

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors hereby present their report together with the audited financial statements of Asian Finance Bank Berhad ('the Bank') for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and related financial services. There have been no significant changes in the principal activities during the financial year.

FINANCIAL RESULTS

	<u>2008</u>
	RM
Loss before taxation	(20,528,865)
Taxation	4,775,755
Net loss for the financial year	<u><u>(15,753,110)</u></u>

DIVIDENDS

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

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances 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 Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

BUSINESS PLAN AND OUTLOOK

Asian Finance Bank Berhad, a full fledged Islamic bank commenced its operations on 19 January 2007 and offers competitive Islamic products and services to retail and corporate customers.

For the financial year ended 31 December 2008, the Bank had gross financing assets of RM260 million and deposits from customers of RM1,493 million.

The Bank registered a loss before tax of RM20.5 million for its first full year of operation.

In line with its long term vision to contribute towards the development of Malaysia to be the Islamic capital hub of the region, the Bank has adopted a new Corporate Philosophy – "Moving the world to Islamic Banking".

As an investment bank that holds strictly to Islamic principles, the Bank plays a critical role in the promotion of investment opportunities in Malaysia and in the Gulf Cooperation Council ('GCC') countries, through its established network of shareholders within the region.

Through the newly set-up Asset Management Division, the Bank offers and distributes an innovative range of specialised Funds in and around the region, with trusted Islamic Financial Partners.

In achieving its Corporate Mission to create a niche market and bridging the Middle East and Asia, the Bank continues to foster strategic collaborations with government linked and owned companies in Malaysia to meet the increasing demand of Islamic Financial Products and Services globally.

ASIAN FINANCE BANK BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The directors of the Bank who have held office since the date of the last report are:

Abdul Latif Abdulla Z. Al- Mahmoud

Dr Saleh Jameel Malaikah

Salah Mohd I. Al-Jaidah

Fouad Hayel Saeed

Omar M. El-Quqa

Y. Bhg Dato Dr Md Khir Abdul Rahman

Y. Bhg Dato' Noorazman A Aziz

Y. Bhg Dato' Muhammad Shafee Md Abdullah

Jean Marc Riegel

(appointed w.e.f. 7 November 2008)

Abdel Rahman Mustafa

(resigned w.e.f. 16 September 2008)

DIRECTORS' BENEFITS

Since the end of the financial year, no director has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 25 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 the director is a member, or with a company in which the director has a substantial financial interest except as disclosed in Note 28 to the financial statements.

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

DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholding, no director holding office at the end of the financial year had any beneficial interest in the shares of the Bank and its related corporations.

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Directors ('the Board') of the Bank are pleased to report the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance ('the Code') and the extent of compliance with the best practices of the Code. Although the Bank is not a listed company, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Bank is also required to comply with Bank Negara Malaysia ('BNM')'s Revised Guidelines on Corporate Governance for Licensed Islamic Banks ('Revised BNM/GP1-i').

The Board has approved appointment of YBhg Datuk Mohamed Azahari Kamil as the Bank's Chief Executive Officer ('CEO') as approved by BNM on 20 August 2008.

The Board has fully complied with the Code in relation to the appointment of YBhg Datuk Mohamed Azahari Kamil as the Bank's CEO.

ASIAN FINANCE BANK BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**BOARD OF DIRECTORS****The Board**

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank achieves best practice in the conduct of the Bank's business and operational activities. An indication of the Board's commitment is reflected in the conduct of regular Board meetings by the Bank and the incorporation of various processes and systems to achieve a risk and control awareness culture as well as the establishment of relevant Board Committees and Management Committees at the Bank.

The Board assumes responsibility for effective stewardship and control of the Bank and has established terms of reference to assist in the discharge of this responsibility.

The roles and responsibilities of the Board broadly covers formulation of corporate policies and strategies, overseeing and evaluating the conduct of the Bank's business, identifying principal risks and ensuring the implementation of appropriate systems to manage these risks, reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by BNM as specified in guidelines and circulars issued by BNM, from time to time.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia and the Code of Ethics: Guidelines on Code of Conduct for Directors, Officers and Employees in the Banking industry ('BNM/GP7') issued by BNM.

Board Size and Balance

The Board currently has nine (9) members, comprising the Non-Independent Non-Executive Chairman, the Non-Independent Non-Executive Deputy Chairman, three (3) Independent Non-Executive Directors and four (4) Non-Independent Non-Executive Directors, as follows:-

Abdul Latif Abdulla Z. Al- Mahmoud	Chairman (Non Independent Non Executive)
Dr Saleh Jameel Malaikah	Deputy Chairman (Non Independent Non Executive)
Salah Mohd I. Al-Jaidah	Director (Non Independent Non Executive)
Fouad Hayel Saeed	Director (Non Independent Non Executive)
Omar M. El-Quqa	Director (Non Independent Non Executive)
Jean Marc Riegel (appointed w.e.f 7 November 2008)	Director (Non Independent Non Executive)
Y Bhg Dato Dr Md Khir Abdul Rahman	Director (Independent Non Executive)
Y Bhg Dato' Noorazman A Aziz	Director (Independent Non Executive)
Y Bhg Dato' Muhammad Shafee Md Abdullah	Director (Independent Non Executive)

At least one-third (1/3) of the Bank's board members are independent directors, which is required under the Revised BNM/GP1-i.

The Board is of the view that the current Board composition fairly reflects the investment of the shareholders of the Bank.

The directors bring together to the Board a wide range of business management skills, as well as banking and financial experience required for the management of the Bank. All Board members participate fully in the deliberation and decision-making process on the key issues involving the Bank.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**BOARD OF DIRECTORS (CONTINUED)**

There are clear division of responsibilities between the Board and the Chief Executive Officer ('CEO') to ensure that there is balance of power and authority. The CEO's primary responsibilities are to implement the policies and decisions of the Board, manage the Bank's day-to-day operations, setting the plan and direction, benchmark and targets for the Bank, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing shareholders' wealth.

Each Non-Executive Director brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. This enables the Board to effectively discharge its principal responsibilities as set out in the Code.

Board Meetings

The Board meets on a scheduled basis at least once every two months with additional meetings held when urgent issues and important decisions are required to be taken between the scheduled meetings.

The Board met six (6) times during the financial year ended 31 December 2008. The attendance of each director in office at the end of the financial year at the aforesaid Board meetings is set out below:-

<u>Name of Director</u>	<u>Total Meetings Attended</u>	<u>Percentage of Attendance</u> <u>(%)</u>
Abdul Latif Abdulla Z. Al- Mahmoud	5/6	83
Dr Saleh Jameel Malaikah	6/6	100
Salah Mohd I. Al-Jaidah	5/6	83
Fouad Hayel Saeed	6/6	100
Omar M. El-Quqa	0/6	0
Dato Dr Md Khir Abdul Rahman	6/6	100
Dato' Muhammad Shafee Md Abdullah	5/6	83
Dato' Noorazman Abd Aziz	5/6	83
Jean Marc Riegel	2/2	100

Pursuant to the Revised BNM/GP1-i, individual directors must attend at least 75% of the Board meetings held in each financial year. For the year under review, all directors save for Mr Omar M. El-Quqa complied with the attendance requirement as stipulated by BNM.

Scheduled board meetings are structured with a pre-set agenda. The Board's principal key focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business and marketing strategy and budget, annual interim results, material contracts, major capital expenditure and credit policies and guidelines are reserved for the Board's decision.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**BOARD OF DIRECTORS (CONTINUED)****Supply of Information**

The Bank continues to strive to achieve full compliance with regulatory and statutory requirements. To this end, the Bank is continuously improving processes to ensure compliance. All Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, reports on operational, financial and corporate issues, performance of the Bank and management proposals that require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as to independent professional advice, including the internal auditors.

Re-election

As per the requirement of Companies Act, 1965 and the Articles of Association of the Bank, in every subsequent Annual General Meeting ('AGM') following the first AGM, one third of the directors for the time being or if their number is not three, or a multiple of three, then the number nearest to one third, shall retire from office, and being eligible, will reoffer themselves for re election.

Training and Education

As part of the training programme for its directors, the Bank prepared for the use of its Directors, the Directors' Handbook and organised training programmes and regular briefings and updates by its in-house professionals as well as the external auditors. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge.

New directors are furnished with BNM's Revised BNM/GP1-i for their reference on major duties and responsibilities of a director. New directors will also be given a briefing on the core activities of the Bank.

DISCLOSURE OF BOARD COMMITTEES**Nomination Committee**

The members are as follows:-

<u>Name of Director</u>	<u>Designation</u>
Y Bhg Dato' Noorazman A Aziz	Chairman
Dr Saleh Jameel Malaikah	Member
Salah Mohd I. Al-Jaidah	Member
Fouad Hayel Saeed	Member
Y Bhg Dato' Muhammad Shafee Md Abdullah	Member

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**DISCLOSURE OF BOARD COMMITTEES (CONTINUED)**

The Nomination Committee's functions and responsibilities are set out in the terms of reference as follows:-

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for position of Chief Executive Officer;
- Review and recommend to the Board all Board appointments and re-appointments and removals including the Chief Executive Officer;
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required;
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board;
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities; and
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 31 December 2008, four (4) Nomination Committee meetings were held.

Remuneration Committee

The members are as follows:-

<u>Name of Director</u>	<u>Designation</u>
Y Bhg Dato' Muhammad Shafee Md Abdullah	Chairman
Dr Saleh Jameel Malaikah	Member
Salah Mohd I. Al-Jaidah	Member
Omar M. El-Quqa	Member

The Remuneration Committee's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the framework governing the remuneration of the:
 - Directors;
 - Chief Executive Officer; and
 - Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.

During the financial year ended 31 December 2008, one (1) Remuneration Committee meeting was held and the meeting was attended by all the members.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**DISCLOSURE OF BOARD COMMITTEES (CONTINUED)****Board Audit Committee**

During the financial year ended 31 December 2008 four (4) meetings were held, details of the Committee and their attendance are as follows:-

<u>Name of Director</u>	<u>Designation</u>	<u>Total Meetings Attended</u>	<u>Percentage of Attendance (%)</u>
Y Bhg Dato Dr Md Khir Abdul Rahman	Chairman	4	100
Dr Saleh Jameel Malaikah	Member	4	100
Y Bhg Dato' Noorazman A Aziz	Member	4	100

The Audit Committee's functions and responsibilities are set out in the terms of reference as follows:

- Ensure that accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts and financing.
- Review the balance sheet and income statement for submission to the Board of Directors and ensure the prompt publication of annual financial statements;
- Review the internal controls, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management. The reports of internal auditors and the Committee should not be subject to the clearance of the Chief Executive or Executive Directors. The Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
- Review with the external auditors, the scope of their audit plan, and the system of the internal accounting controls, the audit reports, the assistance given by management and its staff to the auditors and any findings and action to be taken. The Committee should also select external auditors for appointment by the Board each year and recommend their fees to the Board for approval; and
- To perform any other functions as defined by the Board.

Board Risk Management Committee

During the financial year ended 31 December 2008 four (4) meetings were held, details of the Committee and their attendance are as follows:-

<u>Name of Director</u>	<u>Designation</u>	<u>Total Meetings Attended</u>	<u>Percentage of Attendance (%)</u>
Y Bhg Dato' Noorazman A Aziz	Chairman	4	100
Salah Mohd I. Al-Jaidah	Member	4	100
Fouad Hayel Saeed	Member	4	100
Abdel Rahman Mustafa	Member up to 16 September 2008	2/2	100
Jean Marc Riegel	Member from 7 November 2008	1/1	100

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)**DISCLOSURE OF BOARD COMMITTEES (CONTINUED)****Board Risk Management Committee (continued)**

The Risk Management Committee is responsible for providing oversight and management of all risks in the Bank and to ensure that there is an ongoing process to continuously manage the Bank's risk proactively.

A statement on the Bank's Risk Management Framework is set out in Note 32 to the financial statements for the financial year ended 31 December 2008.

The Risk Management Committee's functions and responsibilities are set out in the terms of reference as follows:

- Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
- Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities;
- Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities; and
- To review and recommend the following to the Board for approval:
 - a) Delegation of discretionary powers which represents the maximum discretion which the Board is prepared to vest to any single individual or committee; and
 - b) Procedures for the delegation and monitoring of discretionary lending authority given to (a) above.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank has established the Shariah Committee ('SC'), for the purpose of ensuring that the Bank's operations are constantly conducted in accordance with Shariah principles.

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

1. The Shariah Committee shall advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Islamic financial institution comply with Shariah principles at all times.
2. To endorse Shariah Compliance Manuals. The Manual must specify the manner in which a submission or request for advice be made to the Shariah Committee, the conduct of the Shariah Committee's meeting and the manner of compliance with any Shariah decision.
3. To ensure that the products of the Bank comply with Shariah principles in all aspects, the Shariah Committee must endorse the following:
 - i. the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions; and
 - ii. the product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
4. To assist related parties on Shariah matters for advice upon request such as its legal counsel, auditor or consultant so that compliance with Shariah principles can be assured completely.

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DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**

5. The Shariah Committee is required to record any opinion given. In particular, the Committee shall prepare written Shariah opinions in the following circumstances:
- i. where the Bank make reference to the SC for advice; or
 - ii. where the Bank submits applications to Bank Negara Malaysia for new product approval in accordance with guidelines on product approval issued by Bank Negara Malaysia.

The Shariah Committee members' profiles are as follows:

SHEIKH DR. ABDUL SATTAR ABU GHUDDAH (Chairman of the Committee)

Sheikh Dr. Abdul Sattar Abdul Karim Mohammed Abu Ghuddah (Syirian-Bahrain) was educated at the University of Damascus (Syria), where he obtained a Bachelor in Shariah (1964) and Bachelor of Law (1965). He holds a double Masters in Shariah (1964) and Ulum Hadith (1967) and a PhD (1975) in Shariah (Comparative Mazhab) from Al-Azhar University, Egypt. He started his career as a Lecturer at Imam Al Da'awa Institute (Riyadh), Religious Institute (Kuwait), Sharia College of the Law Faculty in Kuwait University. He currently holds the position of Shariah Consultant, Dallah Al-Barakah Banking Group and Director of Department of Financial Instruments at Al-Barakah Investment Co., Saudi Arabia. He is a committee member for various organisations such as Islamic Law Encyclopaedia (Kuwait Awqaf Ministry), AAOIFI, Dar Istithmar, Islamic Fiqh Academy Jeddah, Dow Jones Islamic, and Qatar Islamic Bank. He has written various books and articles on Fiqh Muamalat.

PROFESOR DR ALI MUHYEALDIN ALI AL-QURADAGHI

Prof. Dr. Ali Muhyealdin Ali Al-Quradaghi (Qatari) was educated in Baghdad University where he obtained his B.A in Shariah (1975). He holds Masters in Shariah (1980) and Ph.D in Shariah and Laws (1985) from al-Azhar University. He is currently a professor at the University of Qatar, Qatar. He is a committee member for various organisations such as International Islamic Fiqh Academy Jeddah, Islamic Fiqh Academy-Rabitah Al-'Alam Islami Makkah, European Muslims Council for Ifta' and Researches, Unicorn Investment Bank, Dubai Islamic Bank, Investors Bank, Bahrain, Ahli United Bank, Gulf Investment House Kuwait, Qatar Islamic Insurance, QNB Al-Islami, Qatar and has written various books and articles on Islamic Studies and Muamalat.

SHEIKH DR. WALEED BIN HADI

Sheikh Dr. Waleed bin Hadi (Qatari) was educated at the University of Qatar. He obtained a B.A in Shariah and Usuluddin (1991). He holds a Masters in Shariah and Law from Omdurman Islamic University, Sudan (2002) and PhD in Shariah (2008) from Al-Imam Muhammad Ibn Saud Islamic University, Saudi Arabia. He started his career as a Judge in the Shariah Court, Qatar (1991). He is a committee member for various organisations within and outside Qatar such as Qatar Islamic Bank, Qatar International Islamic Bank, Bank al-Rayyan, Arab Finance House (AFH), European Finance House (EFH), Solidarity Family Islamic Insurance Co. (Bahrain) and Syrian International Islamic Bank. He has written various books and articles on Islamic Faith, Hadith, and Usul al-Fiqh, Islamic Economy, Islamic Finance and Shariah Audit.

ASIAN FINANCE BANK BERHAD

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DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION**(I) As at the end of financial year**

- (a) Before the income statement and balance sheet of 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 debts and financing and the making of allowance for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; and
 - (ii) to ensure that any current assets other than debts and financing, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the directors, the results of the operations of the Bank during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) From the end of the financial year to the date of this report

- (a) The directors are not aware of any circumstances:
- (i) which would render the amount written off for bad debts and financing or the amount of the allowance for doubtful debts and financing inadequate to any material extent;
 - (ii) which would render the values attributed to current assets in the financial statements misleading; and
 - (iii) which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- (b) In the opinion of the directors:
- (i) the results of the operations of the Bank for the financial year ended 31 December 2008 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
 - (ii) 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 Bank to meet their obligations as and when they fall due.

(III) As at the date of this report

- (a) There are no charges on the assets of the Bank which had arisen since the end of the financial year to secure the liabilities of any other person.
- (b) There are no contingent liabilities which had arisen since the end of the financial year.
- (c) The directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

ASIAN FINANCE BANK BERHAD

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DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENTS DURING THE YEAR

1. Indonesia Representative office based in Jakarta became fully operational (January 2008).
2. The Bank opened its second, full-service branch in Johor Port, Johor (March 2008).
3. The Bank signed its first cross border MOU with six other banks for a US\$7 million in a Syndicated Ijarah Financing to lease out 3 helicopters to PT Indonesia Air Transport Tbk in Jakarta.
4. Asian Finance Bank Berhad (AFB) and AmanahRaya Investment Bank Ltd. Labuan (ARIBL) launched the first shariah-compliant shipping fund in Malaysia worth RM1 billion (June 2008).
5. The appointment YBhg Datuk Mohamed Azahari Kamil as Chief Executive Officer (August 2008).
6. The Bank set-up an Asset Management Division (September 2008).
7. Signing Ceremony between Asian Finance Bank Berhad and TNB Engineering Corporation Sdn Bhd, for the financing of a District Cooling System in sum of AED87.5 million and Energy Transfer Station in Abu Dhabi (October 2008).
8. The Bank was appointed as Global Distribution Agent for the RM1 billion ASEAN Shariah Corporate Governance Fund by Corston-Smith Asset Management and Hermes Equity Ownership Service (October 2008).

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 7th January 2009.

ABDUL LATIF ABDULLA Z. AL-MAHMOUD
CHAIRMAN

SALAH MOHD I. AL-JAIDAH
DIRECTOR

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

BALANCE SHEET AS AT 31 DECEMBER 2008

	<u>Note</u>	<u>2008</u> RM	<u>2007</u> RM
ASSETS			
Cash and short-term funds	5	1,430,697,127	1,008,115,436
Deposits and placements with banks and other financial institutions	6	-	100,000,000
Securities available-for-sale	7	61,461,157	32,734,350
Securities held-to-maturity	8	16,875,260	-
Financing and advances	9	249,827,727	90,789,188
Other assets	10	39,097,494	4,916,448
Deferred taxation	11	9,756,257	1,638,275
Property, plant and equipment	12	5,349,243	5,499,652
Intangible assets	13	11,561,849	9,110,568
TOTAL ASSETS		<u>1,824,626,114</u>	<u>1,252,803,917</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from customers	14	968,107,036	828,699,571
Deposits and placements of banks and other financial institutions	15	524,640,155	68,807,183
Other liabilities	16	7,837,469	8,812,702
		<u>1,500,584,660</u>	<u>906,319,456</u>
Ordinary share capital	17	355,020,010	355,020,010
Available-for-sale reserve	18	(6,929,150)	(239,253)
Accumulated losses		(24,049,406)	(8,296,296)
Shareholders' equity		<u>324,041,454</u>	<u>346,484,461</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,824,626,114</u>	<u>1,252,803,917</u>
COMMITMENTS AND CONTINGENCIES	29	<u>178,333,000</u>	<u>6,864,131</u>

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ASIAN FINANCE BANK BERHAD

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INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	<u>Note</u>	<u>2008</u> RM	<u>2007</u> RM
Income derived from investment of depositors' funds	19	40,274,816	14,074,542
Income derived from investment of shareholders' funds	20	14,954,042	13,737,051
Allowances for losses on financing and advances	21	(7,410,060)	(2,515,782)
Total distributable income		47,818,798	25,295,811
Income attributable to the depositors	22	(35,873,352)	(12,800,690)
Total net income		11,945,446	12,495,121
Personnel expenses	23	(19,060,935)	(10,078,157)
Other overheads and expenditures	24	(13,413,376)	(7,719,992)
Loss before taxation		(20,528,865)	(5,303,028)
Zakat		-	-
Taxation	26	4,775,755	1,549,000
Net loss for the financial year		(15,753,110)	(3,754,028)
Basic loss per share	27	(4.44)	(1.06)

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ASIAN FINANCE BANK BERHAD

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

2008

	Share Capital RM	Accumulated Losses RM	AFS Reserve RM	Total RM
Balance as at 1.1.2008	355,020,010	(8,296,296)	(239,253)	346,484,461
Unrealised net loss on revaluation of securities available-for-sale	-	-	(10,032,124)	(10,032,124)
Deferred taxation	-	-	3,342,227	3,342,227
Net loss for the financial year	-	(15,753,110)	-	(15,753,110)
Balance as at 31.12.2008	<u>355,020,010</u>	<u>(24,049,406)</u>	<u>(6,929,150)</u>	<u>324,041,454</u>

2007

Balance as at 1.1.2007	355,020,010	(4,542,268)	-	350,477,742
Unrealised net loss on revaluation of securities available-for-sale	-	-	(328,528)	(328,528)
Deferred taxation	-	-	89,275	89,275
Net loss for the financial year	-	(3,754,028)	-	(3,754,028)
Balance as at 31.12.2007	<u>355,020,010</u>	<u>(8,296,296)</u>	<u>(239,253)</u>	<u>346,484,461</u>

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

**CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008**

	<u>Note</u>	<u>31.12.2008</u> RM	<u>31.12.2007</u> RM
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation for the financial year		(20,528,865)	(5,303,028)
Adjustments for:			
Depreciation of property, plant and equipment		1,461,215	1,142,532
Amortisation of intangible assets		2,135,888	1,574,640
Property, plant and equipment written off		38,616	3,986
Unrealised (gain)/loss from revaluation of securities available for sale		(3,013,640)	1,337,122
Unrealised loss from revaluation of securities held-to-maturity		1,289,260	-
Accretion of discount less amortisation of premium		(58,963)	-
Allowance for losses on financing and advances		7,410,060	2,515,782
Operating (loss)/gain before working capital changes		<u>(11,266,429)</u>	<u>1,271,034</u>
Decrease/(increase) in operating assets:			
Deposits and placements with financial institutions		100,000,000	252,534,269
Financing and advances		(166,448,599)	(93,304,970)
Other assets		(34,181,046)	(3,392,897)
Increase/(decrease) in operating liabilities:			
Deposits from customers		139,407,465	828,699,571
Deposits and placements of banks and other financial institutions		455,832,972	68,807,183
Other liabilities		(975,233)	(2,608,702)
Net cash generated from operating activities		<u>482,369,130</u>	<u>1,052,005,488</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(5,936,591)	(10,543,996)
Purchase of securities available-for-sale		(35,728,747)	(34,400,000)
Purchase of securities held-to-maturity		(18,122,101)	-
Net cash used in investing activities		<u>(59,787,439)</u>	<u>(44,943,996)</u>
ANALYSIS OF CASH AND CASH EQUIVALENT			
Net increase in cash and cash equivalents		422,581,691	1,007,061,492
Cash and cash equivalent at beginning of financial year		<u>1,008,115,436</u>	<u>1,053,944</u>
Cash and cash equivalent at end of financial year	5	<u>1,430,697,127</u>	<u>1,008,115,436</u>

ASIAN FINANCE BANK BERHAD

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NOTES TO THE FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008**1. GENERAL INFORMATION**

The Bank is principally engaged in the Islamic banking business and related financial services. There have been no significant changes in the principal activities of the Bank during the financial year. The address of the registered office of the Bank is 2nd Floor Podium Block, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared under the historical cost convention (unless otherwise indicated), and in accordance with the directives and guidelines issued by Bank Negara Malaysia ('BNM'), Financial Reporting Standards ('FRS'), the Malaysian Accounting Standard Board ('MASB') Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the provisions of the Companies Act 1965, FRS, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and Bank Negara Malaysia ('BNM') Guidelines requires the use of estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

The new accounting standards and amendments to published standards effective for the Bank's financial periods beginning 1 January 2008 are as follows:

- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by MASB). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Bank will apply this standard when effective. Nevertheless, the accounting policies of the Bank have already incorporated the requirements of BNM/GP8-i which include selected principles of FRS 139.

(b) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and not relevant for the bank's operations

- FRS 6 - Exploration for and Evaluation of Mineral Resources. FRS 6 is not relevant to the Bank's operations as the Bank do not carry out exploration for and evaluation of mineral resources.
- FRS 117 Leases - is not relevant to the Bank's operations as the Bank does not have leasing operation.
- Amendment to FRS119₂₀₀₄ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures. The amendment is not relevant to Bank's operations as the Bank does not have an employee benefit plan which requires actuarial valuation.
- Amendment to FRS121 the Effects of Changes in Foreign Exchange Rates – Net investment in a Foreign Operation. The amendment is not relevant as the Banks does not have an investment in a foreign operation.

ASIAN FINANCE BANK BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Recognition of finance income**

Financing income is recognised on an accrual basis in accordance with the Shariah principles and BNM/GP8-i. Income earned on term financing and Tawarruq is recognised on daily basis over the period of the financing as stipulated in the financing agreement.

Where a financing account is classified as non-performing, income will be suspended until it is realised on cash basis. Financing income recognised prior to the non-performing classification will not be clawed-back to the first day of default in conformity with BNM guidelines.

(b) Recognition of fees and other income

Financing arrangement, management and participation fees are recognised as income based on contractual arrangements and when all conditions precedent are fulfilled. Guarantee fees are recognised as income upon issuance of guarantees.

(c) Allowances for losses on financing

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

A general allowance based on a percentage of the financing portfolio is also made to cover possible losses which are not specifically identified. These percentages are reviewed annually in the light of past experience and prevailing circumstances and an adjustment is made on the overall general allowance, if necessary.

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

(d) Other provisions

Provisions are recognised when the Bank has 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.

(e) Securities

The Bank classifies its securities portfolio into the following categories: held for trading securities, available-for-sale securities and held-to-maturity securities. Management determines the classification of its securities at initial recognition.

(i) Held for trading securities

Held for trading securities ('HFT') are securities that are acquired and held principally for the purpose of selling in the short term to generate a profit from short-term fluctuations in price or from dealers' margin, and are subsequently measured at fair value, with unrealised gains and losses arising from changes in fair value recognised directly in the current year's income statement.

ASIAN FINANCE BANK BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Securities (continued)****(i) Held for trading securities (continued)**

The realised gains and losses on derecognition of HFT securities, which are derived on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the current year's income statement.

(ii) Held-to-maturity securities

Held-to-maturity securities ('HTM') are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. HTM securities are measured at fair value at initial recognition and then at amortised cost using the effective profit method.

The amortisation of premium and accretion of discount on HTM securities is recognised as profit/income using the effective profit method.

The realised gains or losses on derecognition of HTM securities, which are derived based on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the current year's income statement.

When impairment is determined to have occurred on HTM securities carried at amortised cost, the amount of impairment loss is measured as the difference between the carrying value and the present value of expected future cash flows discounted at the security's original effective profit rate. For HTM securities carried at cost, the amount of impairment loss is measured as the difference between the carrying value and the present value of expected future cash flows discounted at the current market rate of return for similar security. The carrying amount of the securities is reduced through use of an allowance account and the amount of impairment loss is recognised in the current year's income statement.

If, in subsequent years, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised in the income statement, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the current year's income statement. For HTM securities stated at cost, no reversal of impairment is allowed when the amount of impairment loss decreases.

If the Bank sold or reclassified more than an insignificant amount of the HTM securities portfolio before maturity (other than under those conditions specified in BNM/GP8-i) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as available-for-sale securities at fair value. The difference between the carrying value and fair value at the date of reclassification is recognised directly in shareholders' funds.

(iii) Available-for-sale securities

Available-for-sale securities ('AFS') are securities not classified as HFT or HTM securities and are subsequently measured at fair value, with unrealised gains or losses arising from changes in fair value recognised in shareholders' funds, net of income tax, until such securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Securities (continued)****(iii) Available-for-sale securities (continued)**

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, less impairment losses by the Bank.

The amortisation of premium and accretion of discount on AFS securities is recognised as profit/income using the effective profit method.

The realised gains or losses on derecognition of AFS securities, which are derived based on the difference between the proceeds received and the carrying value of the securities plus any cumulative unrealised gains and losses arising from changes in fair value previously recognised in shareholders' funds, are credited or charged to the current year's income statement.

Any gain or loss arising from foreign exchange will be recognised in the income statement.

When a decline in fair value of AFS securities has been recognised directly in shareholders' funds and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in shareholders' funds is removed from equity and recognised in the current year's income statement even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in the income statement.

If, in subsequent years, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement. For equity instruments, no reversal of impairment loss through the income statement is allowed when there is an increase in fair value of the equity instrument in subsequent year.

(f) Property, plant and equipment

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 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 year in which they were incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of 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:

Renovations	10 - 20%
Computers	20% - 33 1/3%
Equipment, furniture and fittings	20% - 33 1/3%
Motor Vehicle	20%

Capital work-in-progress is not depreciated until such time when the assets are ready for their intended use.

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) Property, plant and equipment (continued)**

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 the income statement.

(g) Intangible assetsComputer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Cost associated with developed computer software programmes that will generate economic benefits beyond one year are recognised as intangible assets. Such costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of five years.

Licenses

Acquired licenses are shown at cost. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is derived using the straight-line method to allocate the cost of licenses over their estimated useful lives, not exceeding a period of five years.

(h) 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 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.

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 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 the income statement in the period in which it arises.

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Impairment of non-financial assets (continued)**

An impairment loss 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 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 is recognised in the income statement.

(i) Currency conversion and translation

The financial statements are presented in Ringgit Malaysia.

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities outstanding at balance sheet date are translated into Ringgit Malaysia at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The exchange rates at balance sheet date are as follows:

USD1 = RM3.5010**EURO1 = RM4.9740****(j) Taxation**

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(k) Zakat

The Bank does not pay zakat on behalf of its depositors or its shareholders.

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Employee benefits**Short-term employee benefits

Wages, salaries and other salary related expenses are recognised as an expense in the year in which the associated services are rendered by employees of 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.

Defined contributions

Defined contribution plans are post-employment benefit plans under which the Bank pays 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 income statement when incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ('EPF').

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk if change in value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Allowance for losses on financing and advances

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

Fair value of financial instruments

Fair value of financial instruments is determined by reference to quoted market price of the instrument or by using a valuation model, which is based on independently sourced observable or implied market data, mainly interest yield curves, recent market transactions, foreign exchange rates and market volatility. Changes in assumptions and estimates in respect of the parameters used could affect the fair value reported in the financial statements of the Bank.

ASIAN FINANCE BANK BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

5. CASH AND SHORT-TERM FUNDS

	<u>2008</u> RM	<u>2007</u> RM
Cash and balances with banks and other financial institutions	8,477,127	3,395,436
Money at call and deposit placements maturing within one month	1,422,220,000	1,004,720,000
	<u>1,430,697,127</u>	<u>1,008,115,436</u>

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2008</u> RM	<u>2007</u> RM
Bank Negara Malaysia	-	100,000,000

7. SECURITIES AVAILABLE-FOR-SALE

<u>At fair value</u>	<u>2008</u> RM	<u>2007</u> RM
<u>Quoted securities inside Malaysia</u>		
Private and Islamic debt securities	20,662,901	-
<u>Quoted securities outside Malaysia</u>		
Foreign corporate debt securities held	40,798,256	32,734,350
	<u>61,461,157</u>	<u>32,734,350</u>

The foreign corporate debt securities above is equivalent to USD15 million.

8. SECURITIES HELD-TO-MATURITY

	<u>2008</u> RM	<u>2007</u> RM
<u>Quoted securities inside and outside Malaysia</u>		
Foreign corporate debt securities held	16,875,260	-

The foreign corporate debt securities above is equivalent to USD5 million.

ASIAN FINANCE BANK BERHAD

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

9. FINANCING AND ADVANCES

	<u>2008</u> RM	<u>2007</u> RM
(i) By type		
Term financing		
- house financing	14,910,042	-
- syndicated term financing	104,620,793	-
- other term financing	197,858,502	72,322,032
Trusts receipts	2,002,323	-
Staff financing	618,877	208,375
Others	43,227,129	27,575,525
	<u>363,237,666</u>	<u>100,105,932</u>
Less: Unearned income	(103,484,097)	(6,800,962)
Gross financing and advances	259,753,569	93,304,970
Less : Allowance for bad and doubtful financing:		
- general	(7,965,782)	(2,515,782)
- specific	(1,960,060)	-
Net financing and advances	<u>249,827,727</u>	<u>90,789,188</u>
(ii) By type of customer		
Domestic business enterprises		
- Others	167,674,549	93,096,595
Individuals	11,766,652	208,375
Foreign entities	80,312,368	-
	<u>259,753,569</u>	<u>93,304,970</u>
(iii) Financing and advances analysed by contract are as follows:		
Tawarruq	136,676,541	93,096,595
Al- Ijarah	46,069,975	-
Istisna	76,903,410	-
Qardhul Hassan	103,643	208,375
	<u>259,753,569</u>	<u>93,304,970</u>
(iv) By profit rate sensitivity		
Fixed rate		
- Other fixed rate financing	80,075,366	93,096,595
Variable rate		
- Others	179,574,560	-
Non-profit sensitive		
-Others	103,643	208,375
	<u>259,753,569</u>	<u>93,304,970</u>

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

9. FINANCING AND ADVANCES (continued)

	<u>2008</u> RM	<u>2007</u> RM
(v) By purpose		
Purchase of landed property:		
- Residential	18,590,000	65,968,830
- Non-Residential	8,962,365	-
Working Capital	207,393,689	27,127,765
Personal Use	820,800	108,725
Purchase of transport vehicles	21,984,394	99,650
Others	2,002,321	-
	<u>259,753,569</u>	<u>93,304,970</u>
(vi) Movement in allowance for bad and doubtful financing		
General allowance		
Balance brought forward	2,515,782	-
Allowance made during the year	5,450,000	2,515,782
Balance carried forward	<u>7,965,782</u>	<u>2,515,782</u>
As % of gross financing and advances less specific allowance	<u>3.1%</u>	<u>2.7%</u>
Specific allowance	<u>1,960,060</u>	-
(vii) Movement in non performing financing and advances		
At 1 January	-	-
Classified as non-performing	2,002,321	-
	<u>2,002,321</u>	-
Less: Specific allowance	(1,960,060)	-
Net non-performing financing and advances	<u>42,261</u>	-
Ratio of net non-performing financing and advances to total net financing and advances	<u>0.02%</u>	-
(viii) Non-performing financing by purpose		
Others	<u>2,002,321</u>	-

ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

10. OTHER ASSETS

	<u>2008</u>	<u>2007</u>
	RM	RM
Income receivable from placements and securities	1,917,269	2,909,864
Other debtors, deposits and prepayments	37,180,225	2,006,584
	<u>39,097,494</u>	<u>4,916,448</u>

11. DEFERRED TAXATION

The movement in deferred tax assets and liabilities during the financial year comprise the following:

Deferred tax assets

	Property, plant and equipment	Securities available- for-sale	General allowance on financing and advances	Other temporary differences	Total
	RM	RM	RM	RM	RM
At 1 January 2007	-	-	-	-	-
(Charged)/Credited to income statement	(1,519,000)	-	679,000	2,389,000	1,549,000
Charged to equity	-	89,275	-	-	89,275
At 31 December 2007	(1,519,000)	89,275	679,000	2,389,000	1,638,275
Credited/(Charged) to income statement	(1,094,296)	-	1,392,103	4,477,948	4,775,755
Charged to equity	-	3,342,227	-	-	3,342,227
At 31 December 2008	(2,613,296)	3,431,502	2,071,103	6,866,948	9,756,257

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT

	Renovations RM	Computers RM	Equipment, furniture and fittings RM	Motor vehicle RM	Capital work-in- progress RM	Total RM
Cost						
At 1 Jan 2008	3,855,434	723,404	1,054,077	645,620	607,798	6,886,333
Additions	130,233	920,814	189,430	154,401	193,044	1,587,922
Transfer	311,632	-	-	-	(550,132)	(238,500)
Written-off	-	(14,242)	(47,696)	-	-	(61,938)
At 31 Dec 2008	4,297,299	1,629,976	1,195,811	800,021	250,710	8,173,817
Accumulated Depreciation						
At 1 Jan 2008	922,633	93,706	230,458	139,884	-	1,386,681
Charge for the year	820,321	267,732	228,185	144,977	-	1,461,215
Written-off	-	(4,791)	(18,531)	-	-	(23,322)
At 31 Dec 2008	1,742,954	356,647	440,112	284,861	-	2,824,574
Net Book Value						
At 31 Dec 2008	2,554,345	1,273,329	755,699	515,160	250,710	5,349,243
2007						
	Renovations RM	Computers RM	Equipment, furniture and fittings RM	Motor vehicle RM	Capital work-in- progress RM	Total RM
Cost						
At 1 Jan 2007	3,650,356	653,429	807,133	645,620	1,275,696	7,032,234
Additions	205,078	69,975	246,944	4,689	2,148,671	2,675,357
Transfer	-	-	-	-	(2,816,569)	(2,816,569)
Written-off	-	-	-	(4,689)	-	(4,689)
At 31 Dec 2007	3,855,434	723,404	1,054,077	645,620	607,798	6,886,333
Accumulated depreciation						
At 1 Jan 2007	182,000	12,111	39,981	10,760	-	244,852
Charge for the year	740,633	81,595	190,477	129,827	-	1,142,532
Written-off	-	-	-	(703)	-	(703)
At 31 Dec 2007	922,633	93,706	230,458	139,884	-	1,386,681
Net Book Value						
At 31 Dec 2007	2,932,801	629,698	823,619	505,736	607,798	5,499,652

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FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

13. INTANGIBLE ASSETS**Computer Software**

	<u>2008</u> RM	<u>2007</u> RM
Cost		
As at beginning of financial year	10,685,208	-
Additions	4,348,669	7,868,639
Transfer	238,500	2,816,569
As at end of financial year	<u>15,272,377</u>	<u>10,685,208</u>
Accumulated depreciation		
As at beginning of financial year	1,574,640	-
Charge for the year	2,135,888	1,574,640
As at end of financial year	<u>3,710,528</u>	<u>1,574,640</u>
Net Book Value		
As at end of financial year	<u>11,561,849</u>	<u>9,110,568</u>

14. DEPOSITS FROM CUSTOMERS

	<u>2008</u> RM	<u>2007</u> RM
<u>Non-Mudharabah Funds:</u>		
Demand deposits	24,561,297	3,883,915
Savings deposits	85,281	2,196,827
	<u>24,646,578</u>	<u>6,080,742</u>
<u>Mudharabah Funds:</u>		
Savings deposits	741,656	-
General investment deposits	45,197,458	6,177,239
Special investment deposits	897,521,344	816,441,590
Total deposits	<u>968,107,036</u>	<u>828,699,571</u>

(i) The deposits are sourced from the following classes of

Business enterprises	954,682,738	822,490,358
Individuals	13,424,298	6,209,213
	<u>968,107,036</u>	<u>828,699,571</u>

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15. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2008</u> RM	<u>2007</u> RM
<u>Non-Mudharabah Funds:</u>		
Licensed Islamic banks	133,441,644	33,065,000
Other financial institutions	48,620	20,342,183
<u>Mudharabah Fund:</u>		
Licensed Islamic banks	15,000,000	600,000
Other financial institutions	376,149,891	14,800,000
	<u>524,640,155</u>	<u>68,807,183</u>

16. OTHER LIABILITIES

	<u>2008</u> RM	<u>2007</u> RM
Income payable	2,007,715	2,316,617
Sundry creditors	5,665,331	5,487,378
Other provisions and accruals	164,423	1,008,707
	<u>7,837,469</u>	<u>8,812,702</u>

17. ORDINARY SHARE CAPITAL

	<u>2008</u> RM	<u>2007</u> RM
Authorised:		
<u>Ordinary shares of RM1.00 each</u>		
As at beginning and end of financial year	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid:		
<u>Ordinary shares of RM1.00 each</u>		
As at beginning and end of financial year	<u>355,020,010</u>	<u>355,020,010</u>

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18. RESERVES

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

The AFS revaluation reserve recognises unrealised gains or losses arising from a change in fair value of investments classified as available-for-sale securities. The gains or losses are transferred to the income statement upon de-recognition or impairment of the investment.

19. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	<u>2008</u> RM	<u>2007</u> RM
Income derived from investment of:		
(i) General investment deposit	1,587,168	112,125
(ii) Other deposits	38,687,648	13,962,417
	40,274,816	14,074,542
(i) Income derived from investment of general investment deposits		
<u>Finance income and hibah:</u>		
Financing and advances	311,477	10,900
Securities available-for-sale	94,969	5,452
Securities held-to-maturity	1,348	-
Money at call and deposits with financial institutions	1,177,567	95,773
	1,585,361	112,125
Accretion of discount less amortisation of premium	1,807	-
	1,587,168	112,125
	RM	RM
(ii) Income derived from investment of other deposits		
<u>Finance income and hibah:</u>		
Financing and advances	7,600,054	1,595,210
Securities available-for-sale	2,310,559	795,832
Securities held-to-maturity	31,826	-
Money at call and deposit with financial institutions	28,702,642	11,571,375
	38,645,081	13,962,417
Accretion of discount less amortisation of premium	42,567	-
	38,687,648	13,962,417

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20. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	<u>2008</u> RM	<u>2007</u> RM
<u>Finance income and hibah</u>		
Financing and advances	2,692,676	830,954
Securities available-for-sale	815,594	410,263
Securities held-to-maturity	10,614	-
Money at call and deposits with financial institutions	10,268,054	11,576,617
	<u>13,786,938</u>	<u>12,817,834</u>
Accretion of discount less amortisation of premium	14,589	-
Total finance income and hibah	<u>13,801,527</u>	<u>12,817,834</u>
Other operating income (note a)	<u>1,152,515</u>	<u>919,217</u>
	<u>14,954,042</u>	<u>13,737,051</u>
a) Fee income:		
Service charges and fees	1,139,963	895,307
Other fee income	12,552	23,910
Total other operating income	<u>1,152,515</u>	<u>919,217</u>

21. ALLOWANCES FOR LOSSES ON FINANCING AND ADVANCES

	<u>2008</u> RM	<u>2007</u> RM
Allowance for bad and doubtful financing:		
General allowance		
- During the financial year	5,450,000	2,515,782
Specific allowance		
- During the financial year	1,960,060	-
	<u>7,410,060</u>	<u>2,515,782</u>

22. INCOME ATTRIBUTABLE TO DEPOSITORS

	<u>2008</u> RM	<u>2007</u> RM
Deposits from customers:		
- Mudharabah funds	22,505,166	9,672,929
- Non-mudharabah funds	-	229,608
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	9,831,045	598,987
- Non-mudharabah funds	3,537,141	2,299,166
	<u>35,873,352</u>	<u>12,800,690</u>

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23. PERSONNEL EXPENSES

	<u>2008</u>	<u>2007</u>
	RM	RM
Salaries, allowances and bonuses	14,887,712	8,363,153
Contributions to Employee Provident Fund and SOCSO	1,405,607	745,630
Medical related expenses	421,371	330,122
Travelling and parking	269,784	207,928
House rental	102,000	246,500
Staff Training Fund – IBBM funds	1,212,000	-
Other staff related cost	762,461	184,824
	<u>19,060,935</u>	<u>10,078,157</u>

The number of employees as at the end of the financial year is 117 (2007: 70).

24. OTHER OVERHEADS AND EXPENDITURES

	<u>2008</u>	<u>2007</u>
	RM	RM
<u>Establishment expenses</u>		
- Depreciation	1,461,215	1,142,532
- Amortisation of intangible assets	2,135,888	1,574,640
- Rental of premises	1,307,060	1,094,003
- Software and hardware maintenance	2,502,335	834,543
- Rental of equipment and network line	530,270	765,098
- Deposit insurance	250,000	250,000
- Security expenses	271,730	158,211
- Others	945,723	81,988
	<u>9,404,221</u>	<u>5,901,015</u>
<u>Marketing expenses</u>		
- Advertising and promotional activities	982,373	323,688
- Entertainment expenses	33,033	23,245
- Travelling expenses	241,419	10,221
- Others	18,005	5,320
	<u>1,274,830</u>	<u>362,474</u>

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24. OTHER OVERHEADS AND EXPENDITURES (CONTINUED)

	<u>2008</u>	<u>2007</u>
	RM	RM
<u>Administration and general expenses</u>		
- License and association fees and levies	479,326	304,229
- Travelling, transport and accommodation expenses	487,601	230,015
- Printing, stationery, postage and clearing charges	283,525	182,647
- Telecommunication charges	320,467	172,180
- Shariah Committee remunerations	139,262	146,290
- Electricity and water	225,219	141,732
- Directors related fees	425,171	129,000
- Other professional fees	288,959	64,954
- Auditors remuneration	47,000	42,000
- Donations	9,851	21,184
- Others	27,944	22,272
	<u>2,734,325</u>	<u>1,456,503</u>
	<u>13,413,376</u>	<u>7,719,992</u>

Included in the administration and general expenses of the Bank is the directors' remuneration totalling RM168,000 (2007: RM129,000) as disclosed in Note 25.

25. REMUNERATION OF KEY MANAGEMENT PERSONNEL - CHIEF EXECUTIVE OFFICER ('CEO'), DIRECTORS AND SHARIAH COMMITTEE

	<u>2008</u>	<u>2007</u>
	RM	RM
Non-Executive Directors		
- Fees	168,000	129,000
Chief Executive Officer ('CEO')		
- Salary and other remuneration	2,718,925	1,222,367
- Benefit-in-kind	489,905	451,075
	<u>3,208,830</u>	<u>1,673,442</u>
Shariah Committee members fees	139,000	146,290
	<u>3,515,830</u>	<u>1,948,732</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The movement and details of the directors of the Bank in office and their shareholdings in the Bank and related corporations are included in the Directors' Report.

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25. REMUNERATION OF KEY MANAGEMENT PERSONNEL - CHIEF EXECUTIVE OFFICER ('CEO'), DIRECTORS AND SHARIAH COMMITTEE (CONTINUED)

The remuneration of the directors is within the following bands:

	<u>2008</u>	<u>2007</u>
Non-Executive		
Below RM50,000	<u>9</u>	<u>9</u>

26. TAXATION

	<u>2008</u> RM	<u>2007</u> RM
Deferred tax:		
Relating to origination & reversal of temporary differences	(4,782,378)	(1,058,000)
Relating to reduction in Malaysian income tax rate	59,322	(127,000)
Others	(52,699)	(364,000)
	<u>(4,775,755)</u>	<u>(1,549,000)</u>

The numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate are as follows:

	<u>2008</u> RM	<u>2007</u> RM
Loss before taxation	<u>(20,528,865)</u>	<u>(5,303,028)</u>
Taxation at Malaysian statutory tax rate of 26%/27%	(5,337,505)	(1,431,817)
Effect on opening deferred tax of reduction in Malaysian income tax rate	59,322	(127,000)
Expenses not deductible for tax purposes	542,726	373,817
Others	(40,298)	(364,000)
Tax expense for the year	<u>(4,775,755)</u>	<u>(1,549,000)</u>

27. EARNINGS PER SHARE

	<u>2008</u> RM	<u>2007</u> RM
Earnings per ordinary share are calculated as follows:		
Basic:		
Net loss for the financial year	<u>(15,753,110)</u>	<u>(3,754,028)</u>
Weighted average number of ordinary shares in issue	<u>355,020,010</u>	<u>355,020,010</u>
Basic loss per share (sen)	<u>(4.44)</u>	<u>(1.06)</u>

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28. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationships

The related parties of and their relationship with the Bank are as follows:

<u>Related parties</u>	<u>Relationship</u>
Qatar Islamic Bank ('QIB')	Shareholder
RUSD Investment Bank ('RUSD')	Shareholder
Financial Assets Bahrain W.L.L. ('FAB')	Shareholder
Pacific-Interlink Sdn Bhd ('PIL')	Director-owned company
Directors and CEO	Key Management Personnel

(b) In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

The significant related party transactions and balances described below were carried out on terms and conditions obtainable on transactions with unrelated parties. Profit rates on all related party transactions are at normal commercial rates.

	<u>Shareholders</u>	<u>Director-owned</u>	<u>Key</u>
	<u>RM</u>	<u>company</u>	<u>management</u>
<u>For the financial year ended 31.12.2008</u>		<u>RM</u>	<u>personnel</u>
<u>Expenditure</u>			<u>RM</u>
Reimbursement of operating expenses to shareholders	42,192	0	0
<u>Amount due to</u>			
Current account and investment deposits	-	-	117,270
<u>Amount due from</u>			
Financing and advances	-	34,806,873	-

The financing and advances to the director-owned company is repayable upon maturity at profit rate of LIBOR + 0.75%.

	<u>Shareholders</u>	<u>Director-owned</u>	<u>Key</u>
	<u>RM</u>	<u>company</u>	<u>management</u>
<u>For the financial year ended 31.12.2007</u>		<u>RM</u>	<u>personnel</u>
<u>Expenditure</u>			<u>RM</u>
Reimbursement of operating expenses to shareholders	31,965	-	-
<u>Amount due to</u>			
Current account and investment deposits	-	135,457	114,120
<u>Amount due from</u>			
Reimbursement of operating expenses from shareholders	16,306	-	-
Financing and advances	-	17,085,643	99,650
	16,306	17,085,643	99,650

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29. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers. No material losses are anticipated as a result of this transaction, which needs to be adjusted.

Risk weighted exposures of the Bank are as follows:

	2008		
	<u>Principal amount</u>	<u>Credit equivalent amount *</u>	<u>Risk weighted amount</u>
	RM	RM	RM
Transaction-related contingent items	15,977,000	7,988,500	7,688,000
Irrevocable commitments to extend credit:			
- over one year to five years	82,702,000	41,350,500	41,351,000
- over five years	25,709,000	12,855,000	3,251,000
Foreign exchange related contracts			
- one year or less	53,945,000	1,754,000	351,000
Total	<u>178,333,000</u>	<u>63,948,000</u>	<u>52,641,000</u>
	2007		
	<u>Principal amount</u>	<u>Credit equivalent amount *</u>	<u>Risk weighted amount</u>
	RM	RM	RM
Transaction-related contingent items	2,332,961	2,332,961	-
Irrevocable commitments to extend credit:			
- over one year to five years	4,031,170	2,015,585	2,015,585
- one year or less	500,000	-	-
		-	-
Total	<u>6,864,131</u>	<u>4,348,546</u>	<u>2,015,585</u>

* The credit equivalent amount is arrived at using credit conversion factors as per Bank Negara Malaysia's guidelines.

30. CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	<u>2008</u>	<u>2007</u>
	RM	RM
The capital commitments are for the purchase of property, plant and equipment and intangible assets.		
Authorised and contracted for	<u>3,894,476</u>	<u>5,174,897</u>

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31. LEASE COMMITMENTS

The Bank has operating lease commitment in respect of rented premises as follows:

	<u>2008</u>	<u>2007</u>
	RM	RM
Not later than one year	664,860	1,437,240
Later than one year and not later than five years	40,200	616,620
	<u><u>664,860</u></u>	<u><u>1,437,240</u></u>

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES32.1 Overview and organisation

Risk is inherent in banking business and sound risk management is cornerstone of prudent and successful banking. In compliance with best practices under the Malaysian Code of Corporate Governance, the Board of Directors ('Board') through the Bank's Risk Management Department ('RMD') and Board Risk Committee ('BRC') is responsible for identifying principal risk and ensuring that there is an ongoing process to continuously manage the Bank's risks proactively.

The BRC provides oversight and management of all risks in an integrated way. RMD is independent and reports directly to this committee. RMD is independent and reports directly to this committee. RMD through BRC assists the Board to formulate risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

Primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits. Additionally, the management of risks associated with financial instruments is continuously carried out in the organisation. The Board has set up policies and procedures to manage the risks that may arise in connection with the use of financial instruments.

32.2 Market risk management

Market risk is the risk of potential loss resulting from adverse movements in the level of market prices or rates, the two key components being profit rate risk and foreign currency exchange risks. It is incurred as a result of trading and non-trading activities.

The primary objective of market risk management is to ensure that losses from market risk can be promptly addressed, such that losses are contained within acceptable levels.

A framework of approved risk policies, measurement methodologies and limits as approved by the Board, controls financial market activities. The Asset Liability Committee ('ALCO') comprising key officers of the Bank, plays a fundamental role in the asset/liability management of the Bank, and establishes strategies which assist in controlling and reducing any potential exposures to market risk. RMD plays an independent role in the monitoring and assessing of risk exposures arising from these, and reports independently to the BRC.

Apart from monitoring compliance with risk policies, methodologies and limits, scenario analysis and stress testing examine the impact of unusual market forces on the existing portfolios.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Some specific methods for managing the various types of market risks are:

(a) Currency risk

Currency risk refers to the risk that earnings and value of financial instruments will fluctuate due to changes in foreign exchange rates.

There is an approved position limit for each currency and an overall total limit. Trading loss limits are imposed on each trading desk and on each individual dealer. The level of these exposures (including off-balance sheet items) by currency and overall total for both intra-day and overnight positions are monitored daily for compliance with the approved limits. These limits are reviewed regularly and are in line with strategies set by ALCO.

Foreign and overseas investments, which are funded by purchases with resultant open foreign exchange positions, are monitored and appropriate hedging strategies are undertaken in line with market trends.

The Bank currently maintains a natural hedge by borrowing in the currency in which the asset is denominated in.

(b) Profit rate risk

Profit rate risk is the risk to earnings and the value of financial instruments held by the Bank caused by fluctuation in the profit rates. Profit rate risks arise from differences in maturities and repricing dates of assets, liabilities and off-balance sheet items.

The ALCO monitors the balance sheet position and assesses it for profit and loss impacts arising from sensitivity to profit rate movements. There are set limits on the level of mismatch of profit rate repricing that may be undertaken, which are monitored monthly. Market Risk Measurement and sensitivity analysis are undertaken to provide guidance towards limiting profit rate risks. The tables shown summarise the exposure to profit rate risk.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(b) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates.

<u>2008</u>	← Non-trading book →					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years				
	RM	RM	RM	RM	RM	RM	RM	RM	
<u>Assets</u>									
Cash and short term funds	1,422,220,000	-	-	-	-	8,477,127	-	1,430,697,127	3.53
Deposits and placements with financial institutions	-	-	-	-	-	-	-	-	-
Securities available-for-sale	-	-	-	23,584,322	37,876,835	-	-	61,461,157	5.35
Securities held-to-maturity	-	-	-	16,875,260	-	-	-	16,875,260	3.99
Financing and advances									
- performing	69,787,168	33,100,795	22,177,469	47,036,812	85,649,005	(9,925,843)	-	247,825,406	5.46
- non performing	-	-	-	-	-	2,002,321	-	2,002,321	-
Other assets	-	-	-	-	-	39,097,494	-	39,097,494	-
Deferred taxation assets	-	-	-	-	-	9,756,257	-	9,756,257	-
Property, plant and equipment	-	-	-	-	-	5,349,243	-	5,349,243	-
Intangible assets	-	-	-	-	-	11,561,849	-	11,561,849	-
Total assets	1,492,007,168	33,100,795	22,177,469	87,496,394	123,525,840	66,318,448	-	1,824,626,114	

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(b) Profit rate risk (continued)

2008	← Non-trading book →					Over 5 years	Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	1-3 months	3-12 months	1-5 years	RM					
	RM	RM	RM	RM	RM	RM	RM	RM		
Liabilities										
Deposits from customers	845,796,483	108,206,645	10,303,908	3,800,000	-	-	-	968,107,036	3.73	
Deposits and placements of banks and other financial institutions	419,610,235	103,909,100	1,120,820	-	-	-	-	524,640,155	3.64	
Other liabilities	-	-	-	-	-	7,837,469	-	7,837,469	-	
Total liabilities	1,265,406,718	212,115,745	11,424,728	3,800,000	-	7,837,469	-	1,500,584,660		
Total shareholders equity	-	-	-	-	324,041,454	-	-	324,041,454		
	1,265,406,718	212,115,745	11,424,728	3,800,000	324,041,454	7,837,469	-	1,824,626,114		
Total profit-sensitivity gap	226,600,450	(179,014,950)	10,752,741	83,696,394	(200,515,614)	58,480,979	-	-		

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FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(b) Profit rate risk (continued)

<u>2007</u>	← Non-trading book →					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years				
	RM	RM	RM	RM	RM	RM	RM	RM	%
<u>Assets</u>									
Cash and short term funds	1,004,720,000	-	-	-	-	3,395,436	-	1,008,115,436	3.57
Deposits and placements with financial institutions	-	100,000,000	-	-	-	-	-	100,000,000	3.60
Securities available-for-sale	-	-	-	32,734,350	-	-	-	32,734,350	7.64
Financing and advances									
- performing	-	-	27,235,939	66,069,031	-	(2,515,782)	-	90,789,188	7.98
Other assets	-	-	-	-	-	4,916,448	-	4,916,448	-
Deferred taxation assets	-	-	-	-	-	1,638,275	-	1,638,275	-
Property, plant and equipment	-	-	-	-	-	5,499,652	-	5,499,652	-
Intangible assets	-	-	-	-	-	9,110,568	-	9,110,568	-
Total assets	1,004,720,000	100,000,000	27,235,939	98,803,381	-	22,044,597	-	1,252,803,917	

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(b) Profit rate risk (continued)

	← Non-trading book →					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years				
<u>2007</u>	RM	RM	RM	RM	RM	RM	RM	RM	%
<u>Liabilities</u>									
Deposits from customers	661,603,458	154,285,161	12,574,676	236,276	-	-	-	828,699,571	3.48
Deposits and placements of banks and other financial institutions	68,207,183	-	600,000	-	-	-	-	68,807,183	3.91
Other liabilities	-	-	-	-	-	8,812,702	-	8,812,702	-
Total liabilities	729,810,641	154,285,161	13,174,676	236,276	-	8,812,702	-	906,319,456	
Total shareholders equity	-	-	-	-	346,484,461	-	-	346,484,461	
	729,810,641	154,285,161	13,174,676	236,276	346,484,461	8,812,702	-	1,252,803,917	
Total profit-sensitivity gap	274,909,359	(54,285,161)	14,061,263	98,567,105	(346,484,461)	13,231,895	-	-	

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FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)32.2 Market risk management (continued)(c) Liquidity risk

The primary objective of liquidity risk management is to ensure that the Bank maintains sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

Liquidity is assessed based on the contractual and behavioural cash flow of assets, liabilities and off-balance sheet commitments, taking into account consideration of realisable cash value of eligible liquefiable securities. The Bank sets limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities, to ensure adequate cover for withdrawals at unexpected level of demand. The Bank constantly ensures compliance with Bank Negara Malaysia's Liquidity Framework. The Bank's liquidity framework is subject to periodic stress tests and the results are constantly reviewed.

(d) Credit risk management

Credit risk represents the possibility of loss due to changes in the quality of counter-parties and the market price for credit risk assets (collateral).

The primary objective of credit risk management is to keep the Bank's exposure to credit risk within its capability and financial capacity to withstand potential financial losses.

The credit risk policy is to develop a strong credit culture with the objective of maintaining a well diversified, evaluated and current portfolio, fully satisfied for credit risk, giving no concern for unexpected losses and which ensures a reliable and satisfactory risk weighted return. This policy, the bedrock of credit risk management, is in the form of a written statement of credit standards, principles and guidelines, which is distributed bank-wide and used as a common source of reference.

Stringent measures and processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being independently evaluated by the RMD. The Executive Committee of the Board sanction credits beyond the discretionary limit of the Credit Committee. The strict adherence to the discretionary powers sanctioned by the Board is monitored by the RMD.

A risk rating system is used to categorise the risk of individual credits and determine whether the Bank is adequately compensated. Client accounts will be reviewed at regular intervals and weakening credits will be closely monitored.

The Bank strives to maintain a diverse credit profile and track changing risk concentrations in response to market changes and external events. Risks are further mitigated through counterparty, industry and product exposure limits and risk reward mapping.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(d) Credit risk management (continued)

2008	Short-term funds and placements with financial institutions	Securities available-for-sale	Securities held-to-maturity	Financing and advances #	Other financial assets *	On balance sheet total	Commitment and contingencies
Agriculture, hunting, forestry and fishing	-	-	-	-	-	-	-
Finance, insurance and business services	1,422,220,000	61,461,157	16,875,260	207,393,689	-	1,707,950,106	167,061,000
Construction	-	-	-	27,552,364	-	27,552,364	-
Others	-	-	-	24,807,516	-	24,807,516	-
	1,422,220,000	61,461,157	16,875,260	259,753,569	-	1,760,309,986	167,061,000
Assets not subject to credit risk	8,477,127	-	-	-	39,097,494	47,574,621	3,847,123
	1,430,697,127	61,461,157	16,875,260	259,753,569	39,097,494	1,807,884,607	170,908,123

Excludes general allowance and specific allowance of RM 7,965,782 and RM 1,960,060 respectively.

* Excludes deferred taxation assets of RM 9,756,257; property, plant and equipment of RM 5,349,243 and intangible assets of RM 11,561,849.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(d) Credit risk management (continued)

<u>2007</u>	Short-term funds and placements with financial institutions	Securities available-for-sale	Financing and advances #	Other financial assets *	On balance sheet total	Commitment and contingencies
Agriculture, hunting, forestry and fishing	-	-	27,127,766	-	27,127,766	500,000
Finance, insurance and business services	1,104,720,000	32,734,350	-	-	1,137,454,350	600,000
Construction	-	-	65,968,830	-	65,968,830	4,031,170
Others	-	-	208,375	-	208,375	1,732,961
	<u>1,104,720,000</u>	<u>32,734,350</u>	<u>93,304,971</u>	<u>-</u>	<u>1,230,759,321</u>	<u>6,864,131</u>
Assets not subject to credit risk	3,395,436	-	-	4,916,448	8,311,884	5,174,897
	<u>1,108,115,436</u>	<u>32,734,350</u>	<u>93,304,971</u>	<u>4,916,448</u>	<u>1,239,071,205</u>	<u>12,039,028</u>

Excludes general allowance amounting to RM2,515,782

* Excludes deferred taxation assets of RM1,638,275; property, plant and equipment of RM5,499,652 and intangible assets of RM9,110,568

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NOTES TO THE FINANCIAL STATEMENTS
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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

32.2 Market risk management (continued)

(e) Operational risk

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

The management of operational risk is an important feature of sound risk management practice in today's banking operations. Policies and procedures, internal controls and internal reviews or compliance monitoring and audit processes are primary means to control operational risk. The operational risk function is responsible for development of bank-wide operational risk policies, frameworks and methodologies, and providing inputs to the business units on the operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Operating processes and policies are continually being refined and strengthened to prevent or minimise unexpected losses.

As the Bank implements its Basel II initiatives, RMD is putting in place the key risk indicators (KRIs) to support various business units and support group to manage and monitor their operational risk more effectively.

The Bank has its ongoing business continuity planning ('BCP') programme for its major critical business operations and activities at the Head Office, Datacentre, and branch locations. The BCP programme is subject to regular testing to ensure efficacy, reliability and functionality.

The Human Resource Division has in place an established policy and procedures in ensuring quality people with integrity are recruited, trained and retained. Operational risk awareness training is also part of the bank's Learning Centre/HR initiatives for targeted staff.

All new products/services introduced by the Bank are evaluated by RMD before they are being approved by the Board.

(f) Information technology ('IT') risk

As for IT risk, there is a continuous process of risk assessment and risk mitigation on the existing hardware, software and the processes.

IT risk management is the process that balances the operational and economic costs of protective measures of IT systems and data against the goal of the organisation.

Dedicated disaster recovery plan ('DRP') hot site is established for the mainframe system, as well as for the other specific software systems that Bank has.

The Bank allocates substantial time and dedicated staff to constantly review, revamp and develop new policy and procedures to cater for the constant change of the financial industry.

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NOTES TO THE FINANCIAL STATEMENTS
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33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

The fair values are based on the following methodologies and assumptions:

Deposits and placements with financial institutions

For deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar financing risk and remaining period to maturity.

Held for trading and available-for-sale

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative profit yields or net tangible asset backing of investee.

Financing and advances

The following table summarises the carrying amounts and the estimated fair values of those financial assets not presented on the Bank balance sheet at their fair value:

<u>31.12.2008</u>	Carrying value RM	Fair value RM
Financial assets:		
Financing and advances	<u>259,753,569</u>	<u>232,517,229</u>
<u>31.12.2007</u>	Carrying value RM	Fair value RM
Financial assets:		
Financing and advances	<u>93,304,971</u>	<u>90,196,296</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

34. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

For variable rate financing, the carrying value is generally a reasonable estimate of fair value. For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using prevailing market rates of financing with similar financing risks and maturities.

The fair values of non-performing variable and fixed rate financing are represented by their carrying value, net of specific allowance and income-in-suspense, being the expected recoverable amount.

Other assets and liabilities

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

Deposits from customers

For deposits from customers with maturities less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions and bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturities.

Financing related commitment and contingencies

The net fair value of these items as not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to financing risks and attract fees in line with market prices for similar arrangements.

They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

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NOTES TO THE FINANCIAL STATEMENTS
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35. CAPITAL ADEQUACY

	<u>31.12.2008</u>
	RM
<u>Tier I Capital</u>	
Paid-up ordinary share capital	355,020,010
Accumulated losses	<u>(24,049,406)</u>
	330,970,604
Less :	
Deferred tax assets	<u>(9,756,257)</u>
Total Tier I capital	<u>321,214,347</u>
<u>Tier II Capital</u>	
General allowance for bad and doubtful financing	<u>7,965,782</u>
Total Tier II capital	<u>7,965,782</u>
Total capital base	<u>329,180,129</u>
<u>Capital ratios</u>	
Inclusive of market risk :	
Core capital ratio (inclusive of market risk)	92.13%
Risk-weighted capital ratio (inclusive of market risk)	<u>94.41%</u>

The capital ratios have been computed in accordance with Capital Adequacy Framework for Islamic Bank (CAFIB).

No corresponding disclosure in the previous reporting period due to the first time adoption of CAFIB during the financial year 2008.

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35. CAPITAL ADEQUACY (continued)

31.12.08

Exposure Class	<u>Gross Exposures</u> RM'000	<u>Net Exposures</u> RM'000	<u>Risk Weighted Assets</u> RM'000	<u>Risk Weighted Assets Absorbed by PSIA</u> RM'000	<u>Total Risk Weighted Assets after effects of PSIA</u> RM'000	<u>Capital Requirements</u> RM'000
<u>Credit Risk</u>						
<i>On-Balance Sheet Exposures</i>						
Corporates	324,049	324,049	225,058	-	225,058	18,005
Regulatory Retail	12,067	12,067	9,050	-	9,050	724
Defaulted Exposures						
Total for On-Balance Sheet Exposures	336,116	336,116	234,108	-	234,108	18,729
<i>Off-Balance Sheet Exposures</i>						
Off balance sheet exposures other than OTC derivatives or credit derivatives	178,333	63,948	52,641	-	52,641	4,211
Total for Off-Balance Sheet Exposures	178,333	63,948	52,641	-	52,641	4,211
Total On and Off-Balance Sheet Exposures	514,449	400,064	286,749	-	286,749	22,940
<u>Market Risk</u>						
	Long Position	Short Position				
Interest Rate Risk	1,483,681	1,491,639	7,958	15,726	15,726	1,258
Foreign Currency Risk	1,094	(13,166)	(14,260)	13,163	13,163	1,053
Operational Risk	-	-	-	33,015	-	2,641
Total RWA and Capital Requirements	-	-	-	348,653	315,638	27,892

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FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

35. CAPITAL ADEQUACY (continued)

Disclosures on Risk Weights – Expressed in nearest RM thousand (RM'000)

31.12.08

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Banks, MDBs and FDI's		Insurance Companies, Securities Firms & Fund Managers		Corporates		Regulatory Retail		Total Exposure	Total Risk Weighted Assets
	Exposures after Netting & CRM	Risk Weighted Asset	Exposures after Netting & CRM	Risk Weighted Asset	Exposures after Netting & CRM	Risk Weighted Asset	Exposures after Netting & CRM	Risk Weighted Asset	Exposures after Netting & CRM	Exposures after Netting & CRM
Performing Exposures										
0%	-	-	300	-	10,314	-	-	-	10,614	-
20%	1,754	351	-	-	104,012	20,802	-	-	105,766	21,153
50%	-	-	-	-	30,100	15,050	-	-	30,100	15,050
75%	-	-	-	-	-	-	12,067	9,050	12,067	9,050
100%	-	-	-	-	241,475	241,475	-	-	241,475	241,475
Total	1,754	351	300	-	385,901	277,327	12,067	9,050	400,022	286,728
Defaulted Exposures										
50%	-	-	-	-	42	21	-	-	42	21
Total	-	-	-	-	42	21	-	-	42	21
Total Performing and Defaulted	1,754	351	300	-	385,943	277,348	12,067	9,050	400,064	286,749

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NOTES TO THE FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

35. CAPITAL ADEQUACY (continued)

	<u>31.12.2007</u>
	RM
<u>Tier I Capital</u>	
Paid-up ordinary share capital	355,020,010
Accumulated losses	(8,296,296)
	<u>346,723,714</u>
Less :	
Deferred tax assets	(1,638,275)
Total Tier I capital	<u>345,085,439</u>
<u>Tier II Capital</u>	
General allowance for bad and doubtful financing	2,515,782
Total Tier II capital	<u>2,515,782</u>
Total capital base	<u><u>347,601,221</u></u>
<u>Capital ratios</u>	
Inclusive of market risk :	
Core capital ratio (inclusive of market risk)	210.39%
Risk-weighted capital ratio (inclusive of market risk)	<u>211.92%</u>

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	<u>Risk Weighted</u>
	RM
(i) Credit Risk	
20%	151,951
100%	150,929,141
	<u>151,081,092</u>
(ii) Market Risk Capital Adequacy Framework #	12,940,456
	<u>164,021,548</u>

The capital adequacy ratios have incorporated market risk pursuant to BNM's guideline on Market Risk Capital Adequacy Framework, which is effective from 1 April 2005.

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NOTES TO THE FINANCIAL STATEMENTS
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36. SEGMENT INFORMATION

All inter-segment transactions are conducted on an arms-length basis and on normal commercial terms not more favourable than those generally available to the public.

The Bank's divisional segment can be organised into the following main segments reflecting the Bank's internal reporting structure: -

Domestic banking

Domestic banking caters to financing needs of corporate customers including public listed corporations and its related entities, multinationals corporations, Financial Institutions, Government and state owned entities, small and medium enterprises. Domestic banking also focuses on providing products and services to individual customers. The products and services offered to customers include trade finance, contract financing, capital goods financing, asset purchase financing, project financing, home financing and personal financing.

Investment and international banking

Treasury operations involve managing the Bank's funding requirement, investment and compliance requirements. Treasury also involve proprietary trading in treasury related products such as foreign exchange, money market and fixed income. Investment banking provides services related to the capital markets such as corporate finance advisory and Sukuk issuance as well as syndicated and structured finance for corporate clients. We further develop investment products such as property investment funds with a view to provide investors from GCC with an avenue to invest in the Asian properties.

<u>31.12.2008</u>	Domestic banking RM	Investment and International banking RM	Asset Manage- ment RM	Others* RM	Elimination RM	Total RM
External revenue	12,114,112	43,099,627	-	15,119	-	55,228,858
Inter-segment revenue	(1,537,842)	1,537,842	-	-	-	-
Total revenue	<u>10,576,270</u>	<u>44,637,469</u>	-	15,119	-	55,228,858
Depositors' payout	(8,927,600)	(26,945,752)	-	-	-	(35,873,352)
Net income	<u>1,648,670</u>	<u>17,691,717</u>	-	15,119	-	19,355,506
Operating overheads	(13,533,184)	(3,212,427)	(168,688)	(22,970,072)	-	(39,884,371)
Segmental results/loss before taxation	(11,884,514)	14,479,290	(168,688)	(22,954,953)	-	(20,528,865)
Taxation						4,775,755
Loss for the financial year						<u>(15,753,110)</u>

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NOTES TO THE FINANCIAL STATEMENTS
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36. SEGMENT INFORMATION (CONTINUED)

<u>31.12.2007</u>	Domestic banking RM	Investment and International banking RM	Asset Manage- ment RM	Others* RM	Elimination RM	Total RM
External revenue	2,642,492	25,145,164	-	23,937	-	27,811,593
Inter-segment revenue	(1,082,779)	1,082,779	-	-	-	-
Total revenue	1,559,713	26,227,943	-	23,937	-	27,811,593
Depositors' payout	(88,170)	(12,712,520)	-	-	-	(12,800,690)
Net income	1,471,543	13,515,423	-	23,937	-	15,010,903
Operating overheads	(6,671,293)	(2,239,219)	-	(11,403,419)	-	(20,313,931)
Segmental results/loss before taxation	(5,199,750)	11,276,204	-	(11,379,482)	-	(5,303,028)
Taxation						1,549,000
Loss for the financial year						(3,754,024)

<u>31.12.2008</u>	Domestic banking RM	Investment and International banking RM	Asset Management RM	Others* RM	Elimination RM	Total RM
Segment assets	254,597,522	1,510,623,476	-	49,648,859	-	1,814,869,857
Deferred tax assets	-	-	-	9,756,257	-	9,756,257
Unallocated assets	-	-	-	-	-	-
Total assets	254,597,522	1,510,623,476	-	59,405,116	-	1,824,626,114
Segment liabilities	71,755,132	1,420,992,059	-	7,837,469	-	1,500,584,660
Taxation	-	-	-	-	-	-
Total liabilities	71,755,132	1,420,992,059	-	7,837,469	-	1,500,584,600
Other segment items						
Capital expenditure	832,810	4,941,376	-	162,405	-	5,936,591
Depreciation	1,170,181	332,090	-	2,094,832	-	3,597,103
Financing loss provision	7,410,060	-	-	-	-	7,410,060

* Others comprise of Business Support and Independent Support Units

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NOTES TO THE FINANCIAL STATEMENTS

FOR FINANCIAL YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

36. SEGMENT INFORMATION (CONTINUED)

<u>31.12.2007</u>	Domestic banking RM	Investment and International banking RM	Asset Management RM	Others* RM	Elimination RM	Total RM
Segment assets	94,476,142	1,142,177,725	-	14,511,775	-	1,251,165,642
Deferred tax assets	-	89,275	-	1,549,000	-	1,638,275
Unallocated assets	-	-	-	-	-	-
Total assets	94,476,142	1,142,267,000	-	16,060,775	-	1,252,803,917
Segment liabilities	829,343,880	68,162,874	-	8,812,702	-	906,319,456
Taxation	-	-	-	-	-	-
Total liabilities	829,343,880	68,162,874	-	8,812,702	-	906,319,456
Other segment items						
Capital expenditure	2,880,611	935,839	-	6,727,546	-	10,543,996
Depreciation	743,418	241,518	-	1,732,236	-	2,717,172
Financing loss provision	2,515,782	-	-	-	-	2,515,782

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 7 January 2009.

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STATEMENT BY DIRECTORS

Pursuant to Section 169 (15) of the Companies Act, 1965

We, Abdul Latif Abdulla Z. Al-Mahmoud and Salah Mohd I. Al-Jaidah, being two of the directors of ASIAN FINANCE BANK BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 13 to 56 are drawn up in accordance with the provisions of the Companies Act, 1965, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as at 31 December 2008 and of the results and cash flows of the Bank for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 7th January 2009.

ABDUL LATIF ABDULLA Z. AL-MAHMOUD
CHAIRMAN

SALAH MOHD I. AL-JAIDAH
DIRECTOR

STATUTORY DECLARATION

Pursuant to Section 169 (16) of the Companies Act, 1965

I, Datuk Mohamed Azahari Mohamad Kamil, being the officer primarily responsible for the financial management of ASIAN FINANCE BANK BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 56 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.

DATUK MOHAMED AZAHARI MOHAMED KAMIL
CHIEF EXECUTIVE OFFICER

Subscribed and solemnly declared by the abovenamed Datuk Mohamed Azahari Mohamad Kamil at Kuala Lumpur before me, on .

COMMISSIONER FOR OATHS

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

In the name of Allah, the most Beneficent, the most Merciful.

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions:

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by Asian Finance Bank Berhad during the year ended 31 December 2008. We have also conducted our review to form an opinion as to whether Asian Finance Bank Berhad have complied with Shariah rules and principles and also with the specific fatwa, rulings and guidelines issued by us.

Asian Finance Bank Berhad's Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form our independent opinion, based on our review of the operations for Asian Finance Bank Berhad.

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

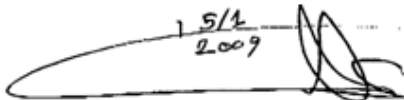
We planned and performed our view so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Asian Finance Bank Berhad has not violated the Shariah rules and principles.

In our opinion:

- the contracts, transactions and dealings entered into by Asian Finance Bank Berhad during the year ended 31 December 2008 that we have reviewed are in compliance with Shariah rules and principles;
- the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles.
- the calculation of Zakat is in compliance with Shariah rules and principles.

Praise be to God.

On behalf of the Shariah Committee



SHEIKH DR. ABDUL SATTAR ABU GHUDDAH
Chairman

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASIAN FINANCE BANK BERHAD

(Incorporated in Malaysia)

(Company No. 716122 P)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Asian Finance Bank Berhad, which comprise the balance sheets as at 31 December 2008 of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 56.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

Company No.

716122	P
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ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ASIAN FINANCE BANK BERHAD
(Incorporated in Malaysia)
(Company No. 716122 P)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

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

Kuala Lumpur
7 January 2009