CAPITAL (CONT'D)

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

The shareholding of the Bank held by Bukhary Capital Sdn Bhd and Khazanah Nasional Berhad remain at 70% and 30% respectively.

21. SUBORDINATED BONDS

On 5 September 2006, the Bank issued RM250 million Subordinated Bonds under the Shariah principle of Bai' Bithaman Ajil. The Bonds are under a 10 non-callable 5 basis feature, with a profit rate of 6.25% per annum payable semi-annually. Under the 10 non-callable 5 basic feature, the Bank has the option to redeem the Bonds on the 5th anniversary or any semi-annual date thereafter. Should the Bank decide not to exercise its option to redeem the bonds, the holders of the Bonds will be entitled to an annual incremental step-up profit rate from the beginning of the 6th year to the final maturity date.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

22. RESERVES

		Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Statutory reserve	(a)	140,713	115,963	140,684	115,963
Retained profit	(b)	101,136	87,876	103,301	88,708
Net unrealised (losses)/gains on available-for-sale securities	(c)	(4,518)	9,287	(4,626)	9,287
		237,331	213,126	239,359	213,958

(a) Statutory reserve

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

(b) Retained Profit

The Income Tax Act 1967 was amended recently to introduce the single tier corporate tax system with effect from the year of assessment 2008. Under the new single tier corporate tax system, dividend distribution to shareholders will be exempted from tax. Under the single tier system, the Bank shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends paid, credited or distributed by the Company will be exempted from tax in the hands of the shareholders.

However, there will be 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 Section 108 Income Tax Act 1967 balance and opt to pay dividends under the single tier system. This proposed change in the tax law also provides for the Section 108 balance to be locked in as at 31 December 2007.

During the transitional period, the Bank can utilise the balance in the Section 108 account as at 31 December 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Bill, 2007.

As at 31 December 2007, balance sheet date, the Bank has sufficient balance in the Section 108 account to pay franked dividends out of its entire retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

22. RESERVES (CONT'D)

(c) Net unrealised (losses)/gains on available-for-sale securities

The net unrealised (losses)/gains on revaluation of the securities classified under available-for-sale category to its fair value.

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

	Group 2007 RM'000	Bank 2007 RM'000	Group and Bank 2006 RM'000
At 1 January	9,287	9,287	(4,374)
Unrealised (losses)/gains on available-for-sale securities during the year	(13,805)	(13,913)	13,661
At 31 December [^]	(4,518)	(4,626)	9,287

[^] Net unrealised (losses)/gains on available-for-sale securities at end of the financial year, of which, depositors' portion is RM6,477,600 (2006: unrealised gain of RM7,043,100).

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

	Group and Bank	
	2007 RM'000	2006 RM'000
Income derived from investment of:		
(i) General investment deposits	329,403	339,064
(ii) Other deposits	349,107	234,433
	678,510	573,497

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Finance income and hibah		
Income from financing	176,069	175,831
Held-for-trading securities	3	293
Held-for-maturity securities	317	169
Available-for-sale securities	42,904	44,580
Money at call and deposit with financial institutions	72,920	66,598
	292,213	287,471
Amortisation of premium less accretion of discounts	8,160	14,004
Total finance income and hibah	300,373	301,475
Other operating income		
Net gain from sale of available-for-sale securities	719	20,500
Net gain from sale of held-for-trading securities	12,865	1,501
	13,584	22,001
Fees and commission		
Guarantee fees	7,141	3,780
Processing fees	7,763	11,136
Commission	542	672
	15,446	15,588
Total	329,403	339,064

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

(ii) Income derived from investment of other deposits

	Group and Bank	
	2007	2006
	RM'000	RM'000
Finance income and hibah		
Income from financing	186,600	121,421
Held-for-trading securities	3	203
Held-for-maturity securities	336	117
Available-for-sale securities	45,471	31,073
Money at call and deposit with financial institutions	77,282	45,989
	309,692	198,803
Amortisation of premium less accretion of discounts	8,648	9,671
Total finance income and hibah	318,340	208,474
Other operating income		
Net gain from sale of available-for-sale securities	762	14,156
Net gain from sale of held-for-trading securities	13,635	1,037
	14,397	15,193
Fees and commission		
Guarantee fees	7,569	2,611
Processing fees	8,227	7,690
Commission	574	465
	16,370	10,766
Total	349,107	234,433

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

24. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Finance income and hibah				
Available-for-sale securities	47,037	30,713	47,037	30,713
Money at call and deposit with financial institutions	360	2,371	360	2,371
	47,397	33,084	47,397	33,084
Amortisation of premium less accretion of discounts	(1,549)	(1,730)	(1,549)	(1,730)
Total finance income and hibah	45,848	31,354	45,848	31,354
Other operating income				
Net gain from foreign exchange transaction	11,966	3,844	11,966	3,844
Net gain from sale of available-for-sale securities	11,223	4,014	11,223	4,014
Gross dividend income from unquoted securities in Malaysia	-	417	-	417
	23,189	8,275	23,189	8,275
Fees and commission				
Processing fees	2,109	1,481	2,109	1,481
Corporate advisory fees	3,838	2,755	3,838	2,755
Service charges and fees	671	414	671	414
Commission	2,084	2,073	2,084	2,073
Others	897	243	507	53
	9,599	6,966	9,209	6,776

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Other income				
Rental income	6,474	6,820	6,474	6,820
Gains on disposal of property, plant and equipment	30	358	30	358
	6,504	7,178	6,504	7,178
Total	85,140	53,773	84,750	53,583

25. ALLOWANCE FOR LOSSES ON FINANCING

	Group and Bank	
	2007	2006
	RM'000	RM'000
Allowance for bad and doubtful financing:		
(a) Specific allowance		
- Provided in the financial year	158,078	99,565
- Written back during the year	(50,387)	(50,610)
	107,691	48,955
(b) General allowance		
- Provided in the financial year	9,378	5,505
Bad debts on financing:		
- Written off	678	155
- Recovered	(699)	(801)
	117,048	53,814

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

26. IMPAIRMENT LOSS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Impairment loss for defaulted corporate bonds included under securities available-for-sale	34,649	16,900
Impairment loss for unquoted securities included under securities held-to-maturity	-	503
	34,649	17,403

27. INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah funds	240,418	186,001	240,418	186,001
- Non-Mudharabah funds	8,137	6,881	8,337	6,881
Deposits and placements of banks and other financial institutions				
- Mudharabah funds	1,045	4,629	1,045	4,629
- Non-Mudharabah funds	75,942	76,496	75,942	76,496
	325,542	274,007	325,742	274,007

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

28. PERSONNEL EXPENSES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Salaries and wages	58,080	50,269	57,356	49,722
Contributions to defined contribution plan	10,888	9,652	10,799	9,564
Social security contributions	655	563	650	560
Allowances and bonuses	11,801	11,479	11,776	11,455
Mutual Separation Scheme	1,611	-	1,611	-
Others	8,445	7,614	8,405	7,578
	91,480	79,577	90,597	78,879

Included in personnel expenses of the Group and of the Bank are executive director's remuneration amounting to RM567,000 (2006: RM512,000) as further disclosed in Note 29 and payment for Mutual Separation Scheme of RM1.6 million for 7 staff.

29. CEO, DIRECTORS AND SHARIAH COMMITTEE REMUNERATION

	Group and Bank	
	2007 RM'000	2006 RM'000
Executive Director/Chief Executive Officer		
Salaries and wages	480	400
Contributions to defined contribution plan	86	72
Others	1	40
	567	512
Non-Executive Directors		
Fees	603	606
Other remunerations	224	136
	827	742

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Shariah Committee Members	140	105
	1,534	1,359

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Executive Director/Chief Executive Officer				
RM550,001 - RM600,000	1	-	1	-
RM500,001 - RM550,000	-	1	-	1
Non-Executive Directors				
RM400,001 - RM450,000	1	-	1	-
RM350,001 - RM400,000	-	1	-	1
RM50,001 - RM100,000	5	2	5	2
RM50,000 and below	2	4	-	4

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

30. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management during the year was as follows:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Short-term employees benefits	1,820	1,517	1,820	1,517

Included in the total key management personnel are:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Director's remuneration (Note 29)	567	512	567	512

31. OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Promotion				
Advertisement and publicity	4,422	3,334	4,422	3,254
Establishment				
Rental	6,946	7,028	6,946	7,009
Depreciation	13,016	13,742	12,985	13,540
EDP expenses	30,287	26,069	30,287	26,069
Amortisation of land and prepaid lease payment	4	4	4	4
Hire of equipment	3,142	2,519	3,142	2,519

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

31. OTHER OVERHEADS AND EXPENDITURES (CONT'D)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
General expenses				
Auditors' fees				
- statutory audit	190	150	178	150
- non-audit work	160	40	160	40
Professional fees	1,636	684	1,583	684
Legal expenses	729	627	702	627
Repair and maintenance	3,460	3,139	3,460	3,136
Insurance	3,987	4,057	3,987	4,057
Utilities expenses	3,373	3,060	3,373	3,060
Security guard expenses	5,047	4,444	5,047	4,444
Telephone	2,085	1,928	2,085	1,928
Stationary and printing	2,417	2,239	2,417	2,239
Postage and courier	1,269	1,312	1,269	1,312
Travelling	3,226	2,392	3,226	2,392
Directors remuneration and Shariah Committee allowance	1,534	1,359	1,534	1,359
Others	7,221	6,621	6,823	6,093
	94,151	84,748	93,630	83,916

32. FINANCE COST

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Subordinated bonds	15,545	5,051	15,055	5,051

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

33. ZAKAT

	Group and Bank	
	2007	2006
	RM'000	RM'000
Provision for zakat based on result for the year:		
- Current	430	540
- Over provision in prior years	(223)	-
	207	540

34. TAXATION

	Bank	
	2007	2006
	RM'000	RM'000
Current income tax	20,280	30,473
Over provision in prior years	(2,838)	(764)
	17,442	29,709
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,942)	(1,741)
Under provision in prior years	393	2,381
	(1,549)	640
	15,893	30,349

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

34. TAXATION (CONT'D)

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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Profit before taxation	64,238	103,409	65,542	104,778
Taxation at Malaysian statutory tax rate 27% (2006: 28%)	17,344	28,955	17,696	29,338
Effect on opening deferred tax of reduction in Malaysian income tax	893	-	893	-
Income not subject to tax	(1,565)	(1,535)	(1,565)	(1,535)
Expenses not deductible for tax purposes	1,666	1,312	1,314	929
Over provision of income tax in prior years	(2,838)	(764)	(2,838)	(764)
Under provision of deferred tax in prior years	393	2,381	393	2,381
Income tax expense for the year	15,893	30,349	15,893	30,349

35. EARNINGS PER SHARE

(a) Basic

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Group and of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	Group		Bank	
	2007	2006	2007	2006
Profit attributable to ordinary equity holders of the Group and of the Bank (RM'000)	48,138	72,520	49,442	73,889

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

35. EARNINGS PER SHARE (CONT'D)

(a) Basic (Cont'd)

	Group		Bank	
	2007	2006	2007	2006
Weighted average number of ordinary shares in issue ('000)	250,000	250,000	250,000	250,000
Basic earnings per share (sen)	19.3	29.0	19.8	29.6

(b) Diluted

For the purpose of calculating diluted earnings per share, the profit for the year attributable to ordinary equity holders of the Group and of the Bank and the weighted average number of ordinary shares in issue during the financial year have been adjusted for the dilutive effects of all potential ordinary shares, i.e. Musharakah Irredeemable Non-Cumulative Convertible Preference Shares ("MINCCPS").

	Group		Bank	
	2007	2006	2007	2006
Profit attributable to ordinary equity holders of the Group and of the Bank (RM'000)	48,138	72,520	49,442	73,889
Weighted average number of ordinary shares in issue ('000)	250,000	250,000	250,000	250,000
Effect of dilution of MINCCPS ('000)	250,000	250,000	250,000	250,000
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	500,000	500,000	500,000	500,000
Diluted earnings per share (sen)	9.6	14.5	9.9	14.8

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

36. RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Expenditure		
Income/profit on deposits and placements		
- to companies due to common directorship	-	100
- to subsidiaries of a group due to common directorship at its holding company	437	8,322
Amounts due to		
- subsidiaries of a group due to common directorship at its holding company	599,790	397,124

37. COMMITMENTS AND CONTINGENCIES

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

Risk weighted exposures of the Bank as at 31 December 2007 are as follows:

	Group and Bank			
	2007		2006	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000
The commitments and contingencies constitute the following:				
Direct credit substitutes	206,274	206,274	126,975	126,975
Trade-related contingencies	249,090	49,818	103,939	20,788

NOTES TO THE FINANCIAL STATEMENTS
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37. COMMITMENTS AND CONTINGENCIES (CONT'D)

Risk weighted exposures of the Bank as at 31 December 2007 are as follows: (Cont'd)

	Group and Bank			
	2007		2006	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount RM'000
Transaction related contingencies	1,514,467	757,234	1,391,305	695,653
Housing financing sold directly and indirectly to Cagamas with recourse	379,373	379,373	34,100	34,100
Credit extension commitment:				
- Maturity within one year	923,152	-	567,636	-
- Maturity exceeding one year	203,406	101,703	227,237	113,618
Foreign exchange related contracts	1,114,800	16,792	660,658	4,611
Profit rate related contracts	100,000	2,000	100,000	2,000
	4,690,562	1,513,194	3,211,850	997,745

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market Risk

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

NOTES TO THE FINANCIAL STATEMENTS
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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(CONT'D)

Credit Risk

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

Liquidity Risk

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

Operational Risk

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

The Bank manages risks strategically through the following risk committees.

Board Risk Management Committee ("BRMC")

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

Executive Risk Management Committee ("ERMC")

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

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

39. PROFIT RATE RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS
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39. PROFIT RATE RISK (CONT'D)

Group 2007	← Non-trading book →					Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
Assets								
Cash and short-term funds	4,274,461	-	-	-	-	191,754	4,466,215	3.5
Securities								
- Held-to-maturity	-	-	30,891	-	-	-	30,891	1.0
- Available-for-sale	579,596	204,811	1,130,225	1,387,718	-	-	3,302,350	6.8
Financing of customers								
- Performing	1,640,529	153,807	702,150	2,815,211	-	-	5,311,697	6.3
- Non-performing*	-	-	-	-	-	273,550	273,550	
Other non-profit sensitive assets	-	-	-	-	-	420,654	420,654	
Total assets	6,494,586	358,618	1,863,266	4,202,929		885,958	13,805,357	
Liabilities and shareholders' equity								
Deposits from customers	12,172,868	-	-	-	-	-	12,172,868	2.9
Deposits and placements of banks and other financial institutions	228,014	-	-	-	-	-	228,014	4.7
Bills and acceptances payable	-	-	-	-	-	343,940	343,940	
Subordinated bonds	-	-	250,000	-	-	-	250,000	6.3
Other non-profit sensitive liabilities	-	-	-	-	-	73,204	73,204	
Total liabilities	12,400,882	-	250,000	-	-	417,144	13,068,026	
Shareholders' equity	-	-	-	-	-	737,331	737,331	
Total liabilities and shareholders' equity	12,400,882	-	250,000	-	-	1,154,475	13,805,357	
On-balance sheet profit rate sensitivity gap	(5,906,296)	358,618	1,613,266	4,202,929				
Off-balance sheet profit rate sensitivity gap	(1,786,061)	(33,061)	(100,000)	-				
Total profit rate sensitivity gap	(7,692,357)	325,557	1,513,266	4,202,929				

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

39. PROFIT RATE RISK (CONT'D)

Group 2006	← Non-trading book →					Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
Assets								
Cash and short-term funds	4,881,345	-	-	-	-	114,495	4,995,840	3.6
Deposits and placements with banks and other financial institutions	63,000	-	-	-	-	-	63,000	3.6
Securities								
- Held-to-maturity	-	2,295	2,444	28,447	-	-	33,186	1.0
- Available-for-sale	185,846	50,948	1,786,049	794,845	-	-	2,817,688	4.7
Financing of customers								
- Performing	638,036	49,413	997,330	3,108,900	-	-	4,793,679	6.1
- Non-performing*	-	-	-	-	-	354,492	354,492	
Other non-profit sensitive assets	-	-	-	-	-	392,751	392,751	
Total assets	5,768,227	102,656	2,785,823	3,932,192		861,738	13,450,636	
Liabilities and shareholders' equity								
Deposits from customers	8,872,856	1,209,441	2,078,660	-	-	17,734	12,178,691	2.5
Deposits and placements of banks and other financial institutions	100,150	-	-	-	-	-	100,150	4.1
Bills and acceptances payable	67,511	-	-	-	-	51,052	118,563	
Subordinated bonds	-	-	250,000	-	-	-	250,000	6.3
Other non-profit sensitive liabilities	-	-	-	-	-	86,595	86,595	
Total liabilities	9,040,517	1,209,441	2,328,660			155,381	12,733,999	
Shareholders' equity	-	-	-	-	-	716,637	716,637	
Total liabilities and shareholders' equity	9,040,517	1,209,441	2,328,660			872,018	13,450,636	
On-balance sheet profit rate sensitivity gap	(3,272,290)	(1,106,785)	457,163	3,932,192				
Off-balance sheet profit rate sensitivity gap	(462,631)	-	-	-				
Total profit rate sensitivity gap	(3,734,921)	(1,106,785)	457,163	3,932,192				

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

39. PROFIT RATE RISK (CONT'D)

Bank 2007	← Non-trading book →					Non-profit rate sensitive	Total	Effective profit rate
	Up to 6 months	> 6 - 12 months	>1 - 5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Assets								
Cash and short-term funds	4,274,154	-	-	-	191,741	4,465,895	3.5	
Securities								
- Held-to-maturity	-	-	30,891	-	-	30,891	1.0	
- Available-for-sale	579,596	204,811	1,130,225	1,387,718	-	3,302,350	5.1	
Financing of customers								
- Performing	1,640,530	153,807	702,150	2,815,210	-	5,311,697	6.2	
- Non-performing*	-	-	-	-	273,550	273,550		
Other non-profit sensitive assets	-	-	-	-	430,309	430,309		
Total assets	6,494,280	358,618	1,863,266	4,202,928	895,600	13,814,692		
Liabilities and shareholders' equity								
Deposits from customers	12,180,247	-	-	-	-	12,180,247	2.9	
Deposits and placements of banks and other financial institutions	228,014	-	-	-	-	228,014	4.7	
Bills and acceptances payable	-	-	-	-	343,940	343,940		
Subordinated bonds	-	-	250,000	-	-	250,000	6.3	
Other non-profit sensitive liabilities	-	-	-	-	73,132	73,132		
Total liabilities	12,408,261	-	250,000	-	417,072	13,075,333		
Shareholders' equity	-	-	-	-	739,359	739,359		
Total liabilities and shareholders' equity	12,408,261	-	250,000	-	417,072	13,814,692		
On-balance sheet profit rate sensitivity gap	(5,913,981)	358,618	1,613,266	4,202,928				
Off-balance sheet profit rate sensitivity gap	(1,786,061)	(33,061)	(100,000)	-				
Total profit rate sensitivity gap	(7,700,042)	325,557	1,513,266	4,202,928				

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

39. PROFIT RATE RISK (CONT'D)

Bank 2006	← Non-trading book →				Non-profit rate sensitive RM'000	Total RM'000	Effective profit rate %
	Up to 6 months RM'000	> 6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000			
Assets							
Cash and short-term funds	4,880,881	-	-	-	114,495	4,995,376	3.6
Deposits and placements with banks and other financial institutions	63,000	-	-	-	-	63,000	3.6
Securities							
- Held-to-maturity	-	2,295	2,444	28,447	-	33,186	1.0
- Available-for-sale	185,846	50,948	1,786,049	794,845	-	2,817,688	4.7
Financing of customers							
- Performing	638,036	49,413	997,330	3,108,900	-	4,793,679	6.1
- Non-performing*	-	-	-	-	354,492	354,492	
Other non-profit sensitive assets	-	-	-	-	406,820	406,820	
Total assets	5,767,763	102,656	2,785,823	3,932,192	875,807	13,464,241	
Liabilities and shareholders' equity							
Deposits from customers	8,872,856	1,209,441	2,078,660	-	34,415	12,195,372	2.5
Deposits and placements of banks and other financial institutions	100,150	-	-	-	-	100,150	4.1
Bills and acceptances payable	67,511	-	-	-	51,052	118,563	
Subordinated bonds	-	-	250,000	-	-	250,000	6.3
Other non-profit sensitive liabilities	-	-	-	-	86,198	86,198	
Total liabilities	9,040,517	1,209,441	2,328,660	-	171,665	12,750,283	
Shareholders' equity	-	-	-	-	713,958	713,958	
Total liabilities and shareholders' equity	9,040,517	1,209,441	2,328,660	-	885,623	13,464,241	
On-balance sheet profit rate sensitivity gap	(3,272,754)	(1,106,785)	457,163	3,932,192			
Off-balance sheet profit rate sensitivity gap	(462,631)	-	-	-			
Total profit rate sensitivity gap	(3,735,385)	(1,106,785)	457,163	3,932,192			

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

40. LIQUIDITY RISK

Maturities of assets and liabilities by behavioural maturity profile

Group 2007	Up to 6 months	> 6 - 12 months	>1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	4,466,215	-	-	-	4,466,215
Securities					
- Held-to-maturity	-	-	30,891	-	30,891
- Available-for-sale	579,596	204,811	1,130,225	1,387,718	3,302,350
Financing of customers	1,101,849	230,886	880,497	3,372,015	5,585,247
Statutory deposits with Bank Negara Malaysia	-	-	-	288,471	288,471
Other assets	63,151	23,014	-	46,018	132,183
Total assets	6,210,811	458,711	2,041,613	5,094,222	13,805,357
Liabilities					
Deposits from customers	8,601,518	767,139	2,804,211	-	12,172,868
Deposits and placements of banks and other financial institutions	228,014	-	-	-	228,014
Bills and acceptances payable	343,940	-	-	-	343,940
Other liabilities	58,662	14,542	-	-	73,204
Subordinated bonds	-	-	-	250,000	250,000
Total liabilities	9,232,134	781,681	2,804,211	250,000	13,068,026
Off-balance sheet liabilities					
Credit and commitments	4,107,783	-	203,406	379,373	4,690,562
Net maturity mismatch	(7,129,106)	(322,970)	(966,004)	4,464,849	(3,953,231)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

40. LIQUIDITY RISK (CONT'D)

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

Group 2006	Up to 6 months	> 6 - 12 months	> 1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	4,995,840	-	-	-	4,995,840
Deposits and placements with banks and other financial institutions	63,000	-	-	-	63,000
Securities					
- Held-to-maturity	-	28,375	2,192	2,619	33,186
- Available-for-sale	211,458	765,817	54,019	1,786,394	2,817,688
Financing of customers	685,219	53,067	1,071,082	3,338,803	5,148,171
Other assets	48,357	16,669	-	327,725	392,751
Total assets	6,003,874	863,928	1,127,293	5,455,541	13,450,636
Liabilities					
Deposits from customers	8,885,796	1,211,204	2,081,691	-	12,178,691
Deposits and placements of banks and other financial institutions	100,150	-	-	-	100,150
Bills and acceptances payable	118,563	-	-	-	118,563
Other liabilities	68,335	18,260	-	-	86,595
Subordinated bonds	-	-	250,000	-	250,000
Total liabilities	9,172,844	1,229,464	2,331,691	-	12,733,999
Off-balance sheet liabilities					
Credit and commitments	2,950,513	-	227,237	34,100	3,211,850
Net maturity mismatch	(6,119,483)	(365,536)	(1,431,635)	5,421,441	(2,495,213)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

40. LIQUIDITY RISK (CONT'D)

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

Bank 2007	Up to 6 months	> 6 - 12 months	>1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	4,465,895	-	-	-	4,465,895
Securities					
- Held-to-maturity	-	-	30,891	-	30,891
- Available-for-sale	579,596	204,811	1,130,225	1,387,718	3,302,350
Financing of customers	1,101,849	230,886	880,497	3,372,015	5,585,247
Statutory deposits with Bank Negara Malaysia	-	-	-	288,471	288,471
Other assets	63,406	23,014	-	54,418	140,838
Total assets	6,210,746	458,711	2,041,613	5,102,622	13,813,692
Liabilities					
Deposits from customers	8,606,732	767,604	2,805,911	-	12,180,247
Deposits and placements of banks and other financial institutions	228,014	-	-	-	228,014
Bills and acceptances payable	343,940	-	-	-	343,940
Other liabilities	58,614	14,518	-	-	73,132
Subordinated bonds	-	-	-	250,000	250,000
Total liabilities	9,237,300	782,122	2,805,911	250,000	13,075,333
Off-balance sheet liabilities					
Credit and commitments	4,107,783	-	203,406	379,373	4,690,562
Net maturity mismatch	(7,134,337)	(323,411)	(967,704)	4,473,249	(3,952,203)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

40. LIQUIDITY RISK (CONT'D)

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

Bank 2006	Up to 6 months	> 6 - 12 months	>1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	4,995,376	-	-	-	4,995,376
Deposits and placements with banks and other financial institutions	63,000	-	-	-	63,000
Securities					
- Held-to-maturity	-	28,375	2,192	2,619	33,186
- Available-for-sale	211,458	765,817	54,019	1,786,394	2,817,688
Financing of customers	685,219	53,067	1,071,082	3,338,803	5,148,171
Other assets	56,466	16,669	-	333,685	406,820
Total assets	6,011,519	863,928	1,127,293	5,461,501	13,464,241
Liabilities					
Deposits from customers	8,907,081	1,209,511	2,078,780	-	12,195,372
Deposits and placements of banks and other financial institutions	100,150	-	-	-	100,150
Bills and acceptances payable	118,563	-	-	-	118,563
Other liabilities	67,900	18,298	-	-	86,198
Subordinated bonds	-	-	250,000	-	250,000
Total liabilities	9,193,694	1,227,809	2,328,780	-	12,750,283
Off-balance sheet liabilities					
Credit and commitments	2,950,513	-	227,237	34,100	3,211,850
Net maturity mismatch	(6,132,688)	(363,881)	(1,428,724)	5,427,401	(2,497,892)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

41. CAPITAL ADEQUACY

The capital adequacy ratio of the Group/Bank is as follows:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Core capital ratio:				
Credit risk	12.6%	14.5%	12.6%	14.4%
Credit and market risks	9.3%	10.7%	9.3%	10.7%
Risk-weighted capital ratio:				
Credit risk	18.5%	21.4%	18.4%	21.3%
Credit and market risks	13.7%	15.8%	13.6%	15.7%
<u>Tier-I capital</u>				
Paid-up ordinary share capital	250,000	250,000	250,000	250,000
Paid-up Musharakah irredeemable non-cumulative convertible preference shares	250,000	250,000	250,000	250,000
Statutory reserve	140,713	115,963	140,684	115,963
Retained profits	101,136	87,876	103,301	88,708
Minority interest	-	3,511	-	-
Less: Intangible	(1,219)	(227)	-	-
Less: Deferred tax assets (net)	(23,013)	(16,669)	(23,013)	(16,669)
Total Tier-I Capital	717,617	690,454	720,972	688,002
<u>Tier-II capital</u>				
Subordinated bonds	250,000	250,000	250,000	250,000
General allowance for bad and doubtful financing	90,832	81,453	90,832	81,453
Total Tier-II Capital	340,832	331,453	340,832	331,453
Less: Investment in subsidiary companies	-	-	(10,723)	(6,305)
Capital Base	1,058,449	1,021,907	1,051,081	1,013,150

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

41. CAPITAL ADEQUACY (CONT'D)

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

Group	2007		2006	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0%	4,689,142	-	5,962,420	-
10%	-	-	-	-
20%	1,466,061	293,212	284,127	56,825
50%	1,137,405	568,703	1,462,999	731,500
100%	4,845,491	4,845,491	3,980,111	3,980,111
Risk-weighted assets for credit risk	<u>12,138,099</u>	<u>5,707,406</u>	<u>11,689,657</u>	<u>4,768,436</u>
Risk-weighted market for market risk		2,028,931		1,680,288
Total risk-weighted assets for credit and market risks		<u>7,736,337</u>		<u>6,448,724</u>

Bank	2007		2006	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0%	4,688,822	-	5,961,956	-
10%	-	-	-	-
20%	1,466,061	293,212	284,127	56,825
50%	1,137,405	568,703	1,462,999	731,500
100%	4,845,161	4,845,161	3,978,107	3,978,107
Risk-weighted assets for credit risk	<u>12,137,449</u>	<u>5,707,076</u>	<u>11,687,189</u>	<u>4,766,432</u>
Risk-weighted assets for market risk		2,028,931		1,680,288
Total risk-weighted assets for credit and market risks		<u>7,736,007</u>		<u>6,446,720</u>

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION

(a) Business segments

The bank is organised into two major business segments:

(i) Wholesale banking - this segment includes corporate banking, treasury and capital market and investment banking activities.

(ii) Retail banking - this segment includes Small Medium Enterprise banking, commercial and retail banking.

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

Group 31 December 2007

	Wholesale Banking RM'000	Retail Banking RM'000	Others RM'000	Total RM'000
Total income	416,811	334,654	5,838	757,303
Result				
Segment result	100,783	(41,080)	4,535	64,238
Zakat and taxation				(16,100)
Net profit for the financial year				48,138
Other information				
Segment assets	6,444,078	6,934,071	-	13,378,149
Unallocated corporate assets				427,208
Total assets				13,805,357

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

Group
31 December 2007

	Wholesale Banking RM'000	Retail Banking RM'000	Others RM'000	Total RM'000
Segment liabilities	6,046,190	6,134,056	-	12,180,247
Unallocated corporate liabilities				887,779
Total liabilities				13,068,026
Other segment items				
Capital expenditure	259	4,408	4,917	9,584
Depreciation	673	4,572	7,771	13,016

Group
31 December 2006

Total income	305,641	315,420	6,184	627,245
Result				
Segment result	67,502	29,723	6,184	103,409
Zakat and taxation				(30,889)
Net profit for the financial year				72,520

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

Group 31 December 2006	Wholesale Banking RM'000	Retail Banking RM'000	Others RM'000	Total RM'000
Other information				
Segment assets	4,704,088	8,607,448	-	13,311,536
Unallocated corporate assets				139,100
Total assets				<u>13,450,636</u>
Segment liabilities	4,739,288	7,556,234	-	12,295,522
Unallocated corporate liabilities				438,477
Total liabilities				<u>12,733,999</u>
Other segment items				
Capital expenditure	910	4,397	6,352	11,659
Depreciation	638	5,238	7,664	13,540

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

Bank
31 December 2007

	Wholesale Banking RM'000	Retail Banking RM'000	Others RM'000	Total RM'000
Total income	416,811	334,654	5,838	757,303
Result				
Segment result	100,783	(41,080)	5,839	65,542
Zakat and taxation				(16,100)
Net profit for the financial year				49,442
Other information				
Segment assets	6,444,078	6,934,071	-	13,378,149
Unallocated corporate assets				436,543
Total assets				13,814,692
Segment liabilities	6,046,190	6,134,056	-	12,180,247
Unallocated corporate liabilities				895,086
Total liabilities				13,075,333
Other segment items				
Capital expenditure	259	4,408	4,901	9,568
Depreciation	673	4,572	7,740	12,985

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

Bank 31 December 2006	Wholesale Banking RM'000	Retail Banking RM'000	Others RM'000	Total RM'000
Total income	305,641	315,420	6,184	627,245
Result				
Segment result	68,871	29,723	6,184	104,778
Zakat and taxation				(30,889)
Net profit for the financial year				73,889
Other information				
Segment assets	4,704,088	8,607,448	-	13,311,536
Unallocated corporate assets				152,705
Total assets				13,464,241
Segment liabilities	4,732,692	7,525,680	-	12,258,372
Unallocated corporate liabilities				491,911
Total liabilities				12,750,283
Other segment items				
Capital expenditure	910	4,397	6,325	11,632
Depreciation	638	5,238	7,664	13,540

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

42. SEGMENT INFORMATION (CONT'D)

(b) Geographical segment

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

43. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Group and Bank			
	2007		2006	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financing of customers	5,585,247	5,892,775	5,148,171	5,340,879!
Financial liabilities				
Subordinated obligations	250,000	259,548	250,000	277,777

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

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

Securities

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

Financing to customers

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

Deposits from customers

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

Subordinated obligations

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowings with similar risks profiles.

44. COMPARATIVE FIGURES

The presentation and classification of items in the current year's financial statements have been consistent with the previous financial year except that certain comparative amounts have been adjusted as a result of the adoption of new and revised FRSS as disclosed in Note 3.2.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007 (21 ZULHIJAH 1428)

45. SUBSEQUENT EVENTS

On 1 January 2008, the Bank converted 147,274,549 of MINCCPS at a nominal value of RM1 each to 147,274,549 ordinary shares of RM1 each. This has resulted in an increase in the issued and paid up ordinary shares capital from RM250,000,000 to RM397,274,549 and a reduction in the issued and paid up MINCCPS from RM250,000,000 to RM102,725,451.

The ordinary shares converted during the year rank pari passu in all aspects with the existing ordinary shares of the Bank.

ADDRESSES

REGISTERED OFFICE

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

MUAMALAT BUSINESS CENTRE - SOUTHERN REGION

Lot 001 & 002, 13th Floor, Menara TH,
Jalan Ayer Molek, 80000 Johor Bahru,
Johor
Tel : 07-223 4644 / 221 3467
Fax : 07-222 4623

MUAMALAT BUSINESS CENTRE - CENTRAL REGION

LM 02, Mezzanine Floor, Wisma Sunway
Mas, Jalan Tengku Ampuan Zabedah C9/9
Section 9, 40100 Shah Alam
Tel : 03-5513 7622
Fax : 03-5512 6981

MUAMALAT BUSINESS CENTRE - NORTHERN REGION

Ground & First Floor, Wisma Perkeso
3012 Off Lebuah Tenggara 2, 13700
Seberang Jaya, Prai, Pulau Pinang
Tel : 04-399 4770
Fax : 04-399 4816

REPRESENTATIVE, COMMERCIAL BANKING - EAST COAST

Ground Floor, Lot PT 265 & PT 266,
Wisma Nik Kob, Jalan Sultan Yahya Petra,
15200 Kota Bharu
Tel : 09-747 3187 / 288
Fax : 09-747 3230

REPRESENTATIVE, COMMERCIAL BANKING - EAST MALAYSIA

Bintulu Branch
35-38, Ground Floor, BDA-Shahida
Commercial Centre, PO Box 2728,
97012 Bintulu
Tel : 086-337 462
Fax : 086-337 461

Wilayah Persekutuan**JALAN MELAKA**

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

TAMAN SEGAR

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

JALAN IPOH

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

JALAN TAR

No 339, Gr Floor & Level 3
Bangunan UMNO Lama
Jln Tuanku Abdul Rahman
50100 Kuala Lumpur
Tel : 03-2697 7077
Fax : 03-2697 8020

SELAYANG

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

TAMAN MELAWATI

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

UNIVERSITI ISLAM ANTARABANGSA

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

Selangor**KAJANG**

No. 3 & 4
Jalan Dato' Seri P. Alagendra 1
43000 Kajang
Tel : 03-8734 7340
Fax : 03-8734 7332

KLANG

Ground & First Floor, Lot No. 46
Wisma Ban Guat Huat
Jalan Kapar, 41400 Kelang
Tel : 03-3344 4148
Fax : 03-3344 4146

ADDRESSES

PETALING JAYA

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

SHAH ALAM, SEK 9

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

RAWANG

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

SHAH ALAM, PKNS

G-1, 2 & 3, Ground Floor
Kompleks PKNS, 40000 Shah Alam
Tel : 03-5510 6511
Fax : 03-5512 5730

SUBANG JAYA

9 & 11, Lot 4015 & 4017
Jalan SS 15/5A, 47500 Subang Jaya
Tel : 03-5634 3971
Fax : 03-5634 3954

SERVICE CENTRE

Universiti Kebangsaan Malaysia
Lot 1.03A, Level 1, Wisma Unikeb
43600 Bangi
Tel : 03-8925 6034
Fax : 03-8925 6029

PUTRAJAYA

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

BANDAR TASIK SELATAN

No 14, Ground & First Floor
Jalan 4/146, Metro Center
Bandar Tasik Selatan
57000 Kuala Lumpur
Tel : 03-9051 3100
Fax : 03-9058 1476

Negeri Sembilan**SEREMBAN**

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

Melaka**MELAKA**

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

TAMAN CHENG BARU

Ground & First Floor
No 92, Jln Cheng Baru
Taman Cheng Baru
Tel : 06-3125086
Fax : 06-3125092

Perak**IPOH**

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

PARIT BUNTAR

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

SITIAWAN

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

TAIPING

98-100, Ground & First Floor
Jalan Kota, 34000 Taiping
Tel : 05-807 8372
Fax : 05-807 8375

Kedah**ALOR SETAR**

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

KULIM

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

SUNGAI PETANI

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

ADDRESSES

SOUQ AL-BUKHARY

Ground Floor, Bazaar Souq Al-Bukhary
No. 1, Jln Tun Abdul Razak
05200 Alor Setar
Tel : 04-731 5480
Fax : 04-731 5546

Penang**BAYAN BARU**

No 24, 26 & 28, Taman Seri Tunas
11950 Bayan Baru
Tel : 04-630 8100
Fax : 04-641 1058

BUTTERWORTH

Ground & First Floor
Wisma Perkeso, 3012
Off Jalan Lebu Tenggiri 2
13700 Seberang Jaya, Perai
Pulau Pinang
Tel : 04-390 1292
Fax : 04-399 3797

SERVICE CENTRE

Universiti Sains Malaysia
Bangunan D12
11800 Minden, Pulau Pinang
Tel : 04-660 4600
Fax : 04-658 5945

SERVICE CENTRE

Kepala Batas
Pusat Budi Penyayang
Jalan Bertam 2, Kepala Batas
Seberang Perai Utara
13200 Pulau Pinang
Tel : 04-575 3588
Fax : 04-575 5703

Perlis**KANGAR**

No. 11 & 13, Jalan Bukit Lagi
01000 Kangar
Tel : 04-976 4751
Fax : 04-976 4799

Terengganu**KUALA TERENGGANU**

1, Jalan Air Jerneh
20300 Kuala Terengganu
Tel : 09-622 2177
Fax : 09-623 4624

Kelantan**KOTA BHARU**

Lot 2 & 257
Bangunan Perbadanan Menteri
Besar Kelantan (PMBK)
Jalan Kuala Krai, 15150 Kota Bharu
Tel : 09-744 1711
Fax : 09-744 4622

JALAN SULTAN YAHYA PETRA

Ground Floor, Lot PT 265 & PT 266
Wisma Nik Kob, Jalan Sultan Yahya Petra
15200 Kota Bharu
Tel : 09-747 3187
Fax : 09-747 3230

Johor**JOHOR BAHRU**

30, Jalan Tun Abdul Razak
Susur Satu, 80000 Johor Bahru
Tel : 07-223 5822
Fax : 07-224 0811

BATU PAHAT

24-25, Ground & First Floor
Jalan Kundang, Taman Bukit Pasir
83000 Batu Pahat
Tel : 07-432 5257
Fax : 07-432 4945

JOHOR JAYA

Ground & First Floor
No. 17, Jalan Ros Merah 2/20
Taman Johor Jaya, 81100 Johor Bahru
Tel : 07-357 7451
Fax : 07-355 8106

KLUANG

No. 1, Jalan Persiaran
Dato' Haji Ismail Hassan, 86000 Kluang
Tel : 07-772 2487
Fax : 07-774 4419

KULAI

18 & 19, Taman Seraya
Jalan Raya Kulai Besar 81000 Kulai
Tel : 07-663 8486
Fax : 07-663 8496

SEGAMAT

54, Jalan Genuang
85000 Segamat
Tel : 07-931 0540
Fax : 07-931 0542

ADDRESSES

SERVICE CENTRE

Kolej Universiti Teknologi
Tun Hussein Onn
KM 21, Jalan Kluang
86400 Parit Raja, Batu Pahat
Tel : 07-453 6132
Fax : 07-453 6125

SERVICE CENTRE

Taman Universiti
Ground & First Floor
No 28, Jalan Kebudayaan 5
Taman Universiti
81300 Skudai
Tel : 07-520 6875
Fax : 07-520 5503

Pahang**KUANTAN**

B-114 & B-116
Sri Dagangan Centre
Jalan Tun Ismail, 25000 Kuantan
Tel : 09-516 2782
Fax : 09-516 2853

MENTAKAB

6 & 7, Jalan Tun Abd Razak
28400 Mentakab
Tel : 09-277 5917
Fax : 09-277 4940

Sarawak**KUCHING**

Lot 543-545, Bangunan Cheema
Jalan Tun Ahmad Zaidi Aduce
93400 Kuching
Tel : 082-25 7877
Fax : 082-41 4142

BINTULU

Ground, 1st & 2nd Floor
No. 73 Park City Commercial Centre
Jalan Tanjung Batu, 97012 Bintulu
Tel : 086-337 462
Fax : 086-337 461

MIRI

433-434, Ground & First Floor
Block F, Miri Concession Land District
98000 Miri
Tel : 085-420 622
Fax : 085-418 111

Sabah**KOTA KINABALU**

Shoplot 69-72, Blok H, Asia City
88000 Kota Kinabalu
Tel : 088-239 122
Fax : 088-239 128

SERVICE CENTRE

Labuan
U0114, Ground & First Floor
Jalan OKK Awang Besar
87000 Wilayah Persekutuan Labuan
Tel : 087-424190
Fax : 087-424204

LABUAN OFFSHORE

15A 1, Main Office Tower
Financial Park Labuan, Jalan Merdeka
87000 Wilayah Persekutuan Labuan
Tel : 087-412858
Fax : 087-451164

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