

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS - 31 DECEMBER 2008

Registered Office
27th Floor, Menara Public Bank
146 Jalan Ampang
50450 Kuala Lumpur
Malaysia

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

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PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

The Directors have pleasure in presenting to the members their report together with the audited financial statements of the Bank for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

On 1 November 2008, the Islamic banking business of the Bank's holding company, Public Bank Berhad ("PBB"), a licensed bank incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad, was transferred to and vested into the Bank in accordance with the terms and conditions of the business transfer agreement dated 30 May 2008 entered into between PBB and the Bank and pursuant to the vesting order of the High Court of Malaya and the High Court of Sabah and Sarawak on 15 July 2008 and 26 June 2008 respectively. The consideration for the acquisition was based on the net book value of the PBB's Islamic banking business as at the date of completion of the acquisition on 1 November 2008 amounting to RM1,904,940,325.

The Bank is principally engaged in the business of Islamic banking and the provision of related financial services.

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

FINANCIAL RESULTS

	RM'000
Profit before zakat and taxation	64,435
Zakat and taxation	(16,797)
Profit for the year	<u>47,638</u>

DIVIDENDS

No dividends have been paid or declared by the Bank since the end of the previous financial year. The Directors do not recommend payment of any dividend in respect of the current financial year ended 31 December 2008.

ISSUE OF SHARES

On 1 November 2008, the Bank increased its paid-up capital by 17,500,000 ordinary shares of RM1.00 each issued at a premium of RM25.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM127,717,000 to RM145,217,000.

ISSUE OF SHARES (continued)

On 28 November 2008, the Bank further increased its paid-up capital by 14,000,000 ordinary shares of RM1.00 each issued at a premium of RM24.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM145,217,000 to RM159,217,000.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Bank.

RESERVES, PROVISIONS AND ALLOWANCES

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

BAD AND DOUBTFUL FINANCING

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing and the making of allowance for losses on financing and advances, and satisfied themselves that all known bad financing had been written off and adequate allowance had been made for doubtful financing.

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

CURRENT ASSETS

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ensure that current assets, other than financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Bank have been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF UNUSUAL NATURE

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

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

SIGNIFICANT EVENT DURING THE YEAR

The significant event during the financial year is as disclosed in Note 37 to the financial statements.

SUBSEQUENT EVENTS

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

DIRECTORS OF THE BANK

The Directors who served since the date of the last report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow

Tan Sri Dato' Thong Yaw Hong

Tan Sri Dato' Sri Tay Ah Lek

Dato' Lee Kong Lam

Dato' Yeoh Chin Kee

Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah

Dato' Haji Abdul Aziz bin Omar

Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff

In accordance with Article 97 of the Bank's Articles of Association, Dato' Yeoh Chin Kee and Dato' Haji Abdul Aziz bin Omar retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Thong Yaw Hong and Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff retire pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offer themselves for re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of the Directors in office at the end of the financial year in shares of the Bank's holding company, Public Bank Berhad ("PBB") and in shares and options of its related corporations during the financial year were as follows:

Shares Held in

Public Bank Berhad ("PBB")

	Number of Ordinary Shares of RM1.00 Each			Balance as at 31.12.2008
	Balance as at 1.1.2008	Acquired	Disposed	
Direct interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	21,524,250	-	-	21,524,250
Tan Sri Dato' Thong Yaw Hong	7,313,750	-	-	7,313,750
Tan Sri Dato' Sri Tay Ah Lek	8,610,109	-	-	8,610,109
Dato' Lee Kong Lam	1,579,921	-	500,000	1,079,921
Dato' Yeoh Chin Kee	1,250,000	-	1,050,000	200,000
Y.A.M. Tengku Abdul Rahman Ibni Sultan Haji Ahmad Shah Al-Mustain Billah	125,000	-	125,000	-
Dato' Haji Abdul Aziz bin Omar	875,000	-	125,000	750,000
Dato' Dr. Haji Mohamed Ishak bin Haji Mohamed Ariff	365,000	-	15,000	350,000

	Number of Ordinary Shares of RM1.00 Each			Balance as at 31.12.2008
	Balance as at 1.1.2008	Acquired	Disposed	
Indirect interests:				
Tan Sri Dato' Sri Dr. Teh Hong Piow	786,468,596	-	-	786,468,596
Tan Sri Dato' Thong Yaw Hong	821,875	-	-	821,875
Tan Sri Dato' Sri Tay Ah Lek	339,482	-	-	339,482
Dato' Lee Kong Lam	800,000	-	-	800,000
Dato' Yeoh Chin Kee	-	300,000	-	300,000

As at 1 January 2008, all the Directors in office had no unexercised options in the PBB Employees' Share Option Scheme.

DIRECTORS' INTERESTS (continued)

**Shares Held in
Public Financial Holdings Limited ("PFHL")**

Direct interests:	Number of Ordinary Shares of HKD0.10 Each				Balance as at 31.12.2008
	Balance as at 1.1.2008	Exercise of PFHL Share Options	Acquired	Disposed	
Tan Sri Dato' Thong Yaw Hong	498,000	-	-	498,000	-
Tan Sri Dato' Sri Tay Ah Lek	-	450,000	-	100,000	350,000
Dato' Yeoh Chin Kee	80,000	150,000	-	80,000	150,000

**Share Options Held under the
PFHL Employees' Share Option Scheme
("PFHL Share Options")**

	Option Price HKD	Number of PFHL Share Options			Balance as at 31.12.2008
		Balance as at 1.1.2008	Granted	Exercised	
Tan Sri Dato' Sri Tay Ah Lek	6.35	1,680,000	-	450,000	1,230,000
Dato' Yeoh Chin Kee	6.35	700,000	-	150,000	550,000

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in PBB or its related corporations during the financial year.

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his total direct and indirect interests of 807,992,846 shares in PBB, and pursuant to Section 6A(4)(c) of the Companies Act, 1965 is deemed interested in the shares in all of PBB's subsidiary companies to the extent that PBB has interests.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party with the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full time employee of the Bank as disclosed in Note 26 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has substantial financial interest.

BUSINESS REVIEW 2008

Prior to the establishment of Public Islamic Bank in November 2008, the Islamic banking business was conducted through a "window" concept under the Bank's holding company, Public Bank Berhad. In 2008, Public Bank's Islamic banking business sustained a strong performance with strong profitability, superior asset quality, and strong Islamic financing and Islamic deposit growth.

Public Bank's Islamic banking business continued to focus in growing its consumer financing, i.e. home mortgages, passenger vehicle hire purchase financing and personal financing and also in retail commercial lending to small- and medium-sized enterprises (SMEs).

In particular, Public Bank's Islamic banking focused on its niche retail segments of Ijarah Thumma Al Bai (AITAB) Hire Purchase-i, Bai Bithaman Ajil (ABBA) and Bai Al Einah (BAE) personal financing-i. In deposit taking, Public Bank's Islamic banking promoted its low cost saving accounts such as Wadiah Savings-i and Wadiah Current Account-i .

The Public Bank Group accelerated its efforts to expand its Islamic wealth management products by offering new Islamic unit trust funds.

To expand its Islamic banking business, Public Bank tapped its wide branch network of 242 branches, remote channels (consisting of 450 ATMs, 429 cheque deposit machines, 359 cash deposit terminals, Internet banking channel and mobile banking channel) and strong IBMEs. It also continued to tap the Public Bank Group's strong PB Brand, strong corporate image and superior delivery standards.

Public Bank's Islamic banking continued to participate in the Group's Corporate Social Responsibility programmes and paid its zakat obligation to comply with the principles of Shariah. During the year, Public Bank's Islamic Banking Division continued to promote greater public awareness of Islamic banking and also intensify its staff training.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2009

As an open economy, Malaysia is not immune from the global slowdown and volatility in capital flow. Malaysia's GDP growth is expected to soften in 2009 due to weaknesses in its export sector. Inflation, however, is expected to moderate significantly in the first half of 2009.

The Malaysian economy has strengths to mitigate risks of slower economic growth in 2009 based on its prevailing positive macroeconomic conditions. The banking sector is strong with strong capitalisation, strong asset quality and large liquidity in the banking system. Interbank placement and credit markets continue to function well. Households and businesses continue to have a steady access to financing. Malaysia has other strengths such as high savings, high surplus in the current account, strong international reserves, low government debt and high sovereign ratings.

ECONOMIC OUTLOOK AND PROSPECTS FOR 2009 (continued)

The Malaysian Government has taken preemptive measures to support domestic activity by introducing a RM7 billion stimulus package to boost private investment and private consumption. The Government is expected to maintain a budget deficit of 4.8% of GDP in 2008 and 2009. Bank Negara Malaysia's accommodative monetary policy will continue to support economic activity. The Bank Negara Malaysia liquidity support and the Government's full guarantee to all ringgit and foreign currency deposits in the banking system in Malaysia will sustain the already high confidence in the banking system. Also, the Government and Bank Negara Malaysia still have the flexibility to respond appropriately should growth decelerate sharper than expected.

BUSINESS OUTLOOK FOR 2009

Despite the slowing economy, Islamic banking business in Malaysia is expected to grow positively and Islamic banks will continue to remain resilient due to their strong capitalisation, healthy asset quality and strong risk management practices. Amidst excess liquidity, the competitive pressure on Islamic banking will be elevated further and its net profit margins is likely to remain under pressure. The entrance of new Islamic banks will add competitive pressure in Islamic banking businesses.

The competitive landscape will force Islamic banks to continue to pursue competitive pricing strategies, expand their delivery channels, and innovate new products. As households and businesses turn more cautious in 2009, growth in Islamic financing is expected to moderate. Factors which will continue to support growth in Islamic financing include low and competitive financing rates, stable labour market and the Government's fiscal stimulus to boost economic activity.

Demand for Islamic wealth management products is expected to remain strong due to increased number of affluent customers, low profit rates and high savings in the banking system. Public Islamic Bank will grow its fee-based activities to mitigate pressures on its net profit margins.

In terms of lending, Public Islamic Bank will continue to focus on home mortgages, car hire-purchase financing and SME loans. Public Islamic Bank will promote micro financing. On deposit taking, Public Islamic Bank will continue to source low cost Islamic deposits and expand Islamic retail financing and Islamic wealth management products to consumers and SMEs. Public Islamic Bank will tap business opportunities provided under the Malaysian International Islamic Financial Centre.

Public Islamic Bank will continue to promote its fee-based activities such as sales of Islamic unit trust funds, Islamic credit cards, Islamic trade finance and cash management services.

To expand its business, Public Islamic Bank will continue to tap on the Public Bank Group's management expertise, extensive branch network, competitive product packages, and multiple delivery channels such as Internet banking, mobile banking, ATMs, cheque deposit machines and cash deposit terminals. Also, Public Islamic Bank will continue to tap on the Group's strong corporate image and PB Brand, strong sales and marketing force and superior delivery standards.

BUSINESS OUTLOOK FOR 2009 (continued)

Public Islamic Bank will continue to remain prudent, uphold strong corporate governance, implement sound risk management policies and participate in the Group's corporate social responsibility programmes.

AUDITORS

The retiring auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW

Director

TAN SRI DATO' THONG YAW HONG

Director

Kuala Lumpur,

Dated : 19 January 2009

PUBLIC ISLAMIC BANK BERHAD
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STATEMENT BY DIRECTORS

We, TAN SRI DATO' SRI DR. TEH HONG PIOW and TAN SRI DATO' THONG YAW HONG, being two of the Directors of PUBLIC ISLAMIC BANK BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 15 to 82 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2008 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

TAN SRI DATO' SRI DR. TEH HONG PIOW
Director

TAN SRI DATO' THONG YAW HONG
Director

Kuala Lumpur,

Dated : 19 January 2009

PUBLIC ISLAMIC BANK BERHAD
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STATUTORY DECLARATION

I, CHANG SIEW YEN, being the officer primarily responsible for the financial management of PUBLIC ISLAMIC BANK BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 15 to 82, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **CHANG SIEW YEN** at KUALA LUMPUR
in WILAYAH PERSEKUTUAN this 19 January 2009

BEFORE ME:

Commissioner for Oaths
Kuala Lumpur

PUBLIC ISLAMIC BANK BERHAD
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SHARIAH COMMITTEE'S REPORT

In the name of Allah, The Beneficent, The Merciful

We, PROF. DATO' DR MAHMOOD ZUHDI AB MAJID, ASSOCIATE PROF. MOHD RIDZUAN AWANG and ASST. PROF. DR MOHD AFANDI AWANG HAMAT, being members of the Shariah Committee of PUBLIC ISLAMIC BANK BERHAD, do hereby confirm that we have reviewed the principles and contracts relating to the transactions used by the Bank during the year ended 31 December 2008.

The Management of the Bank is responsible in ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

In our opinion:

- a) the main sources of income of the Bank during the year ended 31 December 2008 were derived from contracts, transactions, investments and dealings entered into by the Bank which are in compliance with the Shariah rules and principles.
- b) the operations of the Bank for the period under review have been conducted in conformity with the Shariah rules and principles.

We beg Allah the Almighty to grant us success and lead us to the right path.

On behalf of the Shariah Committee.

**PROF. DATO' DR MAHMOOD ZUHDI
AB MAJID**
Chairman of the Committee

**ASSISTANT PROF. DR MOHD AFANDI
AWANG HAMAT**
Member of the Committee

ASSOCIATE PROF. MOHD RIDZUAN AWANG
Member of the Committee

Kuala Lumpur,
Dated : 19 January 2009

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PUBLIC ISLAMIC BANK BERHAD

Report on the Financial Statements

We have audited the financial statements of Public Islamic Bank Berhad, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 82.

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 the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines. 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 the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2008 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

The financial statements of the Bank as at 31 December 2007 were audited by another firm of chartered accountants, whose report dated 27 February 2008 expressed an unqualified opinion on those statements.

KPMG
Firm Number : AF 0758
Chartered Accountants

Petaling Jaya,
Dated : 19 January 2009

ADRIAN LEE LYE WANG
Partner
Approval Number : 2679/11/09(J)
Chartered Accountant

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008 RM'000	2007 RM'000
ASSETS			
Cash and short-term funds	3	3,323,580	106,513
Securities held-for-trading	4	382,296	-
Securities available-for-sale	5	400,454	-
Financing and advances	6	11,877,409	-
Other assets	7	52,591	204
Statutory deposits with Bank Negara Malaysia	8	341,600	-
Deferred tax assets	9	72,304	24,807
Property and equipment	10	359	-
TOTAL ASSETS		16,450,593	131,524
LIABILITIES			
Deposits from customers	11	13,786,574	-
Deposits and placements of banks and other financial institutions	12	700,576	-
Other liabilities	13	974,266	11
Provision for zakat and taxation	15	4,745	60
TOTAL LIABILITIES		15,466,161	71
EQUITY			
Share capital	16	159,217	127,717
Reserves		825,215	3,736
TOTAL EQUITY		984,432	131,453
TOTAL LIABILITIES AND EQUITY		16,450,593	131,524
OFF-BALANCE SHEET EXPOSURES	36	1,031,888	n/a
CAPITAL ADEQUACY			
Core capital ratio	36	9.1%	n/a
Risk-weighted capital ratio	36	11.0%	n/a

The accompanying notes form an integral part of the financial statements

PUBLIC ISLAMIC BANK BERHAD
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INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 RM'000	2007 RM'000
Income derived from investment of depositors' funds and others	20	134,465	-
Income derived from investment of shareholder's funds	21	10,268	226
Allowance for losses on financing and advances	22	(7,840)	-
- General allowances		(1,407)	-
- Other financing loss allowances		(6,433)	-
Profit equalisation reserves	13	(3,976)	-
Total distributable income		132,917	226
Income attributable to the depositors	23	(43,054)	-
Total net income		89,863	226
Personnel expenses	24	(2,475)	-
Other overheads and expenditures	25	(22,953)	(11)
Profit before zakat and taxation		64,435	215
Zakat	27	(30)	-
Taxation	27	(16,767)	(501)
Profit/(loss) for the year		47,638	(286)
Earnings/(loss) per share (sen)	28	36.1	(0.2)

The accompanying notes form an integral part of the financial statements

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	<----- Non-distributable ----->			<-- Distributable -->		Total RM'000	
		Share Capital RM'000	Share Premium RM'000	<u>Reserves</u> Statutory Reserves RM'000	Revaluation Reserves RM'000	<u>Reserves</u> General Reserves RM'000		Retained Profits RM'000
At 1 January 2007		127,717	-	-	-	2,000	13,702	143,419
Net loss for the year		-	-	-	-	-	(286)	(286)
Dividend paid	29	-	-	-	-	-	(11,680)	(11,680)
At 31 December 2007		<u>127,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>1,736</u>	<u>131,453</u>
At 1 January 2008		127,717	-	-	-	2,000	1,736	131,453
Increase in share capital		31,500	773,500	-	-	-	-	805,000
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	341	-	-	341
Net profit for the year		-	-	-	-	-	47,638	47,638
Transfer to statutory reserves		-	-	23,819	-	-	(23,819)	-
At 31 December 2008		<u>159,217</u>	<u>773,500</u>	<u>23,819</u>	<u>341</u>	<u>2,000</u>	<u>25,555</u>	<u>984,432</u>
				Note 17		Note 18	Note 19	

The accompanying notes form an integral part of the financial statements

PUBLIC ISLAMIC BANK BERHAD
(Company No: 14328-V)
(Incorporated in Malaysia)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	RM'000	RM'000
Cash flows from operating activities		
Profit before zakat and taxation	64,435	215
Adjustments for:		
Depreciation of property and equipment	14	-
Allowance for losses on financing and advances	12,799	-
Write back of allowance for losses on financing and advances	(3,438)	-
Amortisation of premium less accretion of discount	36	-
Transfer to profit equalisation reserves	3,976	-
Operating profit before working capital changes	77,822	215
 (Increase)/Decrease in operating assets:		
Securities held-for-trading	(292,287)	-
Financing and advances	(113,484)	-
Other assets	367,229	180,967
Statutory deposits with Bank Negara Malaysia	(341,600)	-
 Increase in operating liabilities:		
Deposits from customers	2,160,695	-
Deposits and placements of banks and other financial institutions	385,129	-
Other liabilities	119,090	11
Cash generated from operations	2,362,594	181,193
Income tax expense and zakat paid	(13,627)	-
Net cash generated from operating activities	2,348,967	181,193

PUBLIC ISLAMIC BANK BERHAD
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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 RM'000	2007 RM'000
Cash flows from investing activities			
Purchase of property and equipment		(41)	-
Net purchase of securities available-for-sale		(400,000)	-
Acquisition of Islamic banking business of Public Bank Berhad, net of cash acquired	37	463,141	-
Net cash generated from investing activities		<u>63,100</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from issuance of shares		805,000	-
Dividends paid		-	(74,680)
Net cash generated from/(used in) financing activities		<u>805,000</u>	<u>(74,680)</u>
Net increase in cash and cash equivalents		3,217,067	106,513
Cash and cash equivalents at beginning of year		<u>106,513</u>	<u>-</u>
Cash and cash equivalents at end of year		<u><u>3,323,580</u></u>	<u><u>106,513</u></u>

The accompanying notes form an integral part of the financial statements

PUBLIC ISLAMIC BANK BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in the business of Islamic banking and the provision of related financial services.

The Bank is a licensed Islamic bank under the Islamic Banking Act, 1983, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 27th Floor, Menara Public Bank, 146, Jalan Ampang, 50450 Kuala Lumpur.

The holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad.

On 1 November 2008, the Islamic banking business of the holding company was transferred to and vested into the Bank pursuant to the vesting order of the High Court of Malaya and the High Court in Sabah and Sarawak made pursuant to Section 50 of the Banking and Financial Institutions Act, 1989.

The financial statements were approved and authorised for issue by the Board of Directors on 19 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Bank are consistent with those adopted in previous years.

The following are the Financial Reporting Standards ("FRS") and IC Interpretations which have been issued by the Malaysian Accounting Standards Board ("MASB") as of the balance sheet date but are not yet effective:

FRS 139	Financial Instruments: Recognition and Measurement
FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment

All the new FRS and IC Interpretations above are effective from 1 January 2010, with the exception of FRS 8, which takes effect from 1 July 2009. In this set of financial statements, the Bank has chosen to early adopt FRS 8 Operating Segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Those FRSs and IC Interpretations which have been issued but which the Bank have not early adopted are as follows:

(i) FRS 139 Financial Instruments: Recognition and Measurement - This standard establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

The Bank's adoption of Bank Negara Malaysia's ("BNM") BNM/GP8i - Guidelines on Financial Reporting for Licensed Islamic Banks on certain principles in connection with the recognition, derecognition and measurement of financial instruments which are similar to those prescribed by FRS 139 have been adopted by the Bank. These accounting policies are set out in Notes 2(d) to the financial statements.

(ii) FRS 4 Insurance Contracts - This new standard specifies the financial reporting requirements for insurance contracts by any entity that issues such contracts ("insurers"). In particular it requires disclosures that identify and explain the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts. This standard is not applicable to the Bank.

(iii) FRS 7 Financial Instruments: Disclosures - This new standard requires disclosures in financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments to which an entity is exposed and how these risks are managed. This standard requires both qualitative disclosures describing management's objectives, policies and processes for managing those risks, and quantitative disclosures providing information about the extent to which an entity is exposed to risk, based on information provided internally to the entity's key management personnel. An entity shall not apply this standard for annual periods beginning prior to 1 January 2010 unless it also applies FRS 139. The application of this standard is not expected to have a material impact on the financial results of the Bank as this standard deals only with disclosures in the financial statements.

(iv) IC Interpretation 9 Reassessment of Embedded Derivatives - This interpretation clarifies that the reassessment of an embedded derivative after its initial recognition is forbidden unless the instrument's terms have changed and this has affected its cash flows significantly. This IC Interpretation is not expected to have any material impact on the financial statements of the Bank.

(v) IC Interpretation 10 Interim Financial Reporting and Impairment - This interpretation clarifies that an entity shall not reverse impairment losses on goodwill and investments in equity instruments and financial assets carried at cost recognised in an interim period. This interpretation is not applicable to the annual financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In August 2008, the MASB announced its plan to bring Malaysia to full convergence with International Financial Reporting Standards ("IFRS") by 1 January 2012. The financial impact and effects on disclosures and measurement ensuing from such convergence are currently still being assessed pending the issuance of such revised FRSs incorporating the full convergence.

On 20 October 2008, BNM had issued a circular setting out the limited circumstances in which banking institutions are allowed to reclassify financial instruments currently held in the securities held-for-trading portfolio into the securities available-for-sale and securities held-to-maturity portfolios. This concession is only effective for the period from 1 July 2008 to 31 December 2009. As at 31 December 2008, the Bank has not utilised this concession.

(a) Basis of Accounting

The financial statements of the Bank have been prepared on the historical cost basis, except for the following assets which are stated at fair value: securities held-for-trading and securities available-for-sale as disclosed in the notes to the financial statements and are in accordance with Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines and comply with the provisions of the Companies Act, 1965 and Shariah requirements.

The financial statements incorporate all activities relating to the Islamic banking business which have been undertaken by the Bank. Islamic banking business refers generally to the acceptance of deposits and granting of financing under the principles of Shariah.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000), unless otherwise stated.

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of Accounting (continued)

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

- (i) Allowance for losses on financing and advances (Note 6 and Note 22) – whilst the assessment of allowance for losses required for financing and advances is made in accordance with the requirements of the revised BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts, the Bank exercises judgement in ascertaining the recoverable amount when assessing the levels of allowance for losses required.
- (ii) Impairment of assets – assessment of impairment of securities available-for-sale (Note 5) is made in line with the guidance in the BNM/GP8i Guidelines on Financial Reporting for Licensed Islamic Banks to determine when the investment is impaired. Management judgement is required to evaluate the duration and extent by which the fair value of the financial instruments are below its carrying value and when there is indication of impairment in the carrying value of the financial instruments.
- (iii) Fair value estimation for securities held-for-trading (Note 4) and securities available-for-sale (Note 5) – Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For financial instruments which are not traded in an active market, the fair value is determined using valuation techniques, which include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the balance sheet date that would have been determined by market participants acting at arm's length. Assumptions and inputs used on valuation techniques mainly include observable data such as risk-free and benchmark discount rates and credit spreads, which require minimal management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as interest rate swaps. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of Accounting (continued)

- (iv) Income taxes (Note 27) – Significant management judgement is required in estimating the provision for income taxes, as there may be differing interpretations of tax law for which the final outcome will not be established until a later date. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process may involve seeking the advise of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.
- (v) Deferred tax assets (Note 9) – deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(b) Foreign Currency

(i) Functional Currency

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

(ii) Foreign Currency Transactions

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency, ie. foreign currencies, are translated into the functional currency at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate prevailing at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at exchange rates at the date when the fair value is determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at balance sheet date are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances with banks and other financial institutions, and short-term deposits maturing within one month.

(d) Securities

Investments in securities of the Bank are classified according to the following categories at initial recognition depending on the purpose for which the securities were acquired.

(i) Securities Held-for-Trading

Securities are classified as held-for-trading if these financial assets are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. Securities held-for-trading are stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement. The fair value of quoted securities is derived from market bid prices. For unquoted securities, the fair value is determined based on quotes from independent dealers or using valuation techniques such as the discounted cash flows method. Securities classified as held-for-trading are not reclassified to securities held-to-maturity or securities available-for-sale while they are held. However, for the period from 1 July 2008 to 31 December 2009, BNM's circular dated 20 October 2008 allows the reclassification of securities held-for-trading to securities available-for-sale and securities held-to-maturity under certain limited circumstances.

(ii) Securities Held-to-Maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Bank have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method, less impairment losses, if any. Amortisation of premium, accretion of discount and impairment loss as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

Any sale or reclassification of a significant amount of securities held-to-maturity not close to their maturity would result in the reclassification of all securities held-to-maturity to securities available-for-sale, and prevent the Bank from classifying any securities as securities held-to-maturity for the current and following two financial years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Securities (continued)

(iii) Securities Available-for-Sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. Securities available-for-sale are measured at fair value or at cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement. The fair value of quoted securities is derived from market bid prices. For securities denominated in a foreign currency, changes in the fair value are analysed between foreign currency translation differences and changes in the market bid price. Foreign currency translation differences are recognised in the income statement and changes due to the market bid price is recognised in equity.

For unquoted securities, the fair value is determined based on quotes from independent dealers or using valuation techniques such as the discounted cash flows method. Profit earned on securities available-for-sale is recognised in the income statement based on the effective yield basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognised. All other repairs and maintenance are charged to the income statement when they are incurred.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with note 2(g)(iii).

Depreciation of property and equipment is provided on a straight line basis calculated to write off the cost of each asset to its residual value over the term of its estimated useful lives at the following principal annual rates:

Renovations	Over the term of the leases ranging from 2 - 7 years
Office equipment, furniture and fittings	10.0% - 33.3%
Computer equipment and software	20.0% - 33.3%

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Receivables

Receivables are recognised when there is a contractual right to receive cash or another financial asset from another entity. Receivables are initially recognised at cost and subsequently stated at cost less allowance for loss on financing and advances, which is made based on estimates of possible losses which may arise if any receivable account becomes irrecoverable.

(g) Impairment of Assets

The carrying amount of the Bank's assets except for deferred tax assets, financial assets (other than securities available-for-sale and securities held-to-maturity) are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement. The policies on impairment of assets are summarised as follows:

(i) Securities Held-to-Maturity

For securities carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective profit rate. The amount of the impairment loss is recognised in the income statement.

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the securities' carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in the income statement.

For securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of Assets (continued)

(ii) Securities Available-for-Sale

For securities available-for-sale in which there are objective evidence of impairment, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to the income statement, even though the securities have not been derecognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement.

Impairment losses on investments in equity instruments classified as available-for-sale recognised are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the income statement if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

(iii) Other Non-Financial Assets

Other non-financial assets such as property and equipment are reviewed for objective indications of impairment at each balance sheet date or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment loss is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the income statement. Any reversal of an impairment loss for these assets is recognised in the income statement. The carrying amount is increased to its revised recoverable amount, provided that the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Liabilities

Liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity. Deposits from customers are stated at placement values and adjusted for accrued profits. Deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost, which is the consideration expected to be paid in the future for goods and services received.

(i) Profit Equalisation Reserves ("PER")

PER is the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors which is as stipulated by Bank Negara Malaysia's Circular on "Framework of Rate of Return". PER is deducted from the total gross income in deriving the net distributable gross income at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. The amount appropriated is shared by the depositors and the Bank. PER is maintained up to the maximum of 30% of total capital fund.

(j) Provisions

A provision is recognised when there is a present legal or constructive obligation where as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Where the effect of the value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

(k) Share Capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Costs directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Contingent Liabilities and Contingent Assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(m) Recognition of Finance Income

Finance income is recognised in the income statement for all profit bearing assets on an accrual basis. Finance income includes the amortisation of premium or accretion of discount. Finance income on securities are recognised on an effective yield basis.

Finance income on cash line, house financing and other term financing is accounted for on an accrual basis by reference to rest periods as stipulated in the financing agreements, which are either monthly or daily. Finance income on hire purchase financing is recognised using the “sum-of-digits” method.

Handling fees paid to motor vehicle dealers for hire purchase financing are amortised in the income statement over the tenor of the financing in accordance with Bank Negara Malaysia's Circular on the Accounting Treatment of Handling Fees for Hire Purchase Loans dated 16 October 2006 and is set-off against finance income recognised on the hire purchase financing.

When a financing becomes non-performing, profit accrued and recognised as income prior to the date the financing and advances are classified as non-performing is reversed out of income and set off against accrued income receivable account in the balance sheet. Subsequently, the income earned on non-performing financing is recognised as income on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

The Bank's policy on recognition of finance income on non-performing financing and advances is in conformity with the Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8i) issued by Bank Negara Malaysia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income Attributable to the Depositors

The method of allocation of income to the types of deposits is based on "The Framework on Rate of Return" issued by Bank Negara Malaysia. This Framework on Rate of Return which is based on the return on assets concept, calculates the income on assets. The return on assets after deducting incidental expenses and allowances for losses on financing and advances are distributed to the depositors using the weighted average method.

(o) Recognition of Fees and Other Income

Income from the various business activities of the Bank is recognised using the following bases:

- (i) Financing arrangement, management and participation fees are recognised upfront as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantees;
- (ii) Dividend income is recognised when the right to receive payment is established; and
- (iii) Other fees and commissions on services and facilities extended to customers are recognised on inception of such transactions.

(p) Recognition of Financing and Related Expenses

Attributable profit on activities relating to deposits of the Bank are recognised on an accrual basis.

(q) Allowance for Losses on Financing and Advances

Financing and advances are stated at cost less any allowance for losses on financing and advances.

Allowance for losses on financing and advances are made with regard to specific risks and relate to those financing or trade receivables that have been individually reviewed and specifically identified as sub-standard, doubtful or bad.

A general allowance based on a percentage of total outstanding financing (including accrued financing income), net of specific allowance for bad and doubtful financing, is maintained by the Bank against risks which are not specifically identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Allowance for Losses on Financing and Advances (continued)

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

Values assigned to collateral held for non-performing financing and advances secured by properties is determined based on the realisable values of the properties, being the forced sale value provided by independent parties/valuers, on the following basis:

- (i) assigning only fifty percent (50%) of the realisable value of the properties held as collateral for non-performing financing and advances which are in arrears for more than five (5) years but less than seven (7) years; and
- (ii) no value assigned to the realisable value of the properties held as collateral for non-performing financing and advances which are in arrears for more than seven (7) years.

The portion of non-performing financing and advances where no realisable value has been assigned will be written-off.

The allowance for bad and doubtful financing are computed in conformity with the revised BNM/GP3. The Bank has adopted a more stringent classification policy on non-performing financing and advances whereby financing are classified as non-performing and sub-standard when repayments are in arrears for more than three (3) months from the first day of default or after maturity date.

Accordingly, the Bank has also adopted a more stringent basis for specific allowances on non-performing financing and advances by making a twenty percent (20%) specific allowance on non-performing financing and advances which are three (3) months to less than six (6) months-in-arrears. The Directors are of the view that such treatment will reflect a more prudent provisioning policy for financing and advances.

In conformity with the revised BNM/GP3, non-performing financing and advances which have been rescheduled or restructured are reclassified as performing upon completion of the relevant documentation in relation to the rescheduling or restructuring exercise. Prior to this, only restructured non-performing financing were reclassified as performing upon completion of the restructuring exercise. Non-performing financing which were rescheduled continued to be classified as non-performing, and would only be reclassified as performing when the customer had complied with the revised repayment terms for a continuous period of 6 months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employee Benefits

(i) Short-Term Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees' Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Defined Benefit Plan

The Bank contribute to a fully funded defined benefit plan approved by the Inland Revenue Board known as the Public Bank Group Officers' Retirement Benefits Fund (the "Fund") for its eligible employees. The obligations under the Fund are determined based on actuarial valuation where the amount of benefit that employees have earned in return for their service in the current and prior years are estimated. The benefit is calculated using the Projected Unit Credit Method in order to determine its present value. Actuarial gains and losses are recognised as income or expense over four years when the cumulative unrecognised actuarial gains or losses for the Fund exceed ten percent (10%) of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Where there are any improvements in benefits for the Fund, past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any net defined benefit surplus resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the Fund.

The amount recognised under personnel costs in the income statement includes the current service cost, financing cost, the expected return on plan assets and actuarial gains or losses recognised on the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Tax Expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised using the balance sheet method, on temporary differences arising 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 and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unutilised tax losses can be utilised. Deferred tax is not provided for goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of transaction, affects neither accounting nor taxable profit. Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off under the same taxable entity and taxation authority.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the balance sheet date.

(t) Zakat Obligations

This represents business zakat payable by the Bank to comply with Shariah principles. Zakat provision is calculated based on 2.5% of the estimated Muslim individual shareholders of the holding company using the profit and loss method.

(u) Dividends

Dividends on ordinary shares are accounted for as an appropriation of retained profits in the period in which they are approved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Earnings Per Share

The Bank presents basic and diluted (where applicable) earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. No adjustment is made for anti-dilutive potential ordinary shares.

(w) Segment Reporting

Segment reporting in the financial statements are presented on the same basis as is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are distinguishable components of the Bank about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

3. CASH AND SHORT-TERM FUNDS

	2008	2007
	RM'000	RM'000
Cash and balances with banks and other financial institutions	14,760	10
Money at call and deposit placements maturing within one month	3,308,820	106,503
	<u>3,323,580</u>	<u>106,513</u>

4. SECURITIES HELD-FOR-TRADING

	2008	2007
	RM'000	RM'000
At fair value		
Money market instruments:		
Cagamas bonds	382,296	-
	<u>382,296</u>	<u>-</u>

5. SECURITIES AVAILABLE-FOR-SALE

	2008	2007
	RM'000	RM'000
At fair value		
Quoted securities:		
Trust units in Malaysia	400,454	-
	<u>400,454</u>	<u>-</u>

6. FINANCING AND ADVANCES

Net financing and advances analysed by type are as follows:

	2008	2007
	RM'000	RM'000
Cash line	106,699	-
Term financing		
House financing	2,536,324	-
Hire purchase receivables	9,345,331	-
Other term financing	3,659,063	-
Revolving credits	2,104	-
	<u>15,649,521</u>	<u>-</u>
Less : Unearned income	(3,209,630)	-
Gross financing and advances		
(including Islamic house financing sold to Cagamas)	12,439,891	-
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances		
(excluding Islamic house financing sold to Cagamas)	12,089,882	-
Less: Allowance for losses on financing and advances		
- General	(188,492)	-
- Specific	(23,981)	-
Total net financing and advances	<u><u>11,877,409</u></u>	<u><u>-</u></u>

The maturity structure of gross financing and advances are as follows:

	2008	2007
	RM'000	RM'000
Maturity within one year	268,936	-
More than one year to three years	1,185,453	-
More than three years to five years	2,582,246	-
More than five years	8,403,256	-
	<u>12,439,891</u>	<u>-</u>
Less: Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

6. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by contract are as follows:

	2008	2007
	RM'000	RM'000
Bai' Bithaman Ajil-i (deferred payment sale)	2,762,685	-
Ijarah Thamma Al-Bai'-i (leasing)	8,057,261	-
Bai-Al-Einah-i	1,619,945	-
	<u>12,439,891</u>	<u>-</u>
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

Gross financing and advances analysed by type of customer are as follows:

	2008	2007
	RM'000	RM'000
Other domestic non-bank financial institutions	508	-
Domestic business enterprises		
- Small and medium enterprises	897,653	-
- Others	330,219	-
Government and statutory bodies	87	-
Individuals	11,174,410	-
Other domestic entities	1,413	-
Foreign entities	35,601	-
	<u>12,439,891</u>	<u>-</u>
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

6. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by profit rate sensitivity are as follows:

	2008	2007
	RM'000	RM'000
Fixed rate		
- House financing	1,303,631	-
- Hire purchase receivables	8,057,261	-
- Other fixed rate financing	2,376,369	-
Variable rate		
- BFR plus	626,200	-
- Cost plus	76,430	-
	<u>12,439,891</u>	<u>-</u>
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

Gross financing and advances analysed by economic purpose are as follows:

	2008	2007
	RM'000	RM'000
Purchase of securities	799	-
Purchase of transport vehicles	8,060,891	-
Purchase of landed properties	2,403,744	-
(of which: - residential	1,618,124	-
- non-residential)	785,620	-
Purchase of fixed assets (excluding landed properties)	6,854	-
Personal use	1,690,914	-
Purchase of consumer durables	17,211	-
Construction	9,822	-
Working capital	134,014	-
Other purpose	115,642	-
	<u>12,439,891</u>	<u>-</u>
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

6. FINANCING AND ADVANCES (continued)

Gross financing and advances analysed by sectors are as follows:

	2008	2007
	RM'000	RM'000
Agriculture, hunting, forestry and fishing	184,401	-
Mining and quarrying	7,298	-
Manufacturing	136,944	-
Electricity, gas and water	877	-
Construction	226,802	-
Wholesale & retail trade and restaurants & hotels	308,267	-
Transport, storage and communication	51,056	-
Finance, insurance and business services	124,100	-
Real estate	93,424	-
Community, social and personal services	59,942	-
Households	11,209,680	-
(of which: - purchase of residential properties	1,591,372	-
- purchase of transport vehicles	7,494,181	-
- others)	2,124,127	-
Others	37,100	-
	<u>12,439,891</u>	-
Less : Islamic house financing sold to Cagamas	(350,009)	-
Gross financing and advances	<u><u>12,089,882</u></u>	<u><u>-</u></u>

Movements in non-performing financing and advances ("NPF") are as follows:

	2008	2007
	RM'000	RM'000
Non-performing during the year	58,476	-
Reclassified as performing	(58,370)	-
Recoveries	(4,565)	-
Amounts written off	(12,287)	-
Amount vested over from Public Bank Berhad	156,585	-
At 31 December	<u>139,839</u>	-
Specific allowance	(23,981)	-
Net non-performing financing and advances	<u><u>115,858</u></u>	<u><u>-</u></u>
Net NPF as % of gross financing and advances (including Islamic house financing sold to Cagamas) less specific allowance	<u><u>0.93%</u></u>	<u><u>-</u></u>

6. FINANCING AND ADVANCES (continued)

Movements in the allowance for losses on financing and advances are as follows:

	2008	2007
	RM'000	RM'000
<u>General allowance</u>		
Allowance made during the year (Note 22)	1,407	-
Amount vested over from Public Bank Berhad	187,085	-
At 31 December	<u>188,492</u>	<u>-</u>
As % of gross financing and advances (including Islamic house financing sold to Cagamas) less specific allowance		
	<u>1.52%</u>	<u>-</u>
	2008	2007
	RM'000	RM'000
<u>Specific allowance</u>		
Allowance made during the year (Note 22)	11,392	-
Amount written back in respect of recoveries (Note 22)	(3,438)	-
Amount written off	(12,287)	-
Reinstatement of amount written off previously due to restructuring / rescheduling now reclassified as performing financing	51	-
Amount vested over from Public Bank Berhad	28,263	-
At 31 December	<u>23,981</u>	<u>-</u>

6. FINANCING AND ADVANCES (continued)

Non-performing financing and advances analysed by economic purpose are as follows:

	2008	2007
	RM'000	RM'000
Purchase of transport vehicles	61,939	-
Purchase of landed properties	60,728	-
(of which: - residential	51,850	-
- non-residential)	8,878	-
Purchase of fixed assets (excluding landed properties)	124	-
Personal use	16,151	-
Purchase of consumer durables	175	-
Working capital	480	-
Other purpose	242	-
	139,839	-

Non-performing financing and advances analysed by sectors are as follows:

	2008	2007
	RM'000	RM'000
Agriculture, hunting, forestry and fishing	52	-
Manufacturing	1,546	-
Construction	1,266	-
Wholesale & retail trade and restaurants & hotels	3,358	-
Transport, storage and communication	233	-
Finance, insurance and business services	338	-
Real estate	795	-
Community, social and personal services	656	-
Households	131,374	-
(of which: - purchase of residential properties	51,671	-
- purchase of transport vehicles	57,981	-
- others)	21,722	-
Others	221	-
	139,839	-

7. OTHER ASSETS

	2008 RM'000	2007 RM'000
Deferred handling fees	51,745	-
Income receivable	388	204
Other receivables, deposits and prepayments	458	-
	<u>52,591</u>	<u>204</u>

8. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

9. DEFERRED TAX ASSETS

	2008 RM'000	2007 RM'000
At 1 January	24,807	25,248
Recognised in income statement (net) (Note 27)		
- relating to origination and reversal of temporary differences	1,356	-
- relating to changes in tax rate	-	(992)
- over provision in prior years	-	551
Recognised in equity (net)	(114)	-
Amount vested over from Public Bank Berhad	46,255	-
At 31 December	<u>72,304</u>	<u>24,807</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The net deferred tax assets and liabilities shown on the balance sheet after appropriate offsetting are as follows:

	2008 RM'000	2007 RM'000
Deferred tax assets	80,626	24,807
Deferred tax liabilities	(8,322)	-
Deferred tax assets, net	<u>72,304</u>	<u>24,807</u>

9. DEFERRED TAX ASSETS (continued)

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

Deferred tax assets	Allowance for losses on financing and advances RM'000	Profit equalisation reserve RM'000	Tax losses RM'000	Total RM'000
At 1 January 2007	-	-	25,248	25,248
Recognised in income statement (Note 27)				
- relating to changes in tax rate	-	-	(992)	(992)
- over provision in prior years	-	-	551	551
At 31 December 2007	-	-	24,807	24,807
Recognised in income statement (Note 27)				
- relating to origination and reversal of temporary differences	352	993	-	1,345
Amount vested over from Public Bank Berhad	46,771	7,703	-	54,474
At 31 December 2008	47,123	8,696	24,807	80,626

Deferred tax liabilities	Deferred handling fees RM'000	Other temporary differences RM'000	Total RM'000
Recognised in income statement (Note 27)			
- relating to origination and reversal of temporary differences		290	(11)
Recognised in equity		114	114
Amount vested over from Public Bank Berhad	13,237	(5,018)	8,219
At 31 December 2008	12,936	(4,614)	8,322

10. PROPERTY AND EQUIPMENT

	Note	Renovations RM'000	Office equipment, furniture & fittings RM'000	Computer equipment & software RM'000	Total RM'000
2008					
<u>Cost</u>					
At 31 December 2007/1 January 2008		-	-	-	-
Additions		-	41	-	41
Amount vested over from Public Bank Berhad		52	130	373	555
At 31 December 2008		52	171	373	596
<u>Accumulated depreciation</u>					
At 31 December 2007/1 January 2008		-	-	-	-
Depreciation charge for the year	25	1	3	10	14
Amount vested over from Public Bank Berhad		16	43	164	223
At 31 December 2008		17	46	174	237
<u>Carrying amounts</u>					
At 31 December 2008		35	125	199	359
At 31 December 2007		-	-	-	-
Property and equipment that have been fully depreciated which are still in use are as follows:					
<u>At cost</u>					
At 31 December 2007/31 December 2008		-	4	79	83

11. DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	2008	2007
	RM'000	RM'000
<u>Non-Mudharabah Fund</u>		
Wadiah current deposits-i	1,828,887	-
Wadiah savings deposits-i	3,232,045	-
Negotiable Debt Certificate-i	4,487,970	-
Others	2,836	-
	<u>9,551,738</u>	<u>-</u>
<u>Mudharabah Fund</u>		
Mudharabah savings deposits-i	74,033	-
Mudharabah general investment deposits-i	3,493,453	-
Mudharabah special investment deposits-i	667,350	-
	<u>4,234,836</u>	<u>-</u>
	<u><u>13,786,574</u></u>	<u><u>-</u></u>

The full amount of deposits of the Bank is guaranteed by the Government of Malaysia via Perbadanan Insurans Deposit Malaysia ("PIDM"), an independent statutory body established under the Malaysia Deposit Insurance Corporation Act, 2005. This full deposit guarantee is effective from 16 October 2008 until 31 December 2010. This guarantee covers all Ringgit and foreign currency deposits held under general investment deposits, current accounts, savings accounts and negotiable debt certificate held by non-bank customers. This guarantee excludes Islamic money market placements and negotiable debt certificate held by banks.

(ii) By type of customer

	2008	2007
	RM'000	RM'000
Federal and state governments	312,476	-
Local government and statutory authorities	540,412	-
Business enterprises	1,980,917	-
Individuals	3,604,440	-
Foreign customers	79,812	-
Others	7,268,517	-
	<u>13,786,574</u>	<u>-</u>

11. DEPOSITS FROM CUSTOMERS (continued)

(iii) The maturity structure of Negotiable Debt Certificate-i and Mudharabah general and specific investment deposits-i are as follows:

	2008	2007
	RM'000	RM'000
Due within six months	5,772,019	-
More than six months to one year	755,699	-
More than one year to three years	2,119,881	-
More than three years to five years	1,174	-
	<u>8,648,773</u>	<u>-</u>

12. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
	RM'000	RM'000
<u>Mudharabah Fund</u>		
Licensed banks:		
Holding company	699,448	-
Others	1,128	-
	<u>700,576</u>	<u>-</u>

13. OTHER LIABILITIES

	2008	2007
	RM'000	RM'000
Income payable	16,126	-
Other payables and accruals	323,554	11
Employee benefits (Note 14)	(1,515)	-
Profit equalisation reserves	34,784	-
Amount due to holding company	601,317	-
	<u>974,266</u>	<u>11</u>

13. OTHER LIABILITIES (continued)

The movements in profit equalisation reserves are as follows:

	2008 RM'000	2007 RM'000
At 1 January	-	-
Net increase	3,976	-
- Amount arising during the year	3,976	-
Amount vested over from Public Bank Berhad	30,808	-
At 31 December	34,784	-

The amount due to holding company is unsecured, non profit bearing and has no fixed term of repayment.

14. EMPLOYEE BENEFITS**Defined Benefit Plan**

The Bank contributes to a fully funded defined benefit plan known as the Public Bank Group Officers' Retirement Benefits Fund ("the Fund") for its eligible employees. Under the Fund, eligible employees are entitled to one month of the final/last drawn salary for each completed year of service with the Bank upon attainment of the retirement age of 55. For employees who leave before the attainment of the retirement age, the retirement benefit will be computed based on the scale rate stipulated in the rules of the Fund.

The amounts recognised in the balance sheet is determined as follows:

	2008 RM'000	2007 RM'000
Present value of funded obligations	(7,368)	-
Fair value of plan assets	8,613	-
	1,245	-
Unrecognised actuarial gains	270	-
Net asset	1,515	-

14. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

Changes in the present value of funded obligations is as follows:

	2008	2007
	RM'000	RM'000
Obligation at 1 January	-	-
Amount vested over from Public Bank Berhad	7,264	-
Service cost	81	-
Financing cost	61	-
Actuarial loss	28	-
Benefit paid - Fund	(66)	-
Obligations at 31 December	<u>7,368</u>	<u>-</u>

Changes in the fair value of plan assets are as follows:

	2008	2007
	RM'000	RM'000
Fair value at 1 January	-	-
Amount vested over from Public Bank Berhad	9,115	-
Expected return on plan assets	154	-
Benefit paid	(66)	-
Actuarial loss	(590)	-
Fair value at 31 December	<u>8,613</u>	<u>-</u>

The amounts recognised in the income statement is as follows:

	2008	2007
	RM'000	RM'000
Current service cost	81	-
Financing cost	61	-
Expected return on plan assets	(154)	-
Actuarial gains recognised	(126)	-
Amount included under "personnel costs" (Note 24)	<u>(138)</u>	<u>-</u>
Expected return on plan assets	154	-
Actuarial loss on plan assets	(590)	-
Actual loss on plan assets	<u>(436)</u>	<u>-</u>

No estimated contributions are expected to be paid to the plan in the following financial year.

14. EMPLOYEE BENEFITS (continued)

Defined Benefit Plan (continued)

The principal actuarial assumptions used at the balance sheet date are as follows:

	2008	2007
Discount rate	5.50%	n/a
Expected return on plan assets	8.00%	n/a
Expected rate of salary increases	7.00%	n/a

The principal actuarial assumptions are based on the last actuarial valuation performed as of 31 December 2007.

15. PROVISION FOR ZAKAT AND TAXATION

	2008 RM'000	2007 RM'000
Tax expense	4,575	60
Zakat	170	-
	<u>4,745</u>	<u>60</u>

16. SHARE CAPITAL

	Number of Ordinary Shares of RM1.00 Each		Amount	
	2008 '000	2007 '000	2008 RM'000	2007 RM'000
Authorised:				
Ordinary shares of RM1.00 each	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
Ordinary shares of RM1.00 each				
At 1 January	127,717	127,717	127,717	127,717
Issued during the year	31,500	-	31,500	-
At 31 December	<u>159,217</u>	<u>127,717</u>	<u>159,217</u>	<u>127,717</u>

On 1 November 2008, the Bank increased its paid-up capital by 17,500,000 ordinary shares of RM1.00 each issued at a premium of RM25.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM127,717,000 to RM145,217,000.

16. SHARE CAPITAL (continued)

On 28 November 2008, the Bank further increased its paid-up capital by 14,000,000 ordinary shares of RM1.00 each issued at a premium of RM24.00 per share. Upon completion, the issued and paid-up share capital of the Bank increased from RM145,217,000 to RM159,217,000.

The new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Bank.

17. STATUTORY RESERVE

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

18. GENERAL RESERVE

The general reserve represents transfers from retained profits in prior years and is distributable as cash dividends.

19. RETAINED PROFITS

Prior to year of assessment 2008, company income tax was based on the full imputation system where tax on dividend was imposed at both the company's and shareholders' level. The tax at shareholders' level took into account the tax imputed at company's level through tax credits.

Pursuant to the Finance Act, 2007, the single tier system has been introduced and took effect from year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 after adjusting for any tax deductions for the purpose of dividend distribution, until 31 December 2013.

The Bank did not elect for the irrevocable option to disregard the available Section 108 balance accumulated until 31 December 2007. Therefore, the Bank is allowed to continue utilising its available Section 108 balance for the purpose of dividend distribution until the credit balances are fully utilised or upon expiry of the six year transitional period on 31 December 2013, whichever is earlier.

As at 31 December 2008, the Bank has a credit balance of RM28,599,500 (2007 - RM28,599,500) in its Section 108 account and a tax exempt profit of RM628,000 (2007 - RM628,000), subject to agreement by the Inland Revenue Board.

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

	2008	2007
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	32,222	-
(ii) Other deposits	102,243	-
	<u>134,465</u>	<u>-</u>
(i) Income derived from investment of general investment deposits:		
Finance income and Hibah		
Financing and advances	29,348	-
Securities held-for-trading	121	-
Money at call and deposits with financial institutions	2,396	-
Others	(60)	-
	<u>31,805</u>	<u>-</u>
Amortisation of premium less accretion of discount	(8)	-
Total finance income and Hibah	<u>31,797</u>	<u>-</u>
Other operating income		
Fee income	414	-
Other income	11	-
	<u>425</u>	<u>-</u>
	<u>32,222</u>	<u>-</u>
(ii) Income derived from investment of other deposits:		
Finance income and Hibah		
Financing and advances	93,125	-
Securities held-for-trading	384	-
Money at call and deposits with financial institutions	7,601	-
Others	(190)	-
	<u>100,920</u>	<u>-</u>
Amortisation of premium less accretion of discount	(25)	-
Total finance income and Hibah	<u>100,895</u>	<u>-</u>
Other operating income		
Fee income	1,312	-
Other income	36	-
	<u>1,348</u>	<u>-</u>
	<u>102,243</u>	<u>-</u>

21. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2008	2007
	RM'000	RM'000
Finance income and Hibah		
Financing and advances	9,352	-
Securities held-for-trading	39	-
Money at call and deposits with financial institutions	763	204
Others	(19)	-
	<u>10,135</u>	<u>204</u>
Amortisation of premium less accretion of discount	(3)	-
Total finance income and Hibah	<u>10,132</u>	<u>204</u>
Other operating income		
Fee income	132	-
Other income	4	22
	<u>136</u>	<u>22</u>
	<u>10,268</u>	<u>226</u>

22. ALLOWANCE FOR LOSSES ON FINANCING AND ADVANCES

	2008	2007
	RM'000	RM'000
Allowance for bad and doubtful financing:		
- general allowance (Note 6)	1,407	-
- specific allowance (Note 6)	11,392	-
- specific allowance written back (Note 6)	(3,438)	-
Bad financing recovered	(1,615)	-
Bad financing written off	94	-
	<u>7,840</u>	<u>-</u>

23. INCOME ATTRIBUTABLE TO THE DEPOSITORS

	2008 RM'000	2007 RM'000
Deposits from customers		
- Mudharabah fund	15,303	-
- Non-Mudharabah fund	25,383	-
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	2,368	-
	<u>43,054</u>	<u>-</u>

24. PERSONNEL EXPENSES

	2008 RM'000	2007 RM'000
Salaries, allowances and bonuses	2,249	-
Pension costs	130	-
Others	96	-
	<u>2,475</u>	<u>-</u>

Included in personnel expenses are the following statutory disclosures:

	2008 RM'000	2007 RM'000
Pension costs		
- defined contribution plan	268	-
- defined benefit plan (Note 14)	(138)	-
	<u>130</u>	<u>-</u>

25. OTHER OVERHEADS AND EXPENDITURES

	2008 RM'000	2007 RM'000
Establishment costs		
- Depreciation	14	-
- Rental	40	-
- Insurance	400	-
- Water and electricity	14	-
- General repairs and maintenance	8	-
- Others	14	-
	<u>490</u>	<u>-</u>
Marketing expenses		
- Advertisement and publicity	1,023	-
- Others	643	-
	<u>1,666</u>	<u>-</u>
Administration and general expenses		
- Communication expenses	(1,244)	-
- Legal and professional fees	710	-
- Others	231	11
	<u>(303)</u>	<u>11</u>
Shared service costs paid/payable to Public Bank Berhad	21,100	-
	<u>22,953</u>	<u>11</u>

(a) Included in other overheads and expenditures are the following statutory disclosures:

	2008 RM'000	2007 RM'000
Auditors' remuneration		
- statutory audit fees	60	5
- other services	4	4
Depreciation of property and equipment (Note 10)	14	-

(b) Employees

The number of persons employed by the Bank (excluding Directors) as at the end of the financial year was 125 (2007 - Nil).

26. CEO AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

	2008	2007
	RM'000	RM'000
CEO of the Bank		
Salary and other allowances	86	-
Bonuses	67	-
Benefits-in-kind	2	-
	<u>155</u>	<u>-</u>
Shariah Committee members	<u>12</u>	<u>-</u>

There are no Directors' remuneration, fees and board attendance allowances for the financial year ended 31 December 2008 (2007 - Nil).

27. ZAKAT AND TAXATION

	2008	2007
	RM'000	RM'000
Malaysian income tax	18,123	60
Deferred tax expense (Note 9)		
- relating to origination and reversal of temporary differences arising from:	(1,356)	-
• allowance for losses on financing and advances	(352)	-
• profit equalisation reserve	(993)	-
• deferred handling fees	(301)	-
• other temporary differences	290	-
- relating to changes in tax rate	-	992
- over provision in prior years	-	(551)
Tax expense	<u>16,767</u>	<u>501</u>
Zakat	30	-
	<u>16,797</u>	<u>501</u>

Income tax is calculated at the Malaysian statutory tax rate of 26% (2007 - 27%) on the estimated chargeable profit for the year. The computation of deferred tax assets and deferred tax liabilities is based on a tax rate of 25%, which is the corporate tax rate effective from the year of assessment 2009.

27. ZAKAT AND TAXATION (continued)

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

		2008		2007
	%	RM'000	%	RM'000
Profit before zakat and taxation		<u>64,435</u>		<u>215</u>
Income tax using Malaysian tax rate of 26% (2007 - 27%)	26.0	16,753	27.0	58
Effect of changes in tax rates on opening balance of deferred tax (Note 9)	-	-	461.4	992
Over provision of deferred tax in prior years (Note 9)	-	-	(256.3)	(551)
Expenses not deductible for tax purposes	-	14	0.9	2
Tax expense for the year	<u>26.0</u>	<u>16,767</u>	<u>233.0</u>	<u>501</u>

28. EARNINGS/(LOSS) PER SHARE (EPS)

The calculation of the basic earnings per share is based on the net profit attributable to the equity holder of the Bank for the financial year divided by the weighted average number of ordinary shares of RM1.00 each in issue during the financial year :

	2008	2007
	RM'000	RM'000
Net profit/(loss) attributable to the equity holder of the Bank	<u>47,638</u>	<u>(286)</u>
Number of ordinary shares at beginning of the year ('000)	127,717	127,717
Effect of the issuance of shares ('000)	4,217	-
Weighted average number of ordinary shares in issue ('000)	<u>131,934</u>	<u>127,717</u>
Basic earnings/(loss) per share (sen)	<u>36.1</u>	<u>(0.2)</u>

There are no dilutive potential ordinary shares during the financial years.

29. DIVIDENDS

	Amount		Net Dividend per Share	
	2008	2007	2008	2007
	RM'000	RM'000	Sen	Sen
Dividends recognised as distribution to the ordinary equity holder of the Bank:				
Nil (2007: Interim dividend of 12.53% less 27% tax)	-	11,680	-	9.15

30. RELATED PARTY TRANSACTIONS

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

(i) Holding and Related Companies

The holding company of the Bank is Public Bank Berhad, a licensed bank incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad. Related companies are those subsidiary and associated companies within the Public Bank Group.

(ii) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes Non-Executive Directors of the Bank and certain members of senior management of the Bank including close members of their families.

All related party transactions are conducted at arm's length basis and on normal commercial terms which are not more favourable than those generally available to the public.

30. RELATED PARTY TRANSACTIONS (continued)

(a) The significant transactions of the Bank with its related parties are as follows:

	Holding and Related Companies	
	2008	2007
	RM'000	RM'000
Income earned:		
Income receivable from financing and advances	-	204
	-	204
Expenditure incurred:		
Income attributable to deposits	14,831	-
Shared service costs paid/payable	21,100	-
	35,931	-

(b) The significant outstanding balances of the Bank with its related parties are as follows:

	Key Management Personnel		Holding and Related Companies	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Amount due from related parties				
Interbank placement	-	-	-	106,513
Income receivable	-	-	-	204
Others	-	-	28	-
	-	-	28	106,717
Amount due to related parties				
Short-term deposits	357	-	2,657,442	-
Interbank deposit	-	-	699,448	-
Others	-	-	601,317	-
	357	-	3,958,207	-

30. RELATED PARTY TRANSACTIONS (continued)

(c) There were no granting of financing to the Directors or key management personnel of the Bank.

(d) Key Management Personnel Compensation

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

	2008	2007
	RM'000	RM'000
Short-term employee benefits		
Salary and other allowances	237	-
Benefits-in-kind	3	-
Post-employment benefits	29	-
	<u>269</u>	<u>-</u>

31. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2008 RM'000
Outstanding credit exposures with connected parties	<u>16,472</u>
of which:	
Total credit exposure which is non-performing or in default	<u>-</u>
Total credit exposures	<u>12,748,719</u>
Percentage of outstanding credit exposures to connected parties	
- as a proportion of total credit exposures	<u>0.13%</u>
- as a proportion of capital base	<u>1.50%</u>
- which is non-performing or in default	<u>-</u>

The disclosure on Credit Transactions and Exposures with Connected Parties above are presented in accordance with para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks, which became effective on 1 January 2008.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of financing or credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

32. FINANCIAL RISK MANAGEMENT POLICIES

The Bank's risk management policy seeks to ensure that adequate financial resources are available for the development of the Bank's businesses whilst managing its credit, market, liquidity and operational risks. The guidelines and policies adopted by the Bank to manage the following risks that arise in the conduct of the business activities are as follows:

(a) Credit Risk

Credit risk is the potential loss of revenue as a result of defaults by the customers or counterparties through its lending, hedging, trading and investing activities. The primary exposure to credit risk arises through its financing activities as well as financial transactions with counterparties including Islamic money market activities and debt instruments. The amount of credit exposure is represented by the carrying amounts of the assets in the balance sheet.

The management of credit risk is governed by credit policies and guidelines documenting the lending standards, discretionary power for financing approval, credit risk rating, collateral and valuation, review, rehabilitation and restructuring of problematic and delinquent financing. The dealings with counterparties are guided by counterparty limit, credit quality, tenure and types of permissible transactions and these are subject to regular review.

The credit exposure arising from on- and off-balance sheet activities are set out in Note 36.

(b) Market Risk

Market risk is the risk of loss arising from adverse movements in the level of market prices or rates, the key components being profit rate risk and equity risk.

Market risk arising from trading activities is governed by the Trading Book Policy Statement. The Trading Book Policy Statement sets out the trading limits which include, inter alia, the Overall Open Position, Daily and Cumulative Cut Loss Position and Maximum Holding Periods to ensure that dealers' day-to-day trading activities are within the risk parameters set, independent mark-to-market valuation and validation procedures, policy on hedged transactions and prohibition on the transfer of financial instruments from the trading book to the banking book.

32. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(b) Market Risk (continued)

(i) Profit Rate Risk

Profit rate risk refers to the volatility in net income from financing as a result of changes in the levels of profit rate and shifts in the composition of the assets and liabilities. Profit rate risk is managed through profit rate sensitivity gap analysis. The potential reduction in net income from financing from an adverse profit rate movement is monitored against the risk tolerance limits set.

The effects of changes in the levels of profit rates on the market value of securities are monitored closely and mark-to-market valuations are regularly reported to management. Hedging instruments such as profit rate swaps are used to minimise exposure to profit rate volatility.

(ii) Equity Risk

Equity risk refers to the adverse movements in the price of equities on the equity positions taken from time to time. Equity positions are monitored against predetermined cut-loss limits.

(c) Liquidity Risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

Liquidity risk is primarily managed through the Bank Negara Malaysia's New Liquidity Framework which takes into consideration the contractual and behavioural cash flow of assets, liabilities and off-balance sheet commitments, and also the realisable cash value of eligible liquefiable assets. Liquidity risk management is supplemented by internal liquidity risk management policy.

In addition, the Liquidity Contingency Funding Plan ensures that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risk that may arise due to unforeseen adverse changes in the market place.

32. FINANCIAL RISK MANAGEMENT POLICIES (continued)

(d) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business units' adherence to established risk policies, procedures and limits by independent control and support units, and oversight provided by the management and the Board.

The operational risk management processes encompass appropriate documentation of processes and procedures within the framework of system of internal controls, regular disaster recovery and business continuity planning and simulations, self-compliance audit and internal audit.

33. PROFIT RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following tables indicate the effective profit rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

2008	Non trading book										Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000		
ASSETS												
Cash and short-term funds	3,308,820	-	-	-	-	-	-	-	14,760	-	3,323,580	3.21
Securities held-for-trading	-	-	-	-	-	-	-	-	-	382,296	382,296	3.47
Securities available-for-sale	-	-	-	-	-	-	-	-	400,454	-	400,454	-
Financing and advances												
- performing	986,503	357,101	1,585,981	1,839,616	1,579,331	1,364,283	1,097,610	3,489,627	-	-	12,300,052	5.77
- non-performing *	-	-	-	-	-	-	-	-	(72,634)	-	(72,634)	-
- Islamic house financing sold to Cagamas	(200,008)	(150,001)	-	-	-	-	-	-	-	-	(350,009)	3.74
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	466,854	-	466,854	-
TOTAL ASSETS	4,095,315	207,100	1,585,981	1,839,616	1,579,331	1,364,283	1,097,610	3,489,627	809,434	382,296	16,450,593	

33. PROFIT RATE RISK (continued)

2008	Non trading book										Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000		
LIABILITIES AND EQUITY												
Deposits from customers	7,963,440	860,940	975,313	2,030,536	220,956	592	582	-	1,734,215	-	13,786,574	2.68
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	700,576	-	700,576	-
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	979,011	-	979,011	-
Total Liabilities	7,963,440	860,940	975,313	2,030,536	220,956	592	582	-	3,413,802	-	15,466,161	
Equity attributable to the equity holder of the Bank	-	-	-	-	-	-	-	-	984,432	-	984,432	-
Total Liabilities and Equity	7,963,440	860,940	975,313	2,030,536	220,956	592	582	-	4,398,234	-	16,450,593	
On-balance sheet profit sensitivity gap	(3,868,125)	(653,840)	610,668	(190,920)	1,358,375	1,363,691	1,097,028	3,489,627	(3,588,800)	382,296	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(3,868,125)	(653,840)	610,668	(190,920)	1,358,375	1,363,691	1,097,028	3,489,627	(3,588,800)	382,296	-	

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

33. PROFIT RATE RISK (continued)

2007	Non trading book										Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000		
ASSETS												
Cash and short-term funds	106,513	-	-	-	-	-	-	-	-	-	106,513	3.50
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	25,011	-	25,011	-
TOTAL ASSETS	106,513	-	-	-	-	-	-	-	25,011	-	131,524	

33. PROFIT RATE RISK (continued)

2007	← Non trading book →										Total RM'000	Effective profit rate %
	Up to 1 month RM'000	> 1 - 3 months RM'000	> 3 - 12 months RM'000	> 1 - 2 years RM'000	> 2 - 3 years RM'000	> 3 - 4 years RM'000	> 4 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000		
LIABILITIES AND EQUITY												
Other non-profit sensitive balances	-	-	-	-	-	-	-	-	71	-	71	-
Total Liabilities	-	-	-	-	-	-	-	-	71	-	71	-
Equity attributable to the equity holder of the Bank	-	-	-	-	-	-	-	-	131,453	-	131,453	-
Total Liabilities and Equity	-	-	-	-	-	-	-	-	131,524	-	131,524	-
On-balance sheet profit sensitivity gap	106,513	-	-	-	-	-	-	-	(106,513)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	106,513	-	-	-	-	-	-	-	(106,513)	-	-	-

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Fair value information for non-financial assets and non-financial liabilities are excluded as they do not fall within the scope of FRS 132 Financial Instruments: Disclosure and Presentation which requires the fair value information to be disclosed.

The estimated fair values of the financial instruments of the Bank approximate their respective carrying amounts as shown on the balance sheet, except for the following financial assets and financial liabilities:

	2008		2007	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial assets				
Financing and advances*	12,065,901	11,974,606	-	-
Financial liabilities				
Deposits from customers	13,786,574	13,788,143	-	-

* The general allowance of the Bank of RM188,492,000 (2007 - RM Nil) is not included in the carrying amounts.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

- (a) *Cash and Short-Term Funds* – The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.
- (b) *Deposits and Placements with Banks and Other Financial Institutions* – The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risks and remaining period to maturity.
- (c) *Securities Held-for-Trading, Securities Available-for-Sale and Securities Held-to-Maturity* – The fair values of these financial instruments are estimated based on quoted or observable market prices. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using market interest rates for similar instruments.
- (d) *Financing and Advances* – The fair values of fixed rate financing with remaining maturity of less than one year and variable rate financing are estimated to approximate their carrying amounts. For fixed rate financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of financing of similar credit risks and maturity.

The fair values of non-performing financing are represented by their carrying amounts, net of specific allowance for bad and doubtful financing, being the expected recoverable amount.

- (e) *Deposits from Customers* – The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturities of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers. The fair values of Islamic deposits are deemed to approximate their carrying amounts as profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. The fair values of negotiable debt certificate-i and Mudharabah specific investment deposits-i are estimated based on quoted or observable market prices. Where such quoted or observable market prices are not available, the fair values of negotiable debt certificate-i and Mudharabah specific investment deposits-i are estimated using the discounted cash flow technique.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

(f) *Deposits and Placements of Banks and Other Financial Institutions and Bills and Acceptances Payable* – The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

35. CAPITAL AND OTHER COMMITMENTS

	2008	2007
	RM'000	RM'000
Capital expenditure:		
Authorised and contracted for:		
- Office equipment, furniture and fittings	13	-
- Computer equipment and software	73	-
	<u>86</u>	<u>-</u>

36. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank as at 31 December are as follows:

	2008
Core capital ratio	9.1%
Risk-weighted capital ratio	<u>11.0%</u>

The capital adequacy ratio of the Bank is computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB), which is based on the Basel II capital accord. The Bank has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.

There are no comparative figures as there were no capital adequacy compliance requirements in the previous financial year, prior to the Bank commencing Islamic banking business under the Islamic Banking Act, 1983 on 1 November 2008.

(a) Components of Tier I and Tier II capital :

	2008 RM'000
<u>Tier I capital</u>	
Paid-up share capital	159,217
Share premium	773,500
Other reserves	25,819
Retained profits	25,555
Less : Deferred tax assets, net	<u>(72,418)</u>
Total Tier I capital	<u>911,673</u>
<u>Tier II capital</u>	
General allowance for bad and doubtful financing	<u>188,492</u>
Total Tier II capital	<u>188,492</u>
Capital base	<u>1,100,165</u>

36. CAPITAL ADEQUACY (continued)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows:

2008 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns / Central Banks	3,650,858	3,650,858	-	-
Public Sector Entities	87	87	17	1
Banks, Development Financial Institutions ("DFI") & MDBs	14,710	14,710	2,942	235
Insurance companies, Securities Firms and Fund Managers	29	29	29	2
Corporates	374,916	373,248	374,032	29,923
Regulatory Retail	10,488,855	10,479,850	7,928,037	634,243
Residential Mortgages	1,193,037	1,191,986	638,493	51,079
Higher Risk Assets	8,977	8,964	13,446	1,076
Other Assets	52,562	52,562	52,265	4,181
Equity Exposures	400,454	400,454	400,454	32,037
Total On-Balance Sheet Exposures	16,184,485	16,172,748	9,409,715	752,777
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	650,817	650,817	403,136	32,251
Total Off-Balance Sheet Exposures	650,817	650,817	403,136	32,251
Total On and Off-Balance Sheet Exposures	16,835,302	16,823,565	9,812,851	785,028
(ii) Market Risk				
	Long Position	Short Position		
Profit Rate Risk	382,296	-	21,504	1,720
Gold Position	297	-	297	24
Total	382,593	-	21,801	1,744
(iii) Operational Risk			191,760	15,341
Total RWA and Capital Requirements			10,026,412	802,113

36. CAPITAL ADEQUACY (continued)

(c) Disclosures by risk weights

2008 Risk Weights	<----- Exposures after Netting and Credit Risk Mitigation ----->										Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Equity Exposures RM'000		
0%	3,650,858	-	-	-	-	-	-	-	297	-	3,651,155	-
20%	-	87	14,710	-	-	-	-	-	-	-	14,797	2,959
35%	-	-	-	-	-	-	652,338	-	-	-	652,338	228,318
50%	-	-	-	-	7	5,488	449,804	-	-	-	455,299	227,650
75%	-	-	-	-	-	10,546,895	490,622	-	-	-	11,037,517	8,278,138
100%	-	-	-	29	398,217	12,200	22,641	-	52,265	400,454	885,806	885,806
150%	-	-	-	-	1,576	88,791	25,577	10,709	-	-	126,653	189,980
Total Exposures	3,650,858	87	14,710	29	399,800	10,653,374	1,640,982	10,709	52,562	400,454	16,823,565	9,812,851
Risk-Weighted Assets by Exposures	-	17	2,942	29	400,585	8,058,302	882,194	16,063	52,265	400,454	9,812,851	
Average Risk Weight	0.0%	19.5%	20.0%	100.0%	100.2%	75.6%	53.8%	150.0%	99.4%	100.0%	58.3%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-

36. CAPITAL ADEQUACY (continued)

(d) Disclosures by Islamic concepts

	<----- Type of Islamic Contract ----->								Total Credit Exposures RM'000	Total Risk- Weighted Assets RM'000
	Murabahah		Ijarah Muntahia Bittamleek		Mudarabah		Other Contracts			
Exposure Class	Credit Exposures RM'000	Risk- Weighted Assets RM'000	Credit Exposures RM'000	Risk- Weighted Assets RM'000	Credit Exposures RM'000	Risk- Weighted Assets RM'000	Credit Exposures RM'000	Risk- Weighted Assets RM'000	Total Credit Exposures RM'000	Total Risk- Weighted Assets RM'000
2008										
Exposure Class										
On and Off Balance										
Sheet Exposures:										
Sovereigns/Central Banks	-	-	-	-	3,309,208	-	341,650	-	3,650,858	-
Public Sector Entities	-	-	87	17	-	-	-	-	87	17
Banks, Development Financial Institutions ("DFI") & MDBs	-	-	-	-	-	-	14,710	2,942	14,710	2,942
Insurance companies, Securities Firms & Fund Managers	-	-	29	29	-	-	-	-	29	29
Corporates	342,828	343,278	56,972	57,307	-	-	-	-	399,800	400,585
Regulatory Retail	2,670,781	2,026,444	7,982,593	6,031,858	-	-	-	-	10,653,374	8,058,302
Residential Mortgages	1,640,982	882,194	-	-	-	-	-	-	1,640,982	882,194
Higher Risk Assets	10,709	16,063	-	-	-	-	-	-	10,709	16,063
Other Assets	(515)	(515)	51,745	51,745	-	-	1,332	1,035	52,562	52,265
Equity Exposures	-	-	-	-	-	-	400,454	400,454	400,454	400,454
Total On and Off Balance										
Sheet Exposures	4,664,785	3,267,464	8,091,426	6,140,956	3,309,208	-	758,146	404,431	16,823,565	9,812,851

36. CAPITAL ADEQUACY (continued)

The Off-Balance Sheet exposures and their related counterparty credit risk of the Bank are as follows:

2008	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related Exposures</u>			
Assets sold with recourse	341,988	341,988	163,769
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- exceeding one year	569,495	284,748	219,674
- not exceeding one year	120,405	24,081	19,693
	1,031,888	650,817	403,136

The risk-weighted assets and capital requirements for the various categories of risk under Market Risk are as follows:

2008	Risk-weighted Assets Equivalent RM'000	Capital Required RM'000
Profit rate risk		
- General profit rate risk	9,557	765
- Specific profit rate risk	11,947	955
	21,504	1,720
Gold Position		
	297	24
	21,801	1,744

37. SIGNIFICANT EVENT DURING THE YEAR

On 1 November 2008, the Islamic banking business of the Bank's holding company, Public Bank Berhad ("PBB"), a licensed bank incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad, was transferred to and vested into the Bank in accordance with the terms and conditions of the business transfer agreement dated 30 May 2008 entered into between PBB and the Bank and pursuant to the vesting order of the High Court of Malaya and the High Court of Sabah and Sarawak on 15 July 2008 and 26 June 2008 respectively. The consideration for the acquisition was based on the net book value of the PBB's Islamic banking business as at the date of completion of the acquisition on 1 November 2008 amounting to RM1,904,940,325.

Pursuant to Section 3(4) of the Islamic Banking Act, 1983, the Minister of Finance had granted an Islamic banking licence to the Bank, for the Bank to transact Islamic banking business in Malaysia with effect from 1 November 2008.

The value of the assets and liabilities of the Islamic banking business of Public Bank Berhad which were vested over to the Bank are as follows:

	RM'000
Cash and short-term funds	2,368,081
Securities held-for-trading	90,045
Financing and advances	11,773,286
Other assets	419,616
Deferred tax assets	46,255
Property and equipment	332
Deposits from customers	(11,625,879)
Deposits and placements of banks and other financial institutions	(315,447)
Other liabilities	(851,189)
Provision for tax expense and zakat	(160)
Net assets acquired	<u>1,904,940</u>
Less: cash and short-term funds	<u>(2,368,081)</u>
Net cash generated in acquiring the net assets of the Islamic banking business of Public Bank Berhad	<u><u>(463,141)</u></u>

38. SEGMENT INFORMATION

The following segment information has been prepared in accordance with FRS 8 Operating Segments, which defines the requirements for the disclosure of financial information of an entity's operating segments. It is prepared on the basis of the "management approach", which requires presentation of the segments on the basis of internal reports about the components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance.

The Bank's operating and reportable segments are business units engaged in providing different products or services. These business are managed and assessed separately as each requires a differentiated strategy focused on the specific products and services provided for the economic and competitive.

The Bank comprises the following main business segments:

- (i) **Hire Purchase**
The hire purchase operations is focused on the provision of passenger vehicle financing to all levels of customers.
- (ii) **Retail Operations**
Retail operations focuses on providing products and services to individual customers and small- and medium-sized enterprises. The products and services offered to customers include credit facilities and deposit collection.
- (iii) **Corporate Banking**
The corporate banking operations caters to the funding needs of large corporate customers and their related corporations.
- (iv) **Treasury and Head Office**
Treasury is involved in proprietary trading in treasury related products and services such as, money market operations and securities trading. Head office are internal service providers which operate on a non-profit basis.

Measurement and Evaluation of Segment Performance

The Bank evaluates operating segment's performance on the basis of revenue, profits, cost-to-income ratio, financing and deposit growth and asset quality. Expenses directly associated with each operating segment are included in determining their profits. Transactions between operating segments are based on mutually agreed allocation bases.

Major Customers

Revenues from no one single customer amounted to greater than 10% of the Bank's revenues for the financial years.

38. SEGMENT INFORMATION (continued)

2008	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Head Office RM'000	Inter-segment Elimination RM'000	Total RM'000
External revenue	75,970	56,295	760	7,795	-	140,820
Revenue from other segments	-	21,529	-	53,153	(74,682)	-
Total revenue	<u>75,970</u>	<u>77,824</u>	<u>760</u>	<u>60,948</u>	<u>(74,682)</u>	<u>140,820</u>
Net financing income	22,158	57,101	199	16,606	-	96,064
Other operating income	-	2,258	-	(619)	-	1,639
Net income	<u>22,158</u>	<u>59,359</u>	<u>199</u>	<u>15,987</u>	<u>-</u>	<u>97,703</u>
Other operating expenses	(6,094)	(15,345)	(15)	(3,974)	-	(25,428)
of which:						
<i>Depreciation and amortisation</i>	-	-	-	(14)	-	(14)
Allowance for losses on financing and advances excluding general allowance	(3,899)	(2,534)	-	-	-	(6,433)
Profit by segments	<u>12,165</u>	<u>41,480</u>	<u>184</u>	<u>12,013</u>	<u>-</u>	<u>65,842</u>
Reconciliation of segment profits to profits:						
General allowance						(1,407)
Profit before zakat and taxation						<u>64,435</u>
Cost-to-income ratio	27.5%	25.9%	7.5%	24.9%	-	26.0%
Gross loans	8,057,257	3,941,196	91,429	-	-	12,089,882
Net non-performing financing and advances	43,074	72,784	-	-	-	115,858
Deposits from customers	-	(8,631,254)	-	(5,155,320)	-	(13,786,574)
Addition to non-current assets	-	-	-	51	-	51
Segment assets	<u>7,917,801</u>	<u>8,690,222</u>	<u>90,242</u>	<u>5,841,359</u>	<u>(6,162,655)</u>	<u>16,376,969</u>
Reconciliation of segment assets to consolidated assets:						
Unallocated assets						73,624
Total assets						<u>16,450,593</u>

38. SEGMENT INFORMATION (continued)

	Hire Purchase RM'000	Retail Operations RM'000	Corporate Banking RM'000	Treasury and Head Office RM'000	Inter-segment Elimination RM'000	Total RM'000
2007						
External revenue	-	-	-	204	-	204
Total revenue	-	-	-	204	-	204
Net financing income	-	-	-	204	-	204
Other operating income	-	-	-	22	-	22
Net income	-	-	-	226	-	226
Other operating expenses	-	-	-	(11)	-	(11)
Profit by segments/Profit before zakat and taxation	-	-	-	215	-	215
Cost-to-income ratio	-	-	-	4.9%	-	4.9%
Segment assets	-	-	-	131,524	-	131,524
Unallocated assets						-
Total assets						131,524

39. RATING STATEMENT

As at 31 December 2008, the Bank was accorded the following ratings:

<u>Agencies</u>	<u>Date assigned</u>	<u>Ratings</u>
Rating Agency Malaysia	11 December 2008 (Assigned)	Long-Term Rating: AAA
Berhad	11 December 2008 (Assigned)	Short-Term Rating: P1
	11 December 2008 (Assigned)	Outlook : Stable

40. SUBSEQUENT EVENTS

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

41. SHARIAH COMMITTEE

The Shariah Committee was established under Bank Negara Malaysia's "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise the Board of Directors on Shariah matters in its business operations and to provide technical assistance in ensuring the Islamic banking products and services offered by the Bank and the relevant documentation are in compliance with Shariah principles. The Shariah Committee also provides guidance on legal matters on Islamic banking products and services.