

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2010

*Registered Office
Level 18, Tower 2, Etiqa Twins,
11 Jalan Pinang,
50450 Kuala Lumpur*

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

CONTENTS	PAGE
PERFORMANCE OVERVIEW	1
STATEMENT OF CORPORATE GOVERNANCE	1 - 18
DIRECTORS' REPORT	19 - 23
STATEMENT BY DIRECTORS	24
STATUTORY DECLARATION	25
REPORT OF SHARIAH COMMITTEE	26 - 27
INDEPENDENT AUDITORS' REPORT	28 - 29
STATEMENTS OF FINANCIAL POSITION	31 - 32
INCOME STATEMENTS	33
STATEMENTS OF COMPREHENSIVE INCOME	34
STATEMENTS OF CHANGES IN EQUITY	35
STATEMENTS OF CASH FLOWS	36 - 37
NOTES TO THE FINANCIAL STATEMENTS	38 - 139

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

1 PERFORMANCE OVERVIEW

The Group and the Bank registered a loss after taxation of RM75.6 million and RM97.3 million respectively for the financial year ended 31 December 2010 due to the more challenging operating environment in 2010 as the Group and the Bank embarked on its business realignment and restructuring plans in early 2010.

The total assets of the Group has decreased by RM661.5 million to RM10.9 billion as at 31 December 2010.

Despite the anticipated full year results, the Group made marked progress in Quarter 1 to Quarter 4 of 2010 profit/(loss) before taxation and the Group stood on a strong capitalised position with a risk-weighted capital ratio of 24.56%.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

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

Roles and Responsibilities of the Board

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

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

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Board Balance

The Board currently has six (6) members, comprising four (4) independent non-executive directors and two (2) non-independent non-executive directors.

Directors' Profile

Shaheen H A KH SH Alghanem

Chairman

Non-independent non-executive director

(43 years of age - Kuwaiti) Master of Business Administration, General Management Program, Certified Management Accountants, Bachelor of Commercial in Accountancy.

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

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

Mohamed Ismail Mohamed Shariff

Member

Independent non-executive director

(67 years of age – Malaysian) LL.B. (Hons.) (S'pore), LL.M. (Lond.), FCI Arb., FMI Arb., Barrister at Law, Lincoln's Inn.

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Khairil Anuar Abdullah

Member

Independent non-executive director

(60 years of age - Malaysian) Masters of Business Administration, Harvard University and Bachelor of Economics (with Honours), University Malaya.

Mr. Khairil has been a director of the Bank since 10 December 2004. He currently sits on the Boards of several listed and non-listed companies. He is the Chairman of Pantai Holdings Berhad and serves on the Boards of Apollo Hospitals Enterprise Ltd, Chennai. As to private companies, he is the Chairman for Accelteam Sdn Bhd and KFH Asset Management Sdn Bhd, a wholly owned subsidiary of the Bank.

Mr. Khairil was attached to the Economic Planning Unit in the Prime Minister's Department from 1973 until 1982, following which he joined Kumpulan Guthrie Sdn Bhd. In 1988, he became a Director of Arthur D Little Inc and Managing Director of Batu Lintang Berhad before joining the Securities Commission at its inception in 1993. He was the Executive Chairman of Mesdaq Berhad in 1997 and in 2002.

Dr. Radzuan A. Rahman

Member

Independent non-executive director

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

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

He was appointed as the Director of the Bank on 15 December 2004.

Dr. Radzuan has since resigned as a non-executive Director of the Bank effective 24 February 2011.

Abdul Wahab I.A.A AIRushood

Member

Non-independent non-executive director

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Khalid bin Sufat

Member

Independent non-executive director

(55 years of age - Malaysian) Malaysian Institute of Certified Public Accountants ("MICPA"), Chartered Association of Certified Accountants (UK).

En Khalid was appointed to the Board of the Bank on 3 January 2011. He is an Accountant by profession and a member of the Malaysian Institute of Accountants (MIA). He is also a Fellow of the Chartered Association of Certified Accountants, UK and also a member of the MICPA.

He had considerable experience in the banking industry having held several senior positions, namely Managing Director of Bank Kerjasama Rakyat Malaysia Berhad, General Manager, Consumer Banking of Malayan Banking Berhad and Executive Director of United Merchant Finance Berhad.

He had previously managed three listed companies, namely as Executive Director of Tronoh Mines Malaysia Berhad, as Deputy Executive Chairman of Furqan Business Organisation Berhad and as Group Managing Director of Seacera Tiles Berhad.

His directorships in other public listed companies include Binapuri Holdings Berhad, Malaysia Building Society Berhad, Uzma Berhad, Tradewinds (M) Berhad, UMW Holding Berhad and Chemical Company of Malaysia Berhad.

Haji Ismail Ibrahim

Member

Independent non-executive director

(61 years of age - Malaysian) Diploma in Business Studies - UITM, Qualified Lead Assessor - QMS ISO

Haji Ismail had a total of 38 years working experience in Banking Industry. His career in Banking started in 1973 when he joined Agro Bank formerly known as Bank Pertanian Malaysia as a Credit Officer and subsequently rose to become a Branch Manager. In 1982 he joined United Overseas Bank formerly known as Chung Khiaw Bank/Lee Wah Bank as a Senior Credit Officer, attached to Main Branch, Kuala Lumpur. He was promoted to Assistant Manager in 1984 and posted to Credit Department, Malaysian Central Office, Kuala Lumpur. He joined Affin Bank formerly known as Perwira Habib Bank in June 1985 as Manager incharged of retail loan. He was promoted to Senior Manager in 1989 and subsequently in 1990 was promoted to Assistant General Manager incharged of Retail and Corporate Banking division.

Hj Ismail joined Public Bank as Director, Credit Operations in March 1992 and rose to the position of General Manager. Between July 1995 to October 2008, he was incharged of various divisions i.e. Credit Operations, Credit Control & Islamic Banking.

He was appointed as Chief Executive Officer of Public Islamic Bank Berhad, a wholly-owned subsidiary of Public Bank Berhad in November 2008 until his retirement in January 2011.

He was appointed as the Director of the Bank on 7 March 2011.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2010, thirteen (13) Board meetings and three (3) Special Board meetings were held and attended by the directors. In the said Special and Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals and other matters were tabled for deliberation, approval, endorsement and reviewed by members of the Board.

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

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

Board Committees

The Board is assisted by five (5) Board Committees with specific terms of reference and functions, as follows:

Audit Committee

The Audit Committee ("AC") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director and held five (5) AC meetings and six (6) Special AC meetings during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Khairil Anuar Abdullah - Member
Abdul Wahab I.A.A. AlRushood - Member
Dr. Radzuan A. Rahman - Member (resigned on 24 February 2011)

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

Board Risk Management Committee

The Board Risk Management Committee ("BRMC") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director and had held five (5) BRMC meetings and three (3) Special BRMC meetings during the financial year. The members are as follows:

Khairil Anuar Abdullah - Chairman
Mohamed Ismail Mohamed Shariff - Member
Abdul Wahab I.A.A. AlRushood - Member
Dr. Radzuan A. Rahman - Member (resigned on 24 February 2011)

The roles and responsibilities of the Board Risk Management Committee are to oversee the senior management officers' activities in managing credit, market, operational and other risks and to ensure that the risk management process is efficient and functions effectively.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Nomination Committee

The Nomination Committee ("NC") consists of two (2) independent non-executive directors and two (2) non-independent non-executive directors. Five (5) NC meetings and four (4) Special NC meetings were held during the financial year. Resolution on re-appointment of directors was approved via a Directors' Circular Resolution. The members are as follows:

Dr. Radzuan A. Rahman - Chairman (resigned on 24 February 2011)

Mohamed Ismail Mohamed Shariff - Member

Shaheen H A KH SH Alghanem - Member

Khairil Anuar Abdullah - Member

Abdul Wahab I.A.A. AIRushood - Member

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

Remuneration Committee

The Remuneration Committee ("RC") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director. One (1) RC meeting and three (3) Special RC meetings were held during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman

Khairil Anuar Abdullah - Member

Abdul Wahab I.A.A. AIRushood - Member

Dr. Radzuan A. Rahman - Member (resigned on 24 February 2011)

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit and Investment Committee

The Board Credit and Investment Committee ("BCIC") consists of two (2) non-independent non-executive directors and had held sixteen (16) BCIC meetings and one (1) Special BCIC meeting during the year. The members are as follows:

Shaheen H A KH SH Alghanem - Chairman

Abdul Wahab I.A.A. AlRushood - Member

The roles and responsibilities of the BCIC are primarily to oversee the approval of credit and Treasury's investment proposals, reviews, restructuring, collections and recovery matters, and other operational and administrative requests that exceeds the authority delegated to the Management Credit Committees and Treasury Investment Committee.

(ii) Internal audit and internal control activities

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

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

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

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

Key Internal Control Processes

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(ii) Internal audit and internal control activities (Cont'd.)

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

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

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

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

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

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

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management

An integral part of the Bank's business strategy is to have robust risk management practices and processes which are aligned to international good practice standards as well as supporting the growth of the Bank. Strong risk management capabilities and processes further contribute to the financial soundness of the Bank. The Bank recognises the diversity and complexity of the banking activities as well as its exposure to various types of risks, including Credit, Market and Operational Risks. Under the Bank's Integrated Risk Management Framework, the BRMC oversees the establishment of a robust enterprise-wide risk management framework and setting the Bank's risk appetite as well as limits to guide the risk-taking activities within the Bank (See Note 50).

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

Integrated Risk Management

The Bank has adopted an Integrated Risk Management framework which provides a holistic approach in managing risks. The framework is based on four key elements of risk: Strategy, Organisation, Measurement and Operations. The Bank has in place a comprehensive risk management policy. It addresses the management of Bank's key risks, setting of appropriate risk limits, risk organisation structure with clear roles and responsibilities, risk measurement techniques and processes for controlling and monitoring risks and adherence to limits. The Bank reviews its risk management policy on an annual basis or as required e.g. when there is a significant development such as changes to market conditions, regulations and etc.

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

- (a) Recognition of Bank-wide risk appetite by identifying the Bank's level of loss tolerance, target portfolio based on distribution of customer's rating and internal single customer limit;
- (b) Managing the Bank's capital optimally by allocating risk capital on bank-wide and business level;
- (c) Promoting awareness of all risks and their impact on the Bank amongst its employees, as evident from the bankwide Credit Culture project in 2010;
- (d) Giving clarity of the Bank's risk objectives and treatment of risks based on rapid portfolio reviews (whether the risks need to be controlled or eliminated, managed or actively taken as an opportunity for gaining competitive advantage);
- (e) Aligning of individual risks with the overall business objectives of the Bank;
- (f) Defining a comprehensive limit structure for all its risk taking activities;
- (g) Establishing a bank-wide risk organisation structure and defining the risk management roles and responsibilities; and
- (h) Establishing risk assessment, management and monitoring processes which are regularly benchmarked against the industry's best practices.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Stress Test

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

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

Risk Management Structure

Board of directors

The board of directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles.

The board of directors of the Bank receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Board Risk Management Committee ("BRMC")

The BRMC has the overall responsibility for development of a risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk exposures.

Risk Management Division ("RMD")

The Bank's risk management unit responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

Risk Compliance

In 2010, Risk Compliance was set up within RMD, responsible for monitoring compliance with risk principles, policies and limits across the Bank.

Risk Management and Reporting Systems

The risk management unit measures risk through the use of risk models and provides reports to BRMC. The models use probabilities based on historical experiences adjusted to reflect the economic environment.

Monitoring and controlling risks are managed through limits proposed by RMD and approved by the board of directors. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the board of directors are willing to accept.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Risk Mitigation

As part of its overall risk management, the Bank uses certain financial instruments to manage exposures resulting from changes in yields, foreign currencies, equity risks and credit risks. The Bank encourages the use of collateral to reduce its credit risks.

Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

During the course of 2010, the Bank has revised several key initiatives, for examples, a self-imposed limitation of the Single Customer Limit at a level lower than that allowed under BNM/GP5 (Guideline on the Credit Limit to a Single Customer) and ceased to engage in new profit-sharing property-related ventures.

Credit Risk Management

The Bank defines credit risk, as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. In 2009, the corporate and commercial financing segment continues to form the bulk of the Bank's financing and investment assets. The retail and consumer financing segment remains relatively small but growing, as new business initiatives and strategies have been executed over the year.

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

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

In 2010, new Credit Guidelines was issued to steer the course of credit risk management going forward. A comprehensive Target Market and Management Action Trigger were also approved and issued as to direct credit related activities.

The Bank's credit risk policies set forth the principles, by which the Bank and its related subsidiaries conduct their credit risk management activities. It ensures credit risk underwriting consistency across the Bank and provides guidance to various credit management units in the formulation of supplementary credit policies and practices specific to their businesses.

The Bank is in compliance with BNM's Guideline on Classification and Impairment Provisions for Financing in the classification of impaired financing and has adopted the new Financial Instruments 139: Recognition and Measurement ("FRS 139") impairment requirements during the financial year.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Risk Measurement

Having successfully implemented a risk rating system for its Corporate and Commercial financing segment in 2008, the Bank has also implemented a scorecard for the SME segment. The rating system which incorporates a robust data spreading, financial analysis and credit analysis tool enables the measurement of credit risk, which differentiates individual credits and groups of credits by the risk ratings. This enables the Bank to monitor changes and trends in credit risk and customer rating migration.

Other new rating systems include those in Retail and Consumer Banking segment, as the Bank has also embarked on a special Shariah compliant auto financing program, and a scorecard implemented to support the risk assessment process. Credit decisioning is centralised in Credit Management, fully automated and supported by a credit application scoring solution, to evaluate the potential applicants' risk exposure.

Risk Reporting

KFHMB dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that our asset quality remains strong in the statements of financial position. This information is mainly transmitted through our various committee deliberations and also periodical risk management reports that is submitted to the Senior Management and the Board, which focuses on measuring exposures and concentrations, and monitoring weaknesses in the asset quality.

Market Risk

The objective of the market risk management is to ensure that all activities that are exposed to potential loss due to movement of prices are properly controlled, managed and monitored, as well as to ensure, that the activities are sufficiently backed by the Bank available capital to cover any loss.

Market risk is defined as the risk of losses or reduction in values in on- and off-balance sheet positions arising from movements in market prices. Specifically, the following positions may be exposed to market risk:-

- (a) Financial instruments (including hedging financial instruments);
- (b) Foreign exchange;
- (c) Inventories; and
- (d) Commodities.

Market risk management function is overseen by Chief Risk Officer, Risk Management Division, who reports to BRMC, a Board committee chaired by an independent Board member. BRMC reviews the Bank's activities that are exposed to market risk and ensure that those activities and initiatives are consistent with the Bank's risk appetite.

Liquidity Risk

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled over. The Bank uses the BNM's New Liquidity Framework as foundation in managing its liquidity. The objective of liquidity risk management is to ensure that cash needs always can be met at reasonable cost, either by:

- (a) maturity or sale of assets; or
- (b) the acquisition of deposits or additional funding from the Islamic money markets.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Liquidity Risk (Cont'd.)

Liquidity risk management function is overseen by Asset and Liability Committee (ALCO), who is guided by the Bank's Asset and Liability Management Policy.

Profit rate risk refers to movements in profit rates that can expose the Bank to higher funding costs or lower investment and financing yields. Due to the nature of the Bank's business, changes in profit rates can adversely affect the Bank in the form of lower net revenue depending on the mix and form of assets and liabilities.

The rate of return risk management function is overseen by ALCO, with the secretariat resided at Risk Management Division. ALCO is chaired by Chief Executive Officer with members comprise of senior management representing major business units, Finance Division, Line Risk Management and Risk Management Division.

The primary aim of profit rate risk management is to maintain the Bank's profit rate risk exposure within acceptable parameters when there is a change in the market profit rate. Profit rate risk limits shall provide the means for achieving this objective. ALCO had set the limits for the following ratios:-

- (a) The total of fixed rate financing over the Bank's total financing; and
- (b) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

Operational Risk Management and Risk Compliance ("ORMC")

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes reputation and franchise risks associated with the Bank's practices or market conduct and risk of failing to comply with applicable laws, regulations, Bank's policies and Shariah principles. However, Operational risk does not include strategic risk or the risk of loss resulting from credit, market, profit rate and liquidity risks taking activities.

ORMC Committee

In 2010, ORMC was established to serve as a platform for any operational risk and compliance issues to be deliberated and escalated for Management's attention and further action. The ORMC incorporated the functions of the previous Fraud Management Committee. The Committee is responsible to ensure that sound policies, procedures and practices are in place to manage the operational risk and compliance issues of the Bank. It also aims to cultivate a proactive operational risk and compliance culture within the Bank.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Operational Risk Management ("ORM") Team

The ORM team is involved in the development and implementation of operational risk management policy which includes rolling out the operational risk management methodologies and tools within the Bank. ORM is also responsible to educate, create awareness, improve the understanding and ownership of operational risk by business and support divisions within the Bank.

Processes



Generally KFHMB's operational risk is guided by the following categories:

- (a) Internal fraud
- (b) External fraud
- (c) Employment practices and workplace safety
- (d) Client, products and business practices
- (e) Damage to physical assets
- (f) Business disruption and system failures
- (g) Execution, delivery and process management

The cause factors of the operational risk are being analysed according to internal processes, people, system and external events.

Methodologies and Tools

Several methodologies and tools have been implemented bankwide to manage, control and monitor the operational risk that may arise from the business and operational activities of the Bank such as:

- (a) Risk Event/Incident Notification (REN)
- (b) Risk Control Self Assessment (RCSA)
- (c) Risk Scorecard
- (d) Key Risk Indicators (KRIs)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Risk Mitigation

The Bank has adopted several risk mitigation methods in order to reduce the level of operational risks arising from daily activities to an acceptable level.

(a) Outsourcing

The Bank has outsourced several of its activities to experienced third parties in order to improve its operational efficiency and reduce cost. In order to monitor the operational risks arising from the outsourcing activities, a comprehensive and clear outsourcing policy has been established in line with BNM Guideline on Outsourcing. Comprehensive risk assessment is done on the potential activities to be outsourced.

(b) Business Continuity Plan (BCP)

BCP has been established for all critical processes within the Bank to ensure business continuity in the event of disaster/disruption. Testing on critical processes are being performed on periodical basis. The Bank's BCP has been developed in line with BNM requirements.

Risk Compliance

Risk Compliance is a new set-up established within RMD. Risk Compliance team performs end-to-end review on Bank's critical operational and credit processes. Risk Compliance team is responsible to identify, analyse and monitor the Bank compliance risk issues that may arise as a result of failure to comply with the Bank's internal guidelines, policies, procedures, regulatory requirement and standards of good practices.

Risk Compliance comprised of 3 teams:

(a) Operational Risk Compliance

Monitors and reviews the Bankwide businesses and operational activities and processes.

(b) Credit Risk Compliance

Monitors and review on corporate, commercial and retail credit portfolios.

(c) Regulatory and AML Compliance

The team function is to ensure that the regulatory requirement including of AML is strictly adhered to.

By setting-up a Risk Compliance function, the Bank is proactively managing the compliance issues in the Bankwide daily businesses, operations and credit. Furthermore, Risk Compliance provides reassurance that the compliance risk issues are monitored and reviewed regularly against risk incidents, operational lapses and market best practices.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Regulatory & Anti-Money Laundering Compliance ("RAC")

One of the key responsibilities of the RAC is ensuring compliance to the BNM and other regulatory requirements as a result of it being licensed under the Islamic Banking Act 1983.

Therefore, RAC facilitates the regulatory compliance culture of the Bank to ensure that the Bank's business is carried out according to acts, regulations, rules, orders, instructions and laws as issued by the BNM based on the following principles:

- (a) Each employee is responsible, as an individual, to become familiar with the rules and regulations related to his or her assignment.
- (b) Ignorance of any regulation is no excuse for non-compliance.
- (c) The Bank must provide appropriate level of compliance awareness and training to their employees in matters affecting their assignments.

The Bank has also identified Business Unit Compliance Officers (BUCOs) at divisional/departmental level who play vital roles in identifying applicable regulatory requirements for their respective division/department and to keep RAC informed on an ongoing basis of the quality of compliance, compliance deficiencies and the status of any corrective action.

As a fully licensed Islamic Bank, KFHM has a legal obligation to deter money laundering and counter financing of terrorism within the ambit of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLATFA). As such the Bank is at the forefront of the Government and BNM's continuous initiatives in the prevention of the use of the banking system at any point in the money laundering or terrorist financing activities. The Bank demonstrates its full commitments of compliance with the Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) requirements by establishing robust and comprehensive framework, policies, procedures, processes and systems for the prevention and detection of money laundering and terrorist financing activities.

Key measures undertaken by the Bank to mitigate the AML/CFT risk include the following:

- (a) Customer acceptance policies and procedures to address the establishment of business relationship with the customers;
- (b) Ongoing monitoring of customer transactions through management information systems that enables prompt detection and reporting of suspicious activities;
- (c) Record keeping procedure in accordance with statutory requirements; and
- (d) Regular AML/CFT training sessions to create staff awareness.

Entities within the Group including its managed affiliates worldwide are strongly committed in ensuring compliance with the above framework and standards.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives

The Bank places great importance on developing a holistic risk management process in managing the range of risks that the Bank is exposed to and the potential impact that they pose on the Bank's capital. Hence, Capital Planning and Regulatory Standards Unit within Risk Management Department is dedicated to ensure the successful adoption of Pillar 1, 2 and 3 under BNM Capital Adequacy Framework (CAFIB) for the Bank and also to the newly published Basel 3 requirements.

Pillar 1 specifies the risk measurement standards for the purpose of calculating minimum capital requirements to be held by the Bank against credit risk, market risk and operational risk.

The approaches adopted by the Bank under CAFIB Pillar 1 are:-

- (a) Credit Risk Charge - Standardised Approach
- (b) Market Risk Charge - Standardised Approach
- (c) Operational Risk Charge - Basic Indicator Approach

The Bank was in compliance with all the regulatory capital ratios under Pillar 1 throughout the year.

Pillar 2 complements Pillar 1 by focusing on the Bank's Internal Capital Adequacy Process (ICAAP). It covers material risks beyond the credit, market and operational risks identified within Pillar 1. Moving forward, the Bank will implement ICAAP as part of its conscientious effort to ensure adequate capital is available to support operations at all times beyond the minimum regulatory capital requirements in Pillar 1 and to promote the adoption of a more forward looking approach to capital management. The ICAAP implementation will be driven at the Group level to ensure a harmonized approach between the parent and all of its key subsidiaries.

Pillar 3 is designed to be a public disclosure of the Bank's risk and capital profile. The Bank is in compliance with the CAFIB-Disclosure Requirements (Pillar 3) where applicable.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

In order to cater for the inherently higher credit risks associated to dealings in Musyarakah and Mudharabah contracts, the Bank has been maintaining an internal credit policy to cover the Bank's activities in such portfolio, in addition to complying with BNM's Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions. The internal policy, which sets stricter and more clearly defined guidelines, encompasses areas of managing risks associated to profit-sharing activities such as the business management, strategy, exit mechanisms, business monitoring/control, and trigger alerts for potential watchlist and impaired accounts. The credit policy is enhanced from time to time to cater for latest changes in the risk profile of the portfolio.

In terms of approval of new Musyarakah and Mudharabah contracts, the Bank has introduced greater control where all new proposals are tabled to the BCIC for approvals. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

(iv) Management Reports

At every Board meeting, a progress report on on-going projects of the Bank pertaining to recruitment, human resource, information technology, policy and procedure, regulatory requirement, product and service as well as income and expense, are submitted to the Board for review.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund management and asset management.

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

RESULTS

	Group RM'000	Bank RM'000
Net loss for the year	<u>(75,637)</u>	<u>(97,290)</u>

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

DIVIDENDS

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

DIRECTORS

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

Shaheen H A KH SH Alghanem (Chairman)
Mohamed Ismail Mohamed Shariff
Khairil Anuar Abdullah
Dr. Radzuan A. Rahman (resigned on 24 February 2011)
Abdul Wahab I.A.A AIRushood
Khalid Sufat (appointed on 3 January 2011)
Haji Ismail Ibrahim (appointed on 7 March 2011)

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 36 of the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest except for those transactions arising in the ordinary course of business as disclosed in Note 39 to the financial statements.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2010.

ISSUE OF SHARES

There were no changes to the authorised, issued and paid-up capital of the Bank during the financial year.

RESERVES, PROVISIONS AND ALLOWANCES

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

OTHER STATUTORY INFORMATION

- (a) Before the income statements and statements of financial position of the Group and the Bank were made out, the directors took reasonable steps:
 - (i) to ascertain that proper actions had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and satisfied themselves that there were no known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) the amount written-off for bad debts or the amount of provision for bad debts in the financial statements of the Group and the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

OTHER STATUTORY INFORMATION (Cont'd.)

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuations of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Bank.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

BUSINESS PLAN FOR 2011

2010 was a year of consolidation and streamlining existing operations. For 2011, the Bank expects to continue these efforts and has identified three major operational areas concentrating on business growth, enhancement of asset quality and cost optimisation.

In terms of business growth, the Bank plans to further develop its retail banking business in 2011 by enhancing its product and service offerings, as well as setting up more branches and Bureau de Changes to boost visibility among its retail customers. These strategies will also assist in its efforts to diversify its income base. Another identified growth area for the Bank is fee based income from both corporate and investment banking, and commercial banking businesses. Additionally, the Bank also plans to look into establishing strategic alliances to explore new and alternative markets.

For 2011, the Bank also intends to ensure continuous enhancement of credit quality by focusing on the implementation of a target market or risk acceptance criteria, enforcing portfolio limits with proper action triggers, practicing a risk-based action model and a robust credit scoring system.

In achieving its cost optimisation objective, the Bank will continue to conduct, amongst others, end-to-end process flow analyses and identification of high cost areas to eliminate wastages, and carry out further automation activities which will lead to cost reduction.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

OUTLOOK FOR 2011

For 2011, Malaysia's economic growth is projected to be between 5.0% and 6.0%, a moderation from the growth of 7.2% recorded for 2010. This is due to expectations of slower growth in sectors such as manufacturing, services and construction, which helped fuel strong growth in the first half of 2010. These, however, will likely be mitigated by a pick-up in agriculture and mining sectors.

Weaker global trade conditions projected for 2011 are also likely to cause a slowdown in exports and cause the moderation in GDP growth given that Malaysia is an export-led economy. Thus domestic demand, which had helped ignite growth levels for the country in 2010, will again be relied upon to continue to drive near-term growth.

With continuing uncertainties in the global economy, especially the Eurozone and Middle East area, it is expected that Bank Negara Malaysia (BNM) will likely pause profit rate hikes. This pause may last at least until the end of 1Q 2011 to allow for global growth conditions to stabilise and to assess the effects of the previous rate hikes made by BNM. The Overnight Policy Rate (OPR) is currently set at 2.75%, with BNM having raised it by a cumulative 75 basis points since March 2010. Any increase may be made in the 2Q of 2011, depending on the inflation rate as well as other global and domestic conditions at that time.

Currently, BNM is of the view that the OPR level is still supportive of economic activity and that inflation does not yet pose a major threat. Inflation, measured by the Consumer Price Index (CPI), had peaked at 2.2% in December 2010, following the Government's decision on rolling-back subsidies for selected items such as sugar and petroleum in July 2010. As prices are expected to continue to rise in 2011, the CPI may trend upwards again and is forecast to hover around 2.5%.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Classification	Assigned
Malaysian Rating Corporation Berhad (MARC)	August 2010	Long term Short term	AA+ MARC-1

SIGNIFICANT EVENTS

Details of significant events are disclosed in Note 46 to the financial statements

SUBSEQUENT EVENTS

There are no subsequent events during the financial year ended 31 December 2010.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Seventeen (17) Shariah Committee meetings were held during the financial year. The Shariah Committee comprises of three (3) qualified Shariah scholars who are appointed by the Board for the two year term as follows:

- Sheikh Prof. Dr. Mohammed Abdul Razzaq Al-Tabtabae (Chairman)
- Sheikh Dr. Anwar Shuaib Abdulsalam Al-Abdulsalam (Member)
- Sheikh Adnan Ali Ibrahim Al-Mulla (Member)

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

- (b) To evaluate and endorse sample of contracts, agreements of the Bank's transactions;
- (c) To clarify Shariah rulings in relation to the Bank's transactions as observed by the Committee based on what was referred to them by the Board of Directors, the Chairman or the Shariah Division;
- (d) To present Shariah's views to the Board of Directors in relation to any matter raised in regards to the transactions of the Bank;
- (e) To confirm that the Bank's transactions and contracts are in compliance with Shariah via reports submitted by the Shariah Division to the Shariah Committee on a periodic basis, explaining the activities and the implementation of the fatwa and rulings issued by the Shariah Committee. The Shariah Committee shall rectify any shortcomings to ensure its conformity to Shariah;
- (f) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:
 - (i) when the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and
 - (ii) when the Bank submits applications to Bank Negara Malaysia for the approval of new products in accordance with guidelines on product approval issued by Bank Negara Malaysia;
- (g) To review annual financial statements of the Bank.

ZAKAT OBLIGATIONS

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 March 2011.

SHAHEEN H A KH SH ALGHANEM

Director

MOHAMED ISMAIL MOHAMED SHARIFF

Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

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

We, Shaheen H A KH SH Alghanem and Mohamed Ismail Mohamed Shariff, being two of the directors of Kuwait Finance House (Malaysia) Berhad do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 31 to 139 are 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 and the principles of Shariah so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 March 2011.

SHAHEEN H A KH SH ALGHANEM

Director

MOHAMED ISMAIL MOHAMED SHARIFF

Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATUTORY DECLARATION

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

I, Shaheen H A KH SH Alghanem, being the director primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad do solemnly and sincerely declare that the accompanying financial statements set out on pages 31 to 139, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Shaheen H A KH SH Alghanem
at Kuala Lumpur, in the Federal Territory on 10 March 2011.

BEFORE ME:

Commissioner for Oaths

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

We have reviewed the policies, used products and contracts relating to the transactions and applications executed by Kuwait Finance House (Malaysia) Berhad during the financial year ended 31 December 2010. We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles and also with the Shariah resolutions issued by us.

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

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

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

In our opinion:

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad during the year ended 31 December 2010 that have been reviewed, are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been disposed to charitable causes; and
- (d) the calculation of zakat is in compliance with Shariah rules and principles.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

This opinion is rendered based on what has been presented to us by the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Division.

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

Sheikh Prof. Dr. Mohammed Abdul Razzaq Al-Tabtabae

Chairman

Signature:

Date:

Sheikh Dr. Anwar Shuaib Abdulsalam Al-Abdulsalam

Member

Signature:

Date:

Sheikh Adnan Ali Ibrahim Al-Mulla

Member

Signature:

Date:

Kuala Lumpur, Malaysia

672174-T

**Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad
(Incorporated in Malaysia)**

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 31 to 139.

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements 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 judgement, 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 the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

672174-T

Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (Cont'd.)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act 1965, Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the principles of Shariah in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

672174-T

Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (Cont'd.)

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
10 March 2011

Mohd. Sukarno bin Tun Sardon
No. 1697/03/13(J)
Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
ASSETS					
Cash and short-term funds	4	2,649,962	2,877,926	2,742,648	2,933,272
Deposits and placements with banks and other financial institutions	5	273,259	139,052	273,259	139,052
Securities held-for-trading	6	110,083	16,938	110,083	16,938
Hedging financial instruments	12	77,796	42,836	77,796	42,836
Securities available-for-sale	7	1,053,506	1,003,119	925,933	904,650
Securities held-to-maturity	8	46,266	59,797	46,266	59,797
Financing, advances and other receivables	9	6,072,784	7,072,175	6,072,784	7,078,663
Murabahah trading automobile	10	32	37,429	32	37,429
Other assets	11	392,085	170,057	372,908	148,127
Statutory deposits with Bank Negara Malaysia	13	44,854	49,500	44,854	49,500
Musyarakah capital investment	14	5,898	5,916	5,898	5,916
Investment in subsidiaries	15	-	-	32,397	66,143
Investment in jointly controlled entity		932	-	-	-
Property and equipment	16	27,340	37,017	26,915	35,874
Intangible assets	17	27,529	28,668	27,508	28,625
Deferred tax assets	18	133,878	37,236	133,496	36,862
TOTAL ASSETS		10,916,204	11,577,666	10,892,777	11,583,684
LIABILITIES					
Deposits from customers	19	4,546,509	4,255,068	4,548,082	4,264,705
Deposits and placements of banks and other financial institutions	20	3,465,878	4,202,350	3,473,778	4,215,150
Hedging financial instruments	12	36,978	24,869	36,978	24,869
Murabahah bank financing	23	23,139	51,397	23,139	51,397
Subordinated Murabahah Tawarruq	24	349,655	374,700	349,655	374,700
Other liabilities	21	428,388	368,826	427,372	367,116
Provision for zakat	22	3,740	3,267	3,740	3,267
Deferred tax liabilities	18	8,322	7,360	8,322	7,360
TOTAL LIABILITIES		8,862,609	9,287,837	8,871,066	9,308,564
SHAREHOLDER'S EQUITY					
Share capital	25	2,266,125	2,266,125	2,266,125	2,266,125
Reserves	26	(212,530)	23,704	(244,414)	8,995
TOTAL SHAREHOLDER'S EQUITY		2,053,595	2,289,829	2,021,711	2,275,120
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY					
		10,916,204	11,577,666	10,892,777	11,583,684

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION (CONT'D.)

		Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
	Note				
COMMITMENTS AND CONTINGENCIES	40	4,052,244	5,218,410	4,052,244	5,218,410
CAPITAL ADEQUACY					
Core capital ratio	42	20.15%	19.89%	20.00%	19.97%
Risk-weighted capital ratio	42	24.56%	23.79%	23.76%	23.34%
NET ASSETS PER SHARE (RM)		0.91	1.01	0.89	1.00

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INCOME STATEMENTS

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Operating revenue	27	447,989	485,030	444,562	471,524
Income derived from investment of depositors' funds and others	28	342,407	316,860	342,389	317,508
Income derived from investment of shareholder's equity	29	105,582	168,170	102,173	154,016
Total gross income		447,989	485,030	444,562	471,524
Impairment and allowance on financing, advances and other receivables	30	(191,316)	(184,676)	(191,316)	(184,676)
Impairment and allowance on investments	31	954	(2,114)	(34,546)	(2,114)
Total distributable income		257,627	298,240	218,700	284,734
Income attributable to the depositors	32	(188,046)	(162,264)	(188,297)	(162,526)
Total net income		69,581	135,976	30,403	122,208
Personnel expenses	33	(99,582)	(96,085)	(88,244)	(84,050)
Other overheads and expenditures	34	(73,940)	(60,349)	(67,598)	(53,794)
Finance cost	35	(13,918)	(14,527)	(13,918)	(14,527)
Loss before zakat and taxation		(117,859)	(34,985)	(139,357)	(30,163)
Zakat		(1,565)	(2,361)	(1,565)	(2,361)
Taxation	37	43,787	6,463	43,632	6,548
Net loss for the year		(75,637)	(30,883)	(97,290)	(25,976)
Attributable to:					
- Equity holders of the parent		(75,637)	(30,883)	(97,290)	(25,976)
Loss per share (sen)					
- Basic/Diluted	38	(3.34)	(1.76)	-	-

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Net loss for the year	(75,637)	(30,883)	(97,290)	(25,976)
Other comprehensive (loss)/income:				
Securities available-for-sale:				
Net gain taken to equity	26,364	37,923	25,305	37,923
Exchange differences on translation of foreign operations:				
Net loss taken to equity	(5,273)	(1,510)	-	-
Income tax relating to components of other comprehensive income	(6,591)	(9,481)	(6,326)	(9,481)
Other comprehensive income for the year, net of tax	14,500	26,932	18,979	28,442
Total comprehensive loss for the year	(61,137)	(3,951)	(78,311)	2,465
Total comprehensive (loss)/income for the year attributable to equity holders of the parent	(61,137)	(3,951)	(78,311)	2,465

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Securities Available- For-Sale RM'000		Retained Profits/ Accumulated Losses RM'000
Group						
At 1 January 2010						
- As previously stated	2,266,125	34,952	(2,094)	(34,928)	25,775	2,289,829
- Effect of adopting FRS 139	-	-	-	-	(175,098)	(175,098)
At 1 January 2010, as restated	2,266,125	34,952	(2,094)	(34,928)	(149,323)	2,114,731
Total comprehensive income	-	-	(5,273)	19,773	(75,637)	(61,137)
At 31 December 2010	2,266,125	34,952	(7,367)	(15,155)	(224,960)	2,053,595
At 1 January 2009						
Total comprehensive income	-	-	(1,510)	28,442	(30,883)	(3,951)
Issue of ordinary shares for cash	514,725	-	-	-	-	514,725
At 31 December 2009	2,266,125	34,952	(2,094)	(34,928)	25,775	2,289,829
Bank						
At 1 January 2010						
- As previously stated	2,266,125	34,952	-	(34,928)	8,971	2,275,120
- Effect of adopting FRS 139	-	-	-	-	(175,098)	(175,098)
At 1 January 2010, as restated	2,266,125	34,952	-	(34,928)	(166,127)	2,100,022
Total comprehensive income	-	-	-	18,979	(97,290)	(78,311)
At 31 December 2010	2,266,125	34,952	-	(15,949)	(263,417)	2,021,711
At 1 January 2009						
Total comprehensive income	-	-	-	28,442	(25,976)	2,465
Issue of ordinary shares for cash	514,725	-	-	-	-	514,725
At 31 December 2009	2,266,125	34,952	-	(34,928)	8,971	2,275,120

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before zakat and taxation	(117,859)	(34,985)	(139,357)	(30,163)
Adjustments for:				
Impairment and allowance on financing, advances and other receivables	191,316	184,676	191,316	184,676
Amortisation of premium less accretion of discounts	250	331	250	331
Finance cost	13,918	14,527	13,918	14,527
Depreciation of property and equipment	11,508	10,239	10,903	9,553
Amortisation of intangible assets	8,254	4,385	8,237	4,365
Net gains on disposal of property and equipment	37	(15)	11	(15)
Net gains on disposal of intangible assets	-	(2)	-	(2)
Write-offs of property and equipment	203	-	8	-
Net gains on sale of securities available-for-sale	-	(372)	-	(372)
Net gains on sale of securities held-for-trading	(539)	(1,195)	(539)	(1,195)
Short-term accumulated compensated absences	-	(85)	-	(85)
Impairment (write-back)/loss on securities available-for-sale	(772)	772	(772)	772
Impairment (write-back)/loss on Murabahah trading automobile	(182)	1,342	(182)	1,342
Impairment on subsidiaries	-	-	35,500	-
Unrealised (gain)/loss on securities held-for-trading, and hedging financial instruments	(23,627)	1,908	(23,627)	1,908
Operating profit before working capital changes	82,507	181,526	95,666	185,642
(Increase)/decrease in operating assets				
Deposits and placements with banks and other financial institutions	(134,207)	(101,225)	(134,207)	(101,225)
Financing, advances and other receivables	31,812	(1,099,633)	38,300	(1,103,079)
Murabahah trading automobile	37,579	23,008	37,579	23,008
Other assets	(215,738)	(21,368)	(215,781)	(11,771)
Statutory deposits with Bank Negara Malaysia	4,646	88,144	4,646	88,144
Increase/(decrease) in operating liabilities				
Deposits from customers	291,441	(38,279)	283,377	(51,389)
Deposits and placements of banks and other financial institutions	(736,472)	1,283,342	(741,372)	1,306,142
Other liabilities	48,524	143,933	46,338	143,623
Cash (used in)/generated from operations	(589,908)	459,448	(585,454)	479,095
Tax paid	(9,076)	(21,299)	(9,000)	(21,279)
Zakat paid	(1,092)	(210)	(1,092)	(210)
Net cash (used in)/generated from operating activities	(600,076)	437,939	(595,546)	457,606

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from purchase of securities	(102,860)	(161,183)	(73,756)	(162,082)
Proceeds from disposal of Musyarakah capital	18	-	18	-
Proceeds from transfer of financing assets	542,800	-	542,800	-
Investment in subsidiaries	-	-	(1,754)	(28,580)
Investment in jointly controlled entities	(84)	-	-	-
Proceeds from disposal of property and equipment	387	313	365	313
Proceeds from disposal of intangible assets	-	12	-	12
Purchase of property and equipment	(2,458)	(20,691)	(2,328)	(20,322)
Purchase of intangible assets	(7,115)	(3,261)	(7,120)	(3,231)
Net cash generated from/(used in) investing activities	430,688	(184,810)	458,225	(213,890)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	-	514,725	-	514,725
Proceeds from Subordinated Murabahah Tawarruq	(25,045)	8,792	(25,045)	8,792
Proceeds from Murabahah bank financing	(28,258)	25,413	(28,258)	25,413
Net cash (used in)/generated from financing activities	(53,303)	548,930	(53,303)	548,930
Net (decrease)/increase in cash and cash equivalents	(222,691)	802,059	(190,624)	792,646
Cash and cash equivalents at beginning of year	2,877,926	2,077,377	2,933,272	2,140,626
Exchange differences on translation of opening balances	(5,273)	(1,510)	-	-
Cash and cash equivalents at end of year (Note 4)	2,649,962	2,877,926	2,742,648	2,933,272

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is engaged in Islamic banking business as allowed under the Islamic Banking Act, 1983. The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund management and asset management, as set out in Note 15. There have been no significant changes in the nature of the principal activities during the financial year.

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 10 March 2011.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared under the historical cost convention unless otherwise indicated and comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRS") in Malaysia together with directives and guidelines issued by Bank Negara Malaysia, and the principles of Shariah. At the beginning of the current financial year, the Group and the Bank adopted new and revised FRS which are mandatory for financial periods beginning on or after 1 January 2010.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

(ii) Basis of Consolidation

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

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

Acquisition of subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income.

The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

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

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets

Financial assets are recognised in the statements of financial position when the Group and the Bank become a party to the contractual provisions of the financial instruments.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Classification of financial assets are determined at initial recognition, which is described below.

(i) Financial assets at fair value through profit and loss ("FVTPL")

Financial assets at FVTPL consist of investment in securities held-for-trading and hedging financial instruments.

Securities held-for-trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term or they are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities classified as held-for-trading are stated at fair value and any gain or loss arising from a change in the fair value are recognised in the income statement.

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

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

The accounting policies in relation to hedging financial instruments are disclosed in Note 3.1 (o).

(ii) Financing, advances and other receivables

Financing, advances and other receivables are recognised when cash is disbursed to customers. They are initially stated at fair value including any direct transaction cost and are subsequently measured at amortised cost using the effective yield rate method. Gains and losses are recognised in profit or loss when the financing, advances and other receivables are derecognised or impaired, and through the amortisation process.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets (Cont'd.)

(ii) Financing, advances and other receivables

The Group and the Bank assess at each reporting date whether there is any objective evidence that financing, advances and other receivables are impaired. Financing, advances and other receivables are classified as impaired when:

- (i) where the principal or profit or both is past due for more than 90 days or 3 months;
- (ii) where the amount is past due for 3 months or less, the financing exhibits certain credit weaknesses; and
- (iii) rescheduled and restructured facilities can only be reclassified as non-impaired when repayments based on the revised or restructured terms have been observed continuously for a period of six months.

To determine whether there is objective evidence that an impairment loss has been incurred, the Group and the Bank consider factors such as significant financial difficulties of the customer and default or significant delay in repayments.

The amount of impairment loss is measured as the difference between the carrying amount of the financing and the present value of estimated future cash flows discounted at the financing's original effective yield rate. The impairment loss is recognised in income statement.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an impairment allowance account. When a financing becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in income statement.

Financing, advances and other receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The Bank adopts the transitional provision as issued by BNM in its Guideline on Classification and Impairment Provisions for Financing. The Group and the Bank maintain collective impairment allowance of at least 1.5% of total outstanding financing, net of individual impairment allowance.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets (Cont'd.)

(iii) Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold the investment to maturity. These investments are measured at amortised cost using the effective yield rate method. A gain or loss is recognised in the income statement when the securities are derecognised or impaired, and through the amortisation process.

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

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

(iv) Securities available-for-sale

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity investments and are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment. Any gain or loss arising from a change in the fair value are recognised in other comprehensive income, except for impairment losses, foreign exchange gains or losses and profit calculated using the effective yield rate method are recognised in income statement.

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

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets (Cont'd.)

(iii) Securities available-for-sale (Cont'd.)

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

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

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

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

A financial asset is derecognised when the contractual right to receive the cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Bank commit to purchase or sell the asset.

(d) Financial liabilities

Financial liabilities are recognised in the statement of financial position when the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective yield method.

Deposits from customers, deposits and placements of banks and financial institutions and Subordinated Murabahah Tawarruq are measured at amortised cost. With the exception of hedging financial instruments, the Group and the Bank do not have any financial liabilities designated at fair value through profit and loss.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(e) Property and Equipment, and Depreciation

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

Subsequent to recognition, property and equipment except for work-in-progress are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Renovation	20%
Furniture and fittings	20%
Office equipment	20%
Computer equipment hardware	20%
Motor vehicles	20%

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

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

(f) Intangible Assets

(i) Goodwill

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Intangible Assets (Cont'd.)

(ii) Other Intangible Assets

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

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

Intangible asset for computer software is amortised over the useful lives of 5 years.

(g) Murabahah Trading Automobile

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

(h) Other Assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the reporting date.

(i) Musyarakah Capital Investment and Musyarakah Financing

The Bank grants Musyarakah financing as part of the Bank's activities in accordance with the principles of Shariah. The equity participation that forms part of the financing structure is called Musyarakah capital investment. Musyarakah capital investment is carried at cost less any impairment loss. Under the principle of Musyarakah, the Bank and its partners shall contribute a portion of capital and the proportion of profit to be distributed between the partners must be mutually pre-agreed upon inception of the contract. In view of the Bank acting as a financier to the project, Musyarakah financing is carried as financing receivable in the financial statements of the Bank. The profit on Musyarakah financing is recognised over the term of the contract based on estimated internal rate of return of the project.

(j) Provision for Liabilities

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Provision for Liabilities (Cont'd.)

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

(k) Income Tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as income or an expense and included in the income statement for the period, except when it arises from a transaction which is recognised either in other comprehensive income or directly in equity, in which case the deferred tax is also recognised either in other comprehensive income or directly in equity.

(l) Revenue Recognition

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

(i) Finance Income Recognition

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

Customers' accounts are classified as impaired where repayments are in arrears for more than three months from the first day of default for financing and one month after maturity date for trade bills and other instruments of similar nature.

(ii) Fee and Other Income Recognition

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Revenue Recognition (Cont'd.)

(ii) Fee and Other Income Recognition (Cont'd.)

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

(iii) Profit from Murabahah Trading Automobile

Profit is recognised based on sales proceeds less purchase price.

(m) Profit Expense Recognition

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

(n) Foreign Currencies

(i) Functional and Presentational Currency

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

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies (Cont'd.)

(iii) Foreign Operations

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

- (a) Assets and liabilities for each statement of financial position presented are translated at the closing rates prevailing at the reporting date;
- (b) Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and
- (c) All resulting exchange differences are taken to the foreign currency translation reserve in other comprehensive income.

(o) Hedging financial instruments

The initial recognition of hedging financial instruments is at fair value, and subsequently remeasured at fair value with the resulting gain or loss recognised in the income statement. Hedging financial instruments with positive fair values are classified as financial assets and as financial liabilities when their fair values are negative.

(i) Foreign Exchange Contracts

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

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

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

Fair value hedge

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

Cash flow hedge

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(p) Employee Benefits

(i) Short-Term Benefits

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

(ii) Defined Contribution Plan

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

(q) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.58% of the opening reserves of the Bank.

(r) Profit Equalisation Reserves ("PER")

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

The Bank did not maintain PER as the Bank had been utilising income from shareholder's funds to stabilise the rate of return to depositor.

(s) Impairment of Non-Financial Assets

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(s) Impairment of Non-Financial Assets (Cont'd.)

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

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

(t) Financial Instruments

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

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

(u) Cash and Cash Equivalents

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

(v) Financial Risk Management Objective and Policies

The Group's and the Bank's financial risk management policy seek to ensure that adequate financial resources are available for the development of the Group's and the Bank's business whilst managing its profit rate risks (both fair value and cash flow), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks as disclosed in the Statement of Corporate Governance.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(w) Operating Lease

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

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

On 1 January 2010, the Group and the Company adopted the following new and revised FRS, amendment to FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2010:

FRS 4 *Insurance Contracts*

FRS 7 *Financial Instruments: Disclosures*

FRS 8 *Operating Segments*

FRS101 *Presentation of Financial Statements (Revised)*

FRS 123 *Borrowing Costs*

FRS 139 *Financial Instruments: Recognition and Measurement*

Amendments to FRS 1 *First-time Adoption of Financial Reporting Standards* and FRS 127 *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

Amendments to FRS 2 *Share-based Payment: Vesting Conditions and Cancellations*

Amendments to FRS 132 *Financial Instruments: Presentation*

Amendments to FRS 139 *Financial Instruments: Recognition and Measurement*, FRS 7 *Financial Instruments: Disclosures* and IC Interpretation 9 *Reassessment of Embedded Derivatives*

IC Interpretation 9 *Reassessment of Embedded Derivatives*

IC Interpretation 10 *Interim Financial Reporting and Impairment*

IC Interpretation 11 *FRS 2 - Group and Treasury Share Transactions*

IC Interpretation 13 *Customer Loyalty Programmes*

IC Interpretation 14 *FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

TR i-3 *Presentation of Financial Statements of Islamic Financial Institutions*

The revised FRSs, amendments to FRSs and IC Interpretations above do not have any significant impact on the financial statements of the Group and the Bank except for those discussed below:

FRS 7 *Financial Instruments: Disclosures* ("FRS7")

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 *Financial Instruments: Disclosure and Presentation*. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Bank have applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Bank's financial statements for the year ended 31 December 2010.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

FRS 8 *Operating segments* ("FRS 8")

FRS 8, which replaces FRS 114 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The Standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the reportable operating segments determined in accordance with FRS 8 are the same as the business segments previously identified under FRS 114. The Group has adopted FRS 8 retrospectively. These revised disclosures, including the related revised comparative information, are shown in Note 43 to the financial statements.

FRS 101 *Presentation of Financial Statements (Revised)* ("FRS 101")

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owners changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Bank have elected to present this statement as two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital (see Note 42).

The revised FRS 101 was adopted retrospectively by the Group and the Bank.

As a result of the adoption of the revised FRS 101, income statements of the Group and the Bank for the comparative financial period ended 31 December 2009 have been re-presented as two linked statements, i.e. an income statement displaying components of profit or loss and a statement of comprehensive income. All non-owner changes in equity which were previously presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity. Since these changes only affect presentation aspects, there is no impact on earnings per ordinary share.

FRS 139 *Financial Instruments: Recognition and Measurement* ("FRS139")

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Bank have adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. Comparatives are not restated. The details of the changes in accounting policies and the effects arising from the adoption of FRS 139 are discussed below:

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

FRS 139 *Financial Instruments: Recognition and Measurement* ("FRS139") (Cont'd.)

(a) Impairment of financing, advances and other receivables

The adoption of FRS 139 has resulted in a change in the accounting policy relating to the assessment for impairment of financial assets, particularly financing, advances and other receivables. Prior to the adoption of FRS 139, allowances for impaired financing, advances and other receivables (previously referred to as non-performing financing) were computed in conformity with the BNM/GP3 Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts. Upon the adoption of FRS 139, the Group and the Bank assesses at the end of each reporting period whether there is any objective evidence that a financing or group of financing is impaired. The financing or group of financing is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the financing (an incurred 'loss event') and that the loss event has an impact on future estimated cash flows of the financing or group of financing that can be reliably estimated.

The Group and the Bank assess whether objective evidence of impairment exists individually for financing, and if it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included into a group of financing to be collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an impairment account and the amount of the loss is recognised in the income statement.

In the Amendments to FRS 139 listed above, MASB has included an additional transitional arrangement for entities in the financial sector, whereby BNM may prescribe an alternative basis for collective assessment of impairment by banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Financing issued by BNM, whereby banking institutions are required to maintain collective assessment impairment allowances of at least 1.5% of total outstanding financing, net of individual impairment allowance. Banking institutions are also allowed to maintain a lower collective impairment allowances, however, subject to the written approval by BNM. The collective impairment of the Group and the Bank as at the reporting date have been arrived at based on this transitional arrangement issued by BNM.

The changes in accounting policy above have been accounted for prospectively, in line with the transitional arrangements under para 103AA of FRS 139, with adjustments to the opening retained profits, for financial assets with carrying values which affect the income statement as at the beginning of the current financial period. As a result of the adoption of the financing impairment basis under FRS 139 and the transitional arrangements under BNM's guidelines on Classification and Impairment Provisions for Financing, the Group and the Bank wrote back general allowance of RM108,166,000 and specific allowance of RM269,053,000 against opening retained profits as at 1 January 2010. In addition, the Group and the Bank have also recognised opening collective impairment of RM113,701,000 and opening individual impairment of RM504,647,000 against opening retained profits as at 1 January 2010. Any further collective and individual impairment charged subsequent to the initial adoption of FRS 139 is recognised as additional impairment on financing, advances and other receivables in the income statement.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

FRS 139 *Financial Instruments: Recognition and Measurement* (Cont'd.)

(a) Impairment of financing, advances and other receivables (Cont'd.)

The adoption of FRS 139 has also changed the criteria of classification of impaired financing, advances and other receivables. Prior to the adoption of FRS 139, financing, advances and other receivables were classified as non-performing when the principal or profit were overdue by 6 months or more.

Upon adoption of FRS 139, the classification of financing, advances and other receivables as impaired is made in conformity with the requirements of BNM Guidelines on Classification and Impairment Provisions for Financing. The effect in classification of impaired financing, advances and other receivables has resulted to an increase in the opening balances of RM69,013,000 for the Group and the Bank, as per Note 9(vi).

(b) Profit income recognition

With the full adoption of FRS 139 on 1 January 2010, profit income is recognised using effective yield basis, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financing or, when appropriate, a shorter period to the net carrying amount of the financing.

This change in accounting policy has been accounted for prospectively in line with the transitional arrangements under para 103AA of FRS 139, resulting in an adjustment of RM2,129,000 to opening retained profits of the Group and the Bank.

Prior to the adoption of FRS 139, profit accrued and recognised as income prior to the date that a financing is classified as impaired is not clawed-back to the first day of default. The profit is then suspended until it is realised on cash basis. Upon adoption of FRS 139, income for impaired financing will continue to be accrued and recognised in the income statement on effective yield basis. The change in the accounting policy has resulted in the transfer of RM5,534,000 from profit-in-suspense to the opening collective impairment of the Group and the Bank.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

FRS 139 *Financial Instruments: Recognition and Measurement* (Cont'd.)

(c) Adjustments due to change in accounting policies

The changes in accounting policies as described above which resulted in adjustments to opening retained profits of the Group and the Bank are as follows:

	Group and Bank
	RM'000
Effect of adopting FRS 139:	
- Impairment assessment	(235,593)
- Effective yield impact	2,129
- Deferred tax assets	58,366
	(175,098)

The following are effects arising from the above changes in accounting policies to the opening statements of financial position of the Group and the Bank respectively.

Statements of financial position	As at 1 January 2010 (as previously stated)	Effect of adopting FRS 139	As at 1 January 2010 (as restated)
	RM'000		RM'000
Group			
Financing, advances and other receivables	7,072,175	(233,464)	6,838,711
Deferred tax assets	37,237	58,366	95,603
Retained profits/(Accumulated losses)	25,775	(175,098)	(149,323)
Bank			
Financing, advances and other receivables	7,078,663	(233,464)	6,845,199
Deferred tax assets	36,862	58,366	95,228
Retained profits/(Accumulated losses)	8,971	(175,098)	(166,127)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards and Interpretations Issued but Not Yet Effective

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

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
FRS 1 <i>First Time Adoption of Financial Reporting Standards</i>	1 July 2010
FRS 3 <i>Business Combinations (revised)</i>	1 July 2010
Amendments to FRS 2 <i>Share-based Payment</i>	1 July 2010
Amendments to FRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2010
Amendments to FRS 127 <i>Consolidated and Separate Financial Statements</i>	1 July 2010
Amendments to FRS 138 <i>Intangible Assets</i>	1 July 2010
Amendments to IC Interpretation 9 <i>Reassessment of Embedded Derivative</i>	1 July 2010
IC Interpretation 12 <i>Service Concession Arrangements</i>	1 July 2010
IC Interpretation 15 <i>Agreements for the Construction of Real Estate</i>	1 July 2010
IC Interpretation 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	1 July 2010
IC Interpretation 17 <i>Distributions of Non-cash Assets to Owners</i>	1 July 2010
Amendments to FRS 132 <i>Classification of Rights Issues</i>	1 March 2010
Amendments to FRS 1 <i>Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters</i>	1 January 2011
Amendments to FRS 7 <i>Improving Disclosures about Financial Instruments</i>	1 January 2011
Amendments to FRS 7 <i>Financial Instruments: Disclosure</i>	1 January 2011
Amendments to FRS 101 <i>Presentation of Financial Statements</i>	1 January 2011
Amendments to FRS 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	1 January 2011
Amendments to FRS 128 <i>Investments in Associates</i>	1 January 2011
Amendments to FRS 131 <i>Interests in Joint Ventures</i>	1 January 2011
Amendments to FRS 132 <i>Financial Instruments: Presentation</i>	1 January 2011
Amendments to FRS 134 <i>Interim Financial Reporting</i>	1 January 2011
Amendments to FRS 139 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2011
IC Interpretation 4 <i>Determining Whether an Arrangement Contains a Lease</i>	1 January 2011
IC Interpretation 18 <i>Transfers of Assets from Customers</i>	1 January 2011
Amendments to IC Interpretation 13 <i>Customer Loyalty Programmes</i>	1 January 2011
TR 3 <i>Guidance on Disclosures of Transition to IFRSs</i>	1 January 2011
TR i-4 <i>Shariah Compliant Sale Contracts</i>	1 January 2011
IC Interpretation 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2011
Amendments to IC Interpretation 14 <i>Prepayments of a Minimum Funding Requirement</i>	1 July 2011
FRS 124 <i>Related Party Disclosures</i>	1 January 2012
IC Interpretation 15 <i>Agreements for the Construction of Real Estate</i>	1 January 2012

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgements

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

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

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

(b) Income taxes

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

(c) Income recognition on Musyarakah and Mudharabah financing

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
4 CASH AND SHORT-TERM FUNDS				
Cash and balances with banks and other financial institutions	280,855	92,081	279,078	83,068
Money at call and interbank placements with remaining maturity less than one month	2,369,107	2,785,845	2,463,570	2,850,204
	2,649,962	2,877,926	2,742,648	2,933,272
5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS				
Licensed Islamic banks	76,698	21,698	76,698	21,698
Other financial institutions	196,561	117,354	196,561	117,354
	273,259	139,052	273,259	139,052
6 SECURITIES HELD-FOR-TRADING				
<u>At fair value</u>				
Unquoted Islamic private debt securities/sukuk	110,083	16,938	110,083	16,938
7 SECURITIES AVAILABLE-FOR-SALE				
<u>At fair value</u>				
Bank Negara Malaysia Ijarah sukuk	121,106	121,081	121,106	121,081
Unquoted securities:				
Islamic private debt securities/sukuks	749,752	764,569	721,731	764,569
Property funds *	86,307	98,469	-	-
Malaysian Government sukuk	77,341	-	64,096	-
<u>At cost</u>				
Unquoted shares in Malaysia	19,000	19,000	19,000	19,000
	1,053,506	1,003,119	925,933	904,650

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
8 SECURITIES HELD-TO-MATURITY				
<u>At amortised cost</u>				
Unquoted securities:				
Islamic private debt securities/sukuk	46,266	59,797	46,266	59,797

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES				
(i) By type				
Term financing				
- Murabahah financing	4,004,141	4,632,625	4,004,141	4,632,625
- Musyarakah financing	343,546	369,457	343,546	369,457
- Ijarah asset financing	2,046,766	2,205,380	2,046,766	2,205,380
- Mudharabah asset financing	117,887	125,767	117,887	125,767
- Musyarakah Mutanaqisah financing	106,782	168,764	106,782	168,764
- Istisna' financing	34,735	61,192	34,735	61,192
- Qard Hassan financing	32,239	2,047	32,239	8,535
Staff financing	14,428	18,364	14,428	18,364
	6,700,524	7,583,596	6,700,524	7,590,084
Less: Unearned income	(97,252)	(134,202)	(97,252)	(134,202)
	6,603,272	7,449,394	6,603,272	7,455,882
Less: Impairment and allowance on financing				
- Collective impairment	(118,773)	-	(118,773)	-
- Individual impairment	(411,715)	-	(411,715)	-
- General allowance	-	(108,166)	-	(108,166)
- Specific allowance	-	(269,053)	-	(269,053)
Net financing, advances and other receivables	6,072,784	7,072,175	6,072,784	7,078,663
(ii) By contract				
Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	2,055,618	2,214,293	2,055,618	2,214,293
Murabahah (cost-plus)	3,927,781	4,536,153	3,927,781	4,536,153
Mudharabah (profit sharing)	117,887	125,767	117,887	125,767
Musyarakah (profit and loss sharing)	451,858	540,168	451,858	540,168
Qard (benevolent financing)	32,530	2,450	32,530	8,938
Istisna'	17,598	30,563	17,598	30,563
	6,603,272	7,449,394	6,603,272	7,455,882
(iii) By type of customer				
Domestic business enterprises				
- Small medium enterprises	1,135,776	1,287,786	1,135,776	1,287,786
- Others	3,849,198	4,316,212	3,849,198	4,316,212
Individuals	204,778	136,236	204,778	136,236
Other domestic entities	86,446	72,928	86,446	72,928
Foreign entities	1,238,677	1,519,655	1,238,677	1,526,143
Domestic non-bank financial institutions	88,397	116,577	88,397	116,577
	6,603,272	7,449,394	6,603,272	7,455,882

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)				
(iv) By profit rate sensitivity				
Fixed rate				
- House financing	99,053	52,140	99,053	52,140
- Hire purchase receivables	6,902	5,439	6,902	5,439
- Syndicated financing	479,286	69,058	479,286	69,058
- Term financing	1,626,858	4,839,744	1,626,858	4,846,232
Variable				
- House financing	128,594	57,312	128,594	57,312
- Term financing	4,262,579	2,425,701	4,262,579	2,425,701
	6,603,272	7,449,394	6,603,272	7,455,882
(v) By sector				
Agriculture, hunting, forestry and fishing	203,019	277,503	203,019	277,503
Mining and quarrying	443,073	346,990	443,073	346,990
Manufacturing	1,063,816	1,364,037	1,063,816	1,364,037
Electricity, gas and water	273,136	156,310	273,136	156,310
Construction	500,568	809,371	500,568	809,371
Real estate	1,599,608	1,307,118	1,599,608	1,307,118
Purchase of landed property:				
- Residential	174,617	159,059	174,617	159,059
Wholesale & retail trade and restaurants & hotels	575,865	735,557	575,865	735,557
Transport, storage and communication	721,796	816,093	721,796	816,093
Finance, insurance and business services	696,682	1,227,637	696,682	1,227,637
Purchase of securities	46,148	43,862	46,148	43,862
Purchase of transport vehicles	6,902	5,593	6,902	5,593
Consumption credit	4,773	22,159	4,773	22,159
Others	293,269	178,105	293,269	184,592
	6,603,272	7,449,394	6,603,272	7,455,882
(vi) Movements in impaired financing, advances and other receivables				
At 1 January				
- As previously stated	883,793	58,597	883,793	58,597
- Effect of adopting FRS 139 (Note 3.2(a))	69,013	-	69,013	-
At 1 January, as restated	952,806	58,597	952,806	58,597
Impaired during the year	527,751	840,840	527,751	840,840
Amount recovered	-	(15,644)	-	(15,644)
Disposal of financing and advances under SPSIA arrangement (Note 46)	(686,570)	-	(686,570)	-
At 31 December	793,987	883,793	793,987	883,793
Gross impaired financing as a percentage of gross financing, advances and other receivables	12.02%	11.86%	12.02%	11.85%

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)				
(vii) Movements in impairment and allowance on financing, advances and other receivables				
Collective impairment				
At 1 January				
- As previously stated	-	-	-	-
- Effect of adopting FRS 139	113,701	-	113,701	-
At 1 January, as restated	113,701	-	113,701	-
Impairment made during the year	5,072	-	5,072	-
At 31 December	118,773	-	118,773	-
As % of total gross financing, advances and other receivables less individual impairment	1.92%	-	1.92%	-
Individual impairment				
At 1 January				
- As previously stated	-	-	-	-
- Effect of adopting FRS 139	504,647	-	504,647	-
At 1 January, as restated	504,647	-	504,647	-
Impairment made during the year	186,244	-	186,244	-
Amount written-back in respect of SPSIA arrangement (Note 46)	(272,328)	-	(272,328)	-
Exchange difference	(6,848)	-	(6,848)	-
At 31 December	411,715	-	411,715	-
General allowance				
At 1 January				
- As previously stated	108,166	102,962	108,166	102,962
- Effect of adopting FRS 139	(108,166)	-	(108,166)	-
At 1 January, as restated	-	102,962	-	102,962
Allowance made during the year	-	5,204	-	5,204
At 31 December	-	108,166	-	108,166
As % of total gross financing, advances and other receivables less specific allowances	-	1.51%	-	1.51%
Specific allowance				
At 1 January				
- As previously stated	269,053	89,582	269,053	89,582
- Effect of adopting FRS 139	(269,053)	-	(269,053)	-
At 1 January, as restated	-	89,582	-	89,582
Allowance made during the year	-	179,471	-	179,471
At 31 December	-	269,053	-	269,053

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)				
(viii) Impaired financing by sector				
Agriculture, hunting, forestry and fishing	78,094	56,999	78,094	56,999
Mining and quarrying	137,424	141,799	137,424	141,799
Construction	57,835	74,493	57,835	74,493
Manufacturing	55,436	206,040	55,436	206,040
Real estate	170,249	64,870	170,249	64,870
Wholesale & retail trade and restaurant & hotels	9,326	616	9,326	616
Transport, storage and communication	175,430	167,862	175,430	167,862
Finance, insurance and business services	76,663	111,300	76,663	111,300
Others	33,530	59,814	33,530	59,814
	793,987	883,793	793,987	883,793

10 MURABAHAH TRADING AUTOMOBILE

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

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

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
11 OTHER ASSETS					
Deposits and prepayments		7,298	6,807	6,595	5,688
Amount due from holding company	(i)	674	189	674	189
Amount due from subsidiaries	(i)	-	-	9,628	11,642
Amount due from other related parties	(i)	1,620	8,528	1,620	8,528
Income receivable		6,403	5,244	6,458	5,258
Sundry debtors		35,034	40,976	6,845	8,410
Commodity assets		260,003	49,916	260,003	49,916
Tax recoverable		52,564	43,497	52,596	43,596
Gold depository		28,489	-	28,489	-
Underwriting releases	(ii)	-	13,511	-	13,511
Fee receivables		-	1,389	-	1,389
		392,085	170,057	372,908	148,127

(i) The amount due from holding company, subsidiaries and related parties are unsecured, profit-free and repayable on demand.

(ii) Underwriting releases relate to progress payments released to a property developer pursuant to the Master Underwriting Agreement, of which the Bank agreed to underwrite the purchase of apartment blocks. The reduction in the underwriting releases is a result of settlement /redemption from the disposal of the apartment blocks to end purchaser, which was credited to the project clearing account as disclosed in Note 21.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

12 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2010			
Forward foreign exchange related contracts	1,128,680	35,924	2,212
Ijarah rental swap related contracts	690,229	41,872	34,766
Total	1,818,909	77,796	36,978
2009			
Forward foreign exchange related contracts	1,252,455	14,144	5,513
Ijarah rental swap related contracts	777,680	28,692	19,356
Total	2,030,135	42,836	24,869

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

14 MUSYARAKAH CAPITAL INVESTMENT

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

15 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost

- in Malaysia
- outside Malaysia

Impairment on investment in subsidiaries

	Bank	
	2010 RM'000	2009 RM'000
	30,200	30,200
	37,697	35,943
	67,897	66,143
	(35,500)	-
	32,397	66,143

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

15 INVESTMENT IN SUBSIDIARIES (Cont'd.)

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2010	2009
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100
Kuwait Finance House (Singapore) Pte. Ltd. *	Fund management	Singapore	100	100
Kuwait Finance House (Australia) Pty Ltd	Fund management	Australia	100	100
KFH Asset Management Sdn. Bhd.	Asset management	Malaysia	100	100

* The company has ceased operation and remained dormant during the year.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

16 PROPERTY AND EQUIPMENT

Group 2010	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	16,943	9,448	10,314	19,622	1,603	3,501	61,431
Additions	452	382	328	1,272	675	2,490	5,599
Disposals	-	(284)	(6)	-	(957)	-	(1,247)
Write-offs	(940)	(178)	(43)	(19)	-	-	(1,180)
Transfers	489	92	93	589	-	(4,460)	(3,197)
Exchange difference	50	(81)	(55)	(116)	-	-	(202)
At 31 December	16,994	9,379	10,631	21,348	1,321	1,531	61,204
<u>Accumulated depreciation</u>							
At 1 January	7,360	4,343	4,870	7,051	790	-	24,414
Charge for the year	3,442	1,758	2,014	4,008	286	-	11,508
Disposals	-	(236)	(5)	-	(581)	-	(822)
Write-off	(782)	(148)	(36)	(11)	-	-	(977)
Transfers	-	-	(42)	(191)	-	-	(233)
Exchange difference	(5)	(25)	(1)	5	-	-	(26)
At 31 December	10,015	5,692	6,800	10,862	495	-	33,864
<u>Net book value</u>							
At 31 December	6,979	3,687	3,831	10,486	826	1,531	27,340
Bank							
2010							
<u>Cost</u>							
At 1 January	15,716	8,922	10,166	19,216	1,603	3,501	59,124
Additions	452	319	327	1,262	675	2,490	5,525
Disposals	-	-	-	-	(957)	-	(957)
Write-offs	-	-	-	(19)	-	-	(19)
Transfers	489	92	93	589	-	(4,460)	(3,197)
At 31 December	16,657	9,333	10,586	21,048	1,321	1,531	60,476
<u>Accumulated depreciation</u>							
At 1 January	6,745	4,061	4,802	6,852	790	-	23,250
Charge for the year	3,125	1,607	1,979	3,906	286	-	10,903
Disposals	-	-	-	-	(581)	-	(581)
Write-offs	-	-	-	(11)	-	-	(11)
At 31 December	9,870	5,668	6,781	10,747	495	-	33,561
<u>Net book value</u>							
At 31 December	6,787	3,665	3,805	10,301	826	1,531	26,915

The additions for the year in respect of renovation include accrued restoration cost for the Group of RM372,138 (2009: RM1,177,531) and the Bank of RM246,437 (2009: RM1,177,531).

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

16 PROPERTY AND EQUIPMENT (Cont'd.)

Group 2009	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January 2009	12,886	7,760	8,728	12,283	1,603	15,919	59,179
Additions	2,615	1,295	1,218	2,591	-	12,972	20,691
Disposals	(44)	(108)	(38)	(269)	-	-	(459)
Write-off	-	-	(42)	-	-	-	(42)
Transfers	1,486	501	448	5,017	-	(25,390)	(17,938)
At 31 December 2009	16,943	9,448	10,314	19,622	1,603	3,501	61,431
<u>Accumulated depreciation</u>							
At 1 January 2009	4,223	2,495	2,890	4,283	469	-	14,360
Charge for the year	3,141	1,858	2,018	2,901	321	-	10,239
Disposals	(8)	(15)	(7)	(143)	-	-	(173)
Write-off	-	-	(31)	-	-	-	(31)
Exchange differences	4	5	-	10	-	-	19
At 31 December 2009	7,360	4,343	4,870	7,051	790	-	24,414
<u>Net book value</u>							
At 31 December 2009	9,583	5,105	5,444	12,571	813	3,501	37,017
Bank 2009							
<u>Cost</u>							
At 1 January 2009	11,866	7,273	8,620	11,960	1,603	15,919	57,241
Additions	2,408	1,256	1,178	2,508	-	12,972	20,322
Disposals	(44)	(108)	(38)	(269)	-	-	(459)
Write-off	-	-	(42)	-	-	-	(42)
Transfers	1,486	501	448	5,017	-	(25,390)	(17,938)
At 31 December 2009	15,716	8,922	10,166	19,216	1,603	3,501	59,124
<u>Accumulated depreciation</u>							
At 1 January 2009	3,981	2,385	2,863	4,203	469	-	13,901
Charge for the year	2,772	1,691	1,977	2,792	321	-	9,553
Disposals	(8)	(15)	(7)	(143)	-	-	(173)
Write-off	-	-	(31)	-	-	-	(31)
At 31 December 2009	6,745	4,061	4,802	6,852	790	-	23,250
<u>Net book value</u>							
At 31 December 2009	8,971	4,861	5,364	12,364	813	3,501	35,874

The additions for the year in respect of renovation include accrued restoration cost for the Group and Bank of RM1,177,531 (2008 Group: RM1,841,917, Bank RM1,722,469).

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
17 INTANGIBLE ASSETS				
Computer software				
<u>Cost</u>				
At 1 January	39,368	18,183	39,296	18,141
Additions	3,923	3,261	3,923	3,231
Disposals	-	(14)	-	(14)
Transfers from property and equipments	3,197	17,938	3,197	17,938
Exchange difference	(31)	-	-	-
At 31 December	46,457	39,368	46,416	39,296
<u>Accumulated amortisation</u>				
At 1 January	10,700	6,318	10,671	6,309
Amortisation for the year	8,254	4,385	8,237	4,365
Disposals	-	(3)	-	(3)
Exchange difference	(26)	-	-	-
At 31 December	18,928	10,700	18,908	10,671
<u>Carrying amount</u>				
At 31 December	27,529	28,668	27,508	28,625

18 DEFERRED TAXATION

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

	Impairment and allowance on financing RM'000	Unrealised gain/(loss) on securities available-for-sale RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets of the Group:				
2010				
At 1 January, as previously stated	22,944	11,643	2,651	37,237
- Effect of adopting FRS 139	58,898	-	(532)	58,366
At 1 January, as restated	81,842	11,643	2,119	95,603
Recognised in income statement	2,449	-	42,300	44,749
Recognised in other comprehensive income	-	(6,326)	(147)	(6,473)
At 31 December	84,291	5,317	44,271	133,878
2009				
At 1 January, as previously stated	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in other comprehensive income	-	(9,480)	374	(9,106)
At 31 December	22,944	11,643	2,651	37,237

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

18 DEFERRED TAXATION (Cont'd.)

Deferred tax assets of the Bank:

2010

At 1 January, as previously stated	22,944	11,642	2,277	36,862
- Effect of adoption FRS 139	58,898	-	(532)	58,366
At 1 January, as restated	81,842	11,642	1,745	95,228
Recognised in income statement	2,449	-	42,145	44,594
Recognised in other comprehensive income	-	(6,325)	-	(6,325)
At 31 December	84,291	5,317	43,889	133,496

2009

At 1 January, as previously stated	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in other comprehensive income	-	(9,481)	-	(9,481)
At 31 December	22,944	11,642	2,277	36,862

Impairment and allowance on financing RM'000	Unrealised gain/(loss) on securities available-for-sale RM'000	Other temporary differences RM'000	Total RM'000
22,944	11,642	2,277	36,862
58,898	-	(532)	58,366
81,842	11,642	1,745	95,228
2,449	-	42,145	44,594
-	(6,325)	-	(6,325)
84,291	5,317	43,889	133,496
30,763	21,123	1,363	53,249
(7,819)	-	913	(6,906)
-	(9,481)	-	(9,481)
22,944	11,642	2,277	36,862

Deferred tax liabilities of the Group and Bank:

2010

At 1 January, as previously stated	7,360	7,360
Recognised in income statement	962	962
At 31 December	8,322	8,322

2009

At 1 January, as previously stated	3,863	3,863
Recognised in income statement	3,497	3,497
At 31 December	7,360	7,360

Accelerated capital allowances RM'000	Total RM'000
7,360	7,360
962	962
8,322	8,322
3,863	3,863
3,497	3,497
7,360	7,360

19 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

Qard

- Demand deposits	374,023	237,053	375,596	246,689
- Gold deposits	29,493	-	29,493	-

Mudharabah

- Savings deposits	26,328	15,713	26,328	15,713
- General investment deposits	341,298	468,637	341,298	468,637

Murabahah

Group		Bank	
2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
374,023	237,053	375,596	246,689
29,493	-	29,493	-
26,328	15,713	26,328	15,713
341,298	468,637	341,298	468,637
3,775,367	3,533,666	3,775,367	3,533,666
4,546,509	4,255,068	4,548,082	4,264,705

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
19 DEPOSITS FROM CUSTOMERS (Cont'd.)				
(ii) By type of customer				
Business enterprises	2,283,249	2,691,845	2,282,944	2,691,507
Individuals	174,593	193,582	174,593	193,582
Subsidiaries	-	-	1,878	10,072
Government and statutory bodies	1,395,275	873,921	1,395,275	873,921
Others	693,392	495,720	693,392	495,623
	4,546,509	4,255,068	4,548,082	4,264,705
20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS				
Murabahah				
Licensed Islamic banks	261,712	296,759	261,712	296,759
Bank Negara Malaysia	246,820	-	246,820	-
Licensed investment banks	28,577	16,511	28,577	16,511
Other financial institutions	2,928,769	3,889,080	2,936,669	3,901,880
	3,465,878	4,202,350	3,473,778	4,215,150
21 OTHER LIABILITIES				
Income payables	30,386	30,941	30,439	31,011
Sundry creditors	(ii) 105,536	84,264	105,534	84,255
Project clearing account	(i) 4,605	179,949	4,605	179,949
Amount due to agent from the purchase of commodity assets	256,700	50,003	256,700	50,003
Accrued restoration cost	3,266	3,021	3,200	2,900
Other provisions and accruals	27,895	20,648	26,894	18,998
	428,388	368,826	427,372	367,116

(i) Project clearing account relates to operating account for the underwriting of apartment blocks pursuant to the Master Underwriting Agreement.

(ii) Included in sundry creditors relates to amount payable to holding company of RM60.5 million arising from revenue streams of SPSIA (See Note 39(a)(iii)).

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
22 PROVISION FOR ZAKAT				
Zakat	3,740	3,267	3,740	3,267

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

23 MURABAHAH BANK FINANCING

The Murabahah bank financing of USD7,500,000 or equivalent RM23,139,000 (2009: USD15,000,000 or equivalent RM51,397,000) is an unsecured financing facility obtained in 2008 with a tenure of two years and is repayable in instalments commencing 2009. The Murabahah price is determined based on effective cost of funds.

24 SUBORDINATED MURABAHAH TAWARRUQ

The Subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal amount of USD100,000,000 or equivalent RM308,530,000 (2009: USD100,000,000 or equivalent RM374,700,000) is unsecured with a tenure of five years and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

25 SHARE CAPITAL

Authorised:

At 1 January
Additions
At 31 December

Issued and fully paid:

At 1 January
Issued during the year
At 31 December

Number of ordinary shares at RM1.00 each		Amount	
2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
3,000,000	2,000,000	3,000,000	2,000,000
-	1,000,000	-	1,000,000
3,000,000	3,000,000	3,000,000	3,000,000
2,266,125	1,751,400	2,266,125	1,751,400
-	514,725	-	514,725
2,266,125	2,266,125	2,266,125	2,266,125

26 RESERVES

Non-distributable

Statutory reserve
Exchange fluctuation reserve
Unrealised loss on securities available-for-sale

Distributable

(Accumulated losses)/retained profits

Note	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(i)	34,952	34,952	34,952	34,952
(ii)	(7,367)	(2,094)	-	-
(iii)	(15,155)	(34,928)	(15,949)	(34,928)
	12,430	(2,070)	19,003	24
	(224,960)	25,775	(263,417)	8,971
	(212,530)	23,704	(244,414)	8,995

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

26 RESERVES (Cont'd.)

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

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

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

Movements of the unrealised loss on securities available-for-sale:

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
At 1 January	(34,928)	(63,370)	(34,928)	(63,370)
Unrealised gain on securities available-for-sale	19,773	28,442	18,979	28,442
At 31 December	(15,155)	(34,928)	(15,949)	(34,928)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27 OPERATING REVENUE

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

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

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Income derived from investment of :				
(i) General investment deposits	17,380	15,387	17,409	15,419
(ii) Other deposits	325,027	301,473	324,980	302,089
	342,407	316,860	342,389	317,508
(i) Income derived from investment of general investment deposits				
Finance income from financing, advances and other receivables	12,983	12,803	12,987	12,803
Finance income from impaired financing	664	-	667	-
Securities				
- Held-for-trading	73	10	44	10
- Available-for-sale	980	969	981	947
- Held-to-maturity	65	70	65	70
Money-at-call and deposits with financial institutions	1,996	1,046	2,045	1,100
Amortisation of premium less accretion of discounts	16,761	14,898	16,789	14,930
	(10)	(11)	(10)	(11)
Total finance income and hibah	16,751	14,887	16,779	14,919
Gain arising from sale of securities				
- Held-for-trading	23	44	23	44
- Available-for-sale	-	12	-	12
Profit from Murabahah trading on automobile	18	33	18	33
Foreign exchange gain	518	341	519	341
Gain on Ijarah rental swap obligations	70	70	70	70
	17,380	15,387	17,409	15,419

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (Cont'd.)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(ii) Income derived from investment of other deposits				
Finance income from financing, advances and other receivables	241,043	249,251	240,838	249,251
Finance income from impaired financing	12,197	-	12,156	-
Securities				
- Held-for-trading	1,476	192	871	192
- Available-for-sale	18,339	18,972	18,322	18,459
- Held-to-maturity	1,203	1,320	1,202	1,320
Money-at-call and deposits with financial institutions	37,987	20,540	38,848	21,668
	312,245	290,275	312,237	290,890
Amortisation of premium less accretion of discounts	(189)	(231)	(189)	(231)
Total finance income and hibah	312,056	290,044	312,048	290,659
Profit from Murabahah trading on automobile	333	710	331	710
Gain arising from sale of securities				
- Held-for-trading	408	794	407	794
- Available-for-sale	-	218	-	219
Foreign exchange gain	10,934	8,364	10,899	8,364
Gain on Ijarah rental swap obligations	1,296	1,343	1,295	1,343
	325,027	301,473	324,980	302,089

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Finance income from financing, advances and other receivables	64,622	108,245	64,823	108,245
Finance income from impaired financing	3,249	-	3,288	-
Securities				
- Held-for-trading	367	(120)	225	77
- Available-for-sale	4,890	7,512	4,907	8,049
- Held-to-maturity	321	588	322	588
Money-at-call and deposits with financial institutions	10,057	9,512	10,326	9,910
Amortisation of premium less accretion of discounts	83,506 (51)	125,737 (89)	83,891 (51)	126,869 (89)
Total finance income and hibah	83,455	125,648	83,840	126,780
Fee income				
- Commissions	3,597	4,340	3,598	4,340
- Fund management fee	4,377	10,753	-	-
- Other fee income	6,642	25,102	6,610	25,042
Gain arising from sale of securities				
- Held-for-trading	109	357	109	357
- Available-for-sale	-	142	-	142
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(2,231)	(1,711)	(1,455)	(1,908)
Profit from Murabahah trading on automobile	89	282	90	282
Foreign exchange gain/(loss)	7,290	(2,340)	8,499	(2,184)
Gain on Ijarah rental swap obligations	347	589	348	589
Gross dividend from property funds (securities available-for-sale)	2,151	4,991	-	-
(Loss)/gain on disposal of property and equipment	(10)	17	(11)	17
Management fee	(234)	-	545	559
	105,582	168,170	102,173	154,016

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

30 IMPAIRMENT AND ALLOWANCE ON FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Impairment and allowance for:				
- Collective impairment (net)	5,072	-	5,072	-
- Individual impairment (net)	186,244	-	186,244	-
- General allowance (net)	-	5,204	-	5,204
- Specific allowance (net)	-	179,472	-	179,472
	191,316	184,676	191,316	184,676

31 IMPAIRMENT AND ALLOWANCE ON INVESTMENTS

Securities available-for-sale	(772)	772	(772)	772
Murabahah trading automobile *	(182)	1,342	(182)	1,342
Investment in subsidiaries	-	-	35,500	-
	(954)	2,114	34,546	2,114

* Impairment losses on Murabahah trading automobile is determined as the difference between the carrying amount and its recoverable amount on an individual basis.

32 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deposits from customers				
- Mudharabah	10,723	8,904	10,894	8,973
- Murabahah	89,752	77,989	89,832	78,182
Deposits and placements of banks and other financial institutions				
- Murabahah	87,571	75,371	87,571	75,371
	188,046	162,264	188,297	162,526

33 PERSONNEL EXPENSES

Salaries and wages	64,825	65,800	56,766	56,989
Social security costs	324	330	312	316
Short-term accumulating compensated absences	-	(85)	-	(85)
Pension costs - defined contribution plan	11,892	9,031	10,784	7,935
Other staff related costs	22,541	21,009	20,382	18,895
	99,582	96,085	88,244	84,050

Included in personnel expenses of the Group and the Bank during the financial year are the remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind amounting to RM1,094,000. (2009: Remuneration of the Group and the Bank attributable to the Managing Director amounting to RM2,916,000 and RM2,876,000, respectively)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
34 OTHER OVERHEADS AND EXPENDITURES				
Promotion				
Advertisement and publicity	3,629	2,152	3,627	2,137
Establishment				
Rental	10,974	9,499	8,439	7,126
Depreciation of property and equipment (Note 16)	11,508	10,239	10,903	9,553
Amortisation of intangible assets (Note 17)	8,254	4,385	8,237	4,365
IT expenses	5,167	4,155	5,104	4,127
Hire of equipment	791	799	654	722
General expenses				
Auditors remuneration				
- Statutory audit	265	395	165	165
- Other services	338	675	338	715
Professional fees	3,152	2,394	2,583	2,004
Non executive directors' remuneration (Note 36)	1,897	1,476	1,495	1,476
Shariah Committee's remuneration (Note 36)	464	462	464	462
Others	27,501	23,718	25,589	20,942
	73,940	60,349	67,598	53,794
35 FINANCE COST				
Subordinated Murabahah Tawarruq	13,116	13,052	13,116	13,052
Murabahah bank financing	802	1,475	802	1,475
	13,918	14,527	13,918	14,527
36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION				
Executive Director				
Salary and other remuneration	-	2,696	-	2,696
Fees	-	220	-	180
	-	2,916	-	2,876
Benefits-in-kind	-	92	-	92
	-	3,008	-	2,968
Non-Executive Directors				
Fees	1,039	1,020	1,039	1,020
Other remuneration	456	456	456	456
Benefits-in-kind	-	-	-	-
	1,495	1,476	1,495	1,476
	1,495	4,484	1,495	4,444

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION (Cont'd.)				
Directors of subsidiary company				
Fees	363	263	-	-
Other remuneration	39	8	-	-
	402	271	-	-
Shariah Committee				
Fees	312	312	312	312
Other remuneration	152	150	152	150
	464	462	464	462

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

	Number of directors Bank	
	2010	2009
Executive Director RM2,950,001 - RM3,000,000	-	1
Non-Executive Directors RM250,001 - RM300,000	4	4
RM300,001 - RM350,000	1	1
	5	5
Total	5	6

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
37 TAXATION				
Malaysian income tax				
- Current year	70	(19,500)	-	(19,585)
- Under/(over) provision of income tax in prior year	(70)	2,634	-	2,634
Deferred tax (Note 18):				
- Relating to origination and reversal of temporary differences	(41,588)	9,246	(50,308)	9,246
- Relating to changes in tax rates	(2,199)	1,157	6,676	1,157
	(43,787)	(6,463)	(43,632)	(6,548)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2010 have reflected these changes.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

37 TAXATION (Cont'd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loss before taxation	(117,859)	(34,985)	(139,357)	(30,163)
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	(29,465)	(8,746)	(34,839)	(7,541)
Deferred tax relating to changes in tax rates	(2,199)	1,157	6,676	1,157
Income subject to different tax rates	(155)	(1,662)	-	-
Income not subject to tax	(41)	(306)	-	-
Expenses not deductible for tax purposes	934	334	934	334
Tax losses not recognised	3,541	3,258	-	-
Tax incentive on non-taxable ICBU income	1,237	(3,132)	1,237	(3,132)
(Over)/under provision of tax expense in prior years	(17,639)	2,634	(17,640)	2,634
Tax credit for the year	(43,787)	(6,463)	(43,632)	(6,548)

38 EARNINGS PER SHARE

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

	Group	
	2010	2009
Net loss for the year (RM'000)	(75,637)	(30,883)
Weighted average number of ordinary shares in issues ('000)	2,266,125	1,755,631
Basic/diluted loss per share (sen)	(3.34)	(1.76)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

39 RELATED PARTY TRANSACTIONS

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

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

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

Holding Company

Details of holding company are disclosed in Note 48.

Subsidiaries

Details of subsidiaries are disclosed in Note 15.

Subsidiaries of holding company

Subsidiaries of the holding company are KFH (Bahrain) B.S.C., KFH Ijarah House (M) Sdn. Bhd., Liquidity Management House K.S.C.C., KFH Investment Services, KFH Research Limited and Kuveyt Turk Participation K.S.C..

Companies with common directors

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

Key management personnel

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

Directors

The identity of the directors of the Bank, are disclosed in the Director's report.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2010						
(i) Income						
- Management fees	-	545	-	-	-	-
- Profit income on placements	81	1,379	1,058	-	-	-
- Profit income on financing	-	-	-	39	17,510	-
	81	1,924	1,058	39	17,510	-
(ii) Expenditure						
- Profit expense on deposits	10,440	306	29	10	37	4
- Profit expense on Subordinated Murabahah Tawarruq	12,342	-	-	-	-	-
	22,782	306	29	10	37	4
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	349,655	-	-	-	-	-
- Deposits from customers	-	1,878	491	771	1,022	4,630
- Deposits and placements of banks and other FIs	234,556	7,900	1,132	-	-	-
- Sundry creditors (Note 21)	60,549	-	-	-	-	-
	644,760	9,778	1,623	771	1,022	4,630
(iv) Amount due from related parties						
- Financing	-	-	-	1,174	340,838	-
- Deposits and placements with banks and other FIs	-	94,463	61,705	-	-	-
- Other assets	674	9,652	-	-	-	-
	674	104,115	61,705	1,174	340,838	-

During the year, the Bank had entered into a Specific Profit Sharing Investment Account ("SPSIA" or "the Fund") arrangement with its holding company, the fund provider, as disclosed in Note 46. The transaction has been entered based on the normal course of business. Subsequent to the arrangement, the Fund is to remain administered by the Bank until fully repaid from the revenue streams generated by the underlying assets.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions (Cont'd.)

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2009						
(i) Income						
- Management fees	-	559	-	-	-	-
- Profit income on placements	199	-	3,273	-	-	-
- Profit income on financing	-	-	-	47	13,904	-
	199	559	3,273	47	13,904	-
(ii) Expenditure						
- Profit expense on deposits	13,832	-	238	10	18	41
- Profit expense on Subordinated Murabahah Tawarruq	13,052	-	-	-	-	-
	26,884	-	238	10	18	41
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	374,700	-	-	-	-	-
- Deposits from customers	-	10,072	-	865	2,984	3,825
- Deposits and placements of banks and other FIs	421,459	-	-	-	-	-
	796,159	10,072	-	865	2,984	3,825
(iv) Amount due from related parties						
- Financing	-	-	-	1,365	292,370	-
- Deposits and placements with banks and other FIs	11,853	64,359	95,942	-	-	-
- Other assets	189	11,642	6,447	-	-	-
	12,042	76,001	102,389	1,365	292,370	-

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Short-term employee benefits				
- Fees	-	220	-	180
- Salary and other remuneration	8,323	10,871	8,323	10,871
- Benefits-in-kind	127	92	127	92
	8,450	11,183	8,450	11,143

The total key management personnel compensation includes Chief Executive Officer/Managing Director's remuneration of which details are disclosed in Note 36.

(c) Credit transactions and exposures with connected parties

As at 31 December 2010				
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	389,999	11	595,032	20,579
Equities and Islamic Private Debt Securities held	87,600	3	87,600	-
Off-balance sheet exposures	170	1	1,000	-
	477,769	15	683,632	20,579
Total exposure to connected parties as % capital base			29.6%	0.9%
Total exposure to connected parties as % of total outstanding credit exposures			9.3%	0.3%

As at 31 December 2009				
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	290,263	4	532,000	-
Total exposure to connected parties as % capital base			20.0%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.5%	0.0%

* Included total outstanding and unutilised limit.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(c) Credit transactions and exposures with connected parties (Cont'd.)

The credit exposure above are derived based on para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties.

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 of 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
- (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 credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

40 COMMITMENTS AND CONTINGENCIES

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

	2010			2009		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Group and Bank						
Direct credit substitutes	644,403	644,403	424,463	1,276,312	1,276,312	810,140
Transaction related contingencies	268,240	134,120	127,233	257,737	128,868	101,198
Trade related contingencies	77,691	15,538	13,542	34,982	6,996	6,329
Irrevocable commitments to extend credit						
- maturity less than one year	360,049	72,010	71,291	202,093	40,419	40,419
- maturity more than one year	882,953	441,476	481,752	1,483,535	741,768	808,731
Foreign exchange related contracts *						
- less than one year	1,128,680	46,946	21,775	1,253,163	24,240	12,000
- one year to five years	250,219	27,870	16,654	196,897	23,308	12,371
- five years and above	99,748	15,298	5,568	105,772	14,966	7,468
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	340,261	43,520	33,993	407,919	50,293	37,240
	4,052,244	1,441,181	1,196,271	5,218,410	2,307,170	1,835,896

Note 42 (d)(i)(b)

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

The credit equivalent and risk-weighted amounts are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks ("CAFIB").

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2010, the amount of contracts which were not hedged in the Group and the Bank and, hence, exposed to market risk was RM97,219,000 (2009: RM71,249,000).

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2010, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM77,796,000 (2009: RM42,836,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

41 CAPITAL COMMITMENTS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Capital expenditure :				
Authorised and contracted for				
- purchase of equipment	8,254	6,126	8,249	6,126
- renovation	2,701	952	2,701	952
Authorised but not contracted for				
- purchase of equipment	-	135	-	44
	10,955	7,214	10,949	7,122

42 CAPITAL ADEQUACY

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

As such, the Group has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk, in the computation of capital adequacy ratios.

In addition, in accordance with para. 4.3 of Bank Negara Malaysia's Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and CAFIB - Disclosure Requirements (Pillar 3), the Group has also provided detailed disclosures on risk-weighted assets, as set out in Notes 42 (c), (d), (e) and (g).

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

	Group		Bank	
	2010	2009	2010	2009
Core capital ratio				
Credit risk	21.89%	21.39%	21.69%	21.44%
Credit, market, operational and large exposure risks	20.15%	19.89%	20.00%	19.97%
Risk-weighted capital ratio				
Credit risk	26.68%	25.58%	25.77%	25.06%
Credit, market, operational and large exposure risks	24.56%	23.79%	23.76%	23.34%

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Tier I capital				
Paid-up share capital	2,266,125	2,266,125	2,266,125	2,266,125
Statutory reserve	34,952	34,952	34,952	34,952
Other reserves	(224,960)	25,775	(263,417)	8,971
	2,076,117	2,326,851	2,037,660	2,310,048
Less: Deferred tax assets (net)	(125,556)	(29,876)	(125,174)	(29,502)
Total Tier-I capital	1,950,561	2,296,975	1,912,486	2,280,546
Tier II capital				
Subordinated Murabahah Tawarruq	308,530	342,650	308,530	342,650
Collective impairment on financing	118,773	108,166	118,773	108,166
Total Tier-II capital	427,303	450,816	427,303	450,816
Less: Investment in subsidiaries	-	-	(67,897)	(66,143)
Capital base	2,377,864	2,747,791	2,271,892	2,665,219

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total credit RWA	8,911,615	10,739,925	8,817,375	10,635,925
Total market RWA	180,981	255,441	180,981	255,441
Total operational RWA	577,513	543,623	551,074	514,988
Large exposure risk RWA for equity holdings	11,948	11,956	11,948	11,956
Total Risk-Weighted Assets	9,682,057	11,550,945	9,561,378	11,418,310
Computation of Capital Ratios				
Core capital	1,950,561	2,296,975	1,912,486	2,280,546
Capital base	2,377,864	2,747,791	2,271,892	2,665,219
Core capital ratio	20.15%	19.89%	20.00%	19.97%
Risk-weighted capital ratio	24.56%	23.79%	23.76%	23.34%

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,195,026	2,195,026	2,649	2,649	212
Public Sector Entities	91,076	91,076	-	-	-
Banks, Development Financial Institutions & MDBs	1,314,937	1,314,937	358,543	358,543	28,683
Corporates	4,637,334	4,637,334	4,071,912	4,071,912	325,753
Higher Risk Assets ¹	142,035	142,035	210,386	210,386	16,831
Equity Exposure	86,307	86,307	86,307	86,307	6,905
Other Assets	459,734	459,734	415,714	415,714	33,257
Defaulted Exposures ²	1,786,739	1,786,739	2,569,833	2,569,833	205,587
	10,713,188	10,713,188	7,715,344	7,715,344	617,228
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	133,199	133,199	77,337	77,337	6,187
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	1,258,345	1,258,345	1,044,478	1,044,478	83,558
Defaulted Exposures ²	49,637	49,637	74,456	74,456	5,956
	1,441,181	1,441,181	1,196,271	1,196,271	95,701
Total On and Off-Balance Sheet Exposures	12,154,369	12,154,369	8,911,615	8,911,615	712,929
(ii) Large Exposures Risk Requirement	11,948	11,948	11,948	11,948	956
(iii) Market Risk					
Benchmark Rate Risk	839,394	(724,140)	115,254	31,350	2,508
Foreign Currency Risk ⁵	148,190	(22,733)	125,457	149,570	11,966
Inventory Risk	32	-	32	61	5
			240,743	180,981	14,479
(iv) Operational Risk			577,513	577,513	46,201
(v) Total RWA and Capital Requirements		12,407,060	9,682,057	9,682,057	774,565

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section C.2.10 of CAFIB guidelines issued by Bank Negara Malaysia which comprised of Musyarakah, Musyarakah Mutanaqisah and Mudharabah contracts.

² Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikeliness to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

³ Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

⁴ Comprising of trade finance facilities, underwriting and undrawn balances.

⁵ Representing the sum of all individual non-Ringggit Net Open Positions. Computation is as per section D.8.2 paragraph 224 of CAFIB guidelines issued by Bank Negara Malaysia.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2009					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,398,211	2,398,211	-	-	-
Public Sector Entities	84,942	84,942	-	-	-
Banks, Development Financial Institutions & MDBs	1,153,012	1,153,012	346,807	346,807	27,745
Corporates	5,430,397	5,430,397	5,170,902	5,170,902	413,672
Higher Risk Assets ¹	220,299	220,299	330,448	330,448	26,436
Equity Exposure	98,469	98,469	98,469	98,469	7,878
Other Assets	239,934	239,934	232,795	232,795	18,622
Defaulted Exposures ²	1,926,129	1,926,129	2,724,608	2,724,608	217,969
	11,551,393	11,551,393	8,904,029	8,904,029	712,322
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	112,806	112,806	69,078	69,078	5,526
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	2,152,010	2,152,010	1,703,970	1,703,970	136,318
Defaulted Exposures ²	42,354	42,354	62,848	62,848	5,028
	2,307,170	2,307,170	1,835,896	1,835,896	146,872
Total On and Off-Balance Sheet Exposures	13,858,563	13,858,563	10,739,925	10,739,925	859,194
(ii) Large Exposures Risk Requirement	11,956	11,956	11,956	11,956	956
(iii) Market Risk					
Benchmark Rate Risk	773,776	(747,564)	26,212	21,744	1,740
Foreign Currency Risk ⁵	173,690	(11,023)	162,667	173,690	13,894
Inventory Risk	37,429	-	37,429	60,007	4,801
			226,308	255,441	20,435
(iv) Operational Risk			543,623	543,623	43,491
(v) Total RWA and Capital Requirements		14,096,827	11,550,945	11,550,945	924,076

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section C.2.10 of CAFIB guidelines issued by Bank Negara Malaysia which comprised of Musyarakah, Musyarakah Mutanaqisah and Mudharabah contracts.

² Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikely to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

³ Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

⁴ Comprising of trade finance facilities, underwriting and undrawn balances.

⁵ Representing the sum of all individual non-Ringgit Net Open Positions. Computation is as per section D.8.2 paragraph 224 of CAFIB guidelines issued by Bank Negara Malaysia.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,181,781	2,181,781	-	-	-
Public Sector Entities	91,076	91,076	-	-	-
Banks, Development Financial Institutions & MDBs	1,379,659	1,379,659	373,926	373,926	29,914
Corporates	4,637,334	4,637,334	4,071,912	4,071,912	325,753
Higher Risk Assets ¹	141,920	141,920	210,214	210,214	16,817
Other Assets	439,237	439,237	395,219	395,219	31,617
Defaulted Exposures ²	1,786,739	1,786,739	2,569,833	2,569,833	205,587
	10,657,746	10,657,746	7,621,104	7,621,104	609,688
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	133,199	133,199	77,337	77,337	6,187
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	1,258,345	1,258,345	1,044,478	1,044,478	83,558
Defaulted Exposures ²	49,637	49,637	74,456	74,456	5,956
	1,441,181	1,441,181	1,196,271	1,196,271	95,701
Total On and Off-Balance Sheet Exposures	12,098,927	12,098,927	8,817,375	8,817,375	705,389
(ii) Large Exposures Risk Requirement	11,948	11,948	11,948	11,948	956
	Long Position	Short Position			
(iii) Market Risk					
Benchmark Rate Risk	839,394	(724,140)	115,254	31,350	2,508
Foreign Currency Risk ⁵	148,190	(22,733)	125,457	149,570	11,966
Inventory Risk	32	-	32	61	5
		240,743	180,981	180,981	14,479
(iv) Operational Risk			551,074	551,074	44,086
(v) Total RWA and Capital Requirements		12,351,618	9,561,378	9,561,378	764,910

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2009					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,398,211	2,398,211	-	-	-
Public Sector Entities	84,942	84,942	-	-	-
Banks, Development Financial Institutions & MDBs	1,208,302	1,208,302	357,865	357,865	28,629
Corporates	5,436,885	5,436,885	5,177,391	5,177,391	414,191
Higher Risk Assets ¹	220,265	220,265	330,397	330,397	26,432
Other Assets	216,907	216,907	209,768	209,768	16,781
Defaulted Exposures ²	1,926,129	1,926,129	2,724,608	2,724,608	217,969
	11,491,641	11,491,641	8,800,029	8,800,029	704,002
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	112,806	112,806	69,078	69,078	5,526
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	2,152,010	2,152,010	1,703,970	1,703,970	136,318
Defaulted Exposures ²	42,354	42,354	62,848	62,848	5,028
	2,307,170	2,307,170	1,835,896	1,835,896	146,872
Total On and Off-Balance Sheet Exposures	13,798,811	13,798,811	10,635,925	10,635,925	850,874
(ii) Large Exposures Risk Requirement	11,956	11,956	11,956	11,956	956
	Long Position	Short Position			
(iii) Market Risk					
Benchmark Rate Risk	773,776	(747,564)	26,212	21,744	1,740
Foreign Currency Risk ⁵	173,690	(11,023)	162,667	173,690	13,894
Inventory Risk	37,429	-	37,429	60,007	4,801
			226,308	255,441	20,435
(iv) Operational Risk			514,988	514,988	41,200
(v) Total RWA and Capital Requirements		14,037,075	11,418,310	11,418,310	913,465

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

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

2010	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
	Sovereigns & Central Banks	Public Sector Entities	Banks, MDBs and DFIs	Corporate	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Equity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group Risk-Weights										
0%	2,181,781	91,076	55,648	438,627	1,778	44,020	-	-	2,812,930	-
20%	13,245	4,628	932,713	129,068	-	-	-	-	1,079,654	215,931
50%	-	-	454,079	627,264	-	-	-	-	1,081,343	540,672
100%	-	-	-	4,729,281	-	415,714	-	86,307	5,231,302	5,231,302
150%	-	-	68,636	1,306,816	573,688	-	-	-	1,949,140	2,923,710
	2,195,026	95,704	1,511,076	7,231,056	575,466	459,734	-	86,307	12,154,369	8,911,615
Bank Risk-Weights										
0%	2,181,781	91,076	43,453	438,627	1,778	44,018	-	-	2,800,733	-
20%	-	4,628	1,009,630	129,068	-	-	-	-	1,143,326	228,665
50%	-	-	454,079	627,264	-	-	-	-	1,081,343	540,672
100%	-	-	-	4,729,281	-	395,218	-	-	5,124,499	5,124,499
150%	-	-	68,636	1,306,816	573,574	-	-	-	1,949,026	2,923,539
	2,181,781	95,704	1,575,798	7,231,056	575,352	439,236	-	-	12,098,927	8,817,375

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

(e) The breakdown of credit risk disclosure by risk-weights (including deducted exposures) for the previous financial year, are as follows:

		Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
2009		Sovereigns & Central Banks	Public Sector Entities	Banks, MDBs and DFIs	Corporate	Higher Risk Assets	Other Assets	Specialised Financing/ Investment			Equity
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group Risk-Weights											
0%		2,398,211	84,942	33,903	197,526	-	7,139	-	-	2,721,721	-
20%		-	6,168	803,816	73,249	-	-	-	-	883,233	176,647
50%		-	-	371,301	575,524	-	-	521,000	-	1,467,825	733,912
100%		-	-	41,211	6,237,145	-	232,796	89,000	98,469	6,698,621	6,698,621
150%		-	-	35,180	1,371,518	680,466	-	-	-	2,087,163	3,130,745
		2,398,211	91,110	1,285,411	8,454,962	680,466	239,935	610,000	98,469	13,858,563	10,739,925
Bank Risk-Weights											
0%		2,398,211	84,942	33,903	197,526	-	7,138	-	-	2,721,720	-
20%		-	6,168	859,107	73,249	-	-	-	-	938,524	187,705
50%		-	-	371,301	575,524	-	-	521,000	-	1,467,825	733,913
100%		-	-	41,211	6,243,633	-	209,769	89,000	-	6,583,613	6,583,613
150%		-	-	35,180	1,371,518	680,431	-	-	-	2,087,129	3,130,694
		2,398,211	91,110	1,340,702	8,461,450	680,431	216,907	610,000	-	13,798,811	10,635,925

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

42 CAPITAL ADEQUACY (Cont'd.)

(f) The breakdown of risk-weighted assets by risk-weights are as follows:

	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
2010				
0%	2,812,930	-	2,800,733	-
20%	1,079,654	215,931	1,143,326	228,665
50%	1,081,343	540,672	1,081,343	540,672
100%	5,231,302	5,231,302	5,124,499	5,124,499
150%	1,949,140	2,923,710	1,949,026	2,923,539
Risk-weighted assets for credit risk	12,154,369	8,911,615	12,098,927	8,817,375
Risk-weighted assets for market risk		180,981		180,981
Risk-weighted assets for operational risk		577,513		551,074
Large exposure risk-weighted assets for equity holdings		11,948		11,948
Total risk-weighted assets		9,682,057		9,561,378
2009				
0%	2,721,721	-	2,721,720	-
20%	883,233	176,647	938,524	187,705
50%	1,467,825	733,912	1,467,825	733,913
100%	6,698,621	6,698,621	6,583,613	6,583,613
150%	2,087,163	3,130,745	2,087,129	3,130,694
Risk-weighted assets for credit risk	13,858,563	10,739,925	13,798,811	10,635,925
Risk-weighted assets for market risk		255,441		255,441
Risk-weighted assets for operational risk		543,623		514,988
Large exposure risk-weighted assets for equity holdings		11,956		11,956
Total risk-weighted assets		11,550,945		11,418,310

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

Group and Bank	2010		2009	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Benchmark Rate Risk	31,350	2,508	21,744	1,740
Foreign Exchange Risk	149,570	11,966	173,690	13,894
Inventory Risk	61	5	60,007	4,801
Total	180,981	14,479	255,441	20,435

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

43 SEGMENT INFORMATION

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

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

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

Segment capital expenditure comprises additions to property and equipment.

(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market Operations

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

(ii) Corporate and Investment Banking

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

(iii) Commercial Banking

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

43 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2010	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	64,378	161,770	183,658	38,183	-	447,989
Revenue from other segments	89,591	-	-	20,259	(109,850)	-
Total Revenue	153,969	161,770	183,658	58,442	(109,850)	447,989
Segment results	10,471	(39,582)	15,204	(18,362)	-	(32,269)
Unallocated expenses						(85,590)
Loss from operations						(117,859)
Zakat						(1,565)
Taxation						43,787
Net loss for the year						(75,637)
Other information						
Segment assets	4,150,329	2,916,183	2,923,126	567,371		10,557,009
Unallocated corporate assets						359,195
Total assets						10,916,204
Segment liabilities	6,541,528	317,043	217,730	1,695,809		8,772,110
Unallocated corporate liabilities						90,499
Total liabilities						8,862,609
Other segment items						
Purchase of property and equipment	-	-	-	5,599	-	5,599
Purchase of intangible assets	-	-	-	3,923	-	3,923
Depreciation of property and equipment	-	-	-	11,508	-	11,508
Amortisation of intangible assets	-	-	-	8,254	-	8,254
Other non-cash expense other than depreciation	-	99,459	66,494	24,409	-	190,362

(b) Secondary Segment - By Geographical Locations

Group 2010	Operating Revenue/(Loss)	Loss Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	447,962	108,478	10,951,309
Outside Malaysia	27	9,381	(35,105)
	447,989	117,859	10,916,204

The Group has fund management operations in Australia and Singapore.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

43 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2009	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	71,488	187,980	200,030	25,532	-	485,030
Revenue from other segments	90,850	-	-	10,437	(101,287)	-
Total Revenue	162,338	187,980	200,030	35,969	(101,287)	485,030
Segment results	9,974	31,135	24,522	(27,350)	-	38,281
Unallocated expenses						(73,266)
Profit from operations						(34,985)
Zakat						(2,361)
Taxation						6,463
Net profit for the year						(30,883)
Other information						
Segment assets	4,125,202	3,084,946	3,598,631	461,019	-	11,269,798
Unallocated corporate assets						307,868
Total assets						11,577,666
Segment liabilities	6,065,945	404,888	253,122	948,902	-	7,672,857
Unallocated corporate liabilities						1,614,980
Total liabilities						9,287,837
Other segment items						
Purchase of property and equipment	-	-	-	20,691	-	20,691
Purchase of intangible assets	-	-	-	3,261	-	3,261
Depreciation of property and equipment	-	-	-	10,238	-	10,238
Amortisation of intangible assets	-	-	-	4,384	-	4,384
Other non-cash expense other than depreciation	2,753	76,478	100,509	8,946	-	188,686

(b) Secondary Segment - By Geographical Locations

Group 2009	Operating Revenue/(Loss)	Profit/(Loss) Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	485,149	(21,952)	11,560,035
Outside Malaysia	(119)	(13,033)	17,631
	485,030	(34,985)	11,577,666

The Group has fund management operations in Australia and Singapore.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Group				
2010				
Financial assets				
Securities held-for-trading	110,083	-	-	110,083
Securities available-for-sale	-	1,034,506	-	1,034,506
Hedging financial instruments	-	77,796	-	77,796
Total	110,083	1,112,302	-	1,222,385
Financial liability				
Hedging financial instruments	-	36,978	-	36,978
2009				
Financial assets				
Securities held-for-trading	16,938	-	-	16,938
Securities available-for-sale	-	984,119	-	984,119
Hedging financial instruments	-	42,836	-	42,836
Total	16,938	1,026,955	-	1,043,893
Financial liability				
Hedging financial instruments	-	24,869	-	24,869
Bank				
2010				
Financial assets				
Securities held-for-trading	110,083	-	-	110,083
Securities available-for-sale	-	906,933	-	906,933
Hedging financial instruments	-	77,796	-	77,796
Total	110,083	984,729	-	1,094,812
Financial liability				
Hedging financial instruments	-	36,978	-	36,978
2009				
Financial assets				
Securities held-for-trading	16,938	-	-	16,938
Securities available-for-sale	-	885,650	-	885,650
Hedging financial instruments	-	42,836	-	42,836
Total	16,938	928,486	-	945,424
Financial liability				
Hedging financial instruments	-	24,869	-	24,869

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

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

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

(a) Cash and Short-Term Funds

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

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

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

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

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

(d) Financing, Advances and Other Receivables

The fair values of financing are estimated based on future cash flows of contractual instalments payments, discounted at applicable prevailing rates at reporting date offered for similar facilities to new financing with similar credit profiles. In respect of impaired financing, the fair values are deemed to approximate the carrying values which are net of individual impairment for impaired financing.

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

45 OPERATING LEASES

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

	Group		Bank	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Within one year	9,812	8,601	9,019	6,591
Between one and five years	6,662	4,922	5,754	2,904
	16,474	13,523	14,773	9,495

46 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

During the year, the Bank had entered into a Specific Profit Sharing Investment Accounts ("SPSIA" or "the Fund") arrangement with the holding company to acquire and/or invest in certain identified financing assets ("underlying assets" or "SPSIA financing") of the Bank for a consideration amounting to RM542.8 million, which represents the net book value of the underlying assets as at the transaction date. Subsequent to this SPSIA arrangement, the underlying assets have been de-recognised by the Bank as all risks and rewards have been effectively transferred and borne by the fund provider. Under the SPSIA, no premature/early withdrawal is permitted and the Fund are to remain administered by the Bank until fully repaid from the revenue streams generated by the underlying assets.

47 EVENTS OCCURRING AFTER THE REPORTING DATE

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

48 HOLDING COMPANY

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

49 MATURITY ANALYSIS

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

Group	Less than	Over	Total
	12 months	12 months	
2010	RM'000	RM'000	RM'000
Assets			
Cash and short-term funds	2,369,107	280,855	2,649,962
Deposits and placements with banks and other financial institutions	266,561	6,698	273,259
Securities held-for-trading	-	110,083	110,083
Securities available-for-sale	566,638	486,868	1,053,506
Securities held-to-maturity	31,016	15,250	46,266
Financing, advances and receivables	5,175,308	897,476	6,072,784
Murabahah trading automobile	-	32	32
Musarakah capital investment	-	5,898	5,898
Other assets	-	704,414	704,414
Total Assets	8,408,630	2,507,574	10,916,204
Liabilities			
Deposits from customers	4,142,993	403,516	4,546,509
Deposits and placements of banks and other financial institutions	3,412,301	53,577	3,465,878
Subordinated Murabahah Tawarruq	-	349,655	349,655
Murabahah bank financing	23,139	-	23,139
Other liabilities	-	477,428	477,428
Total Liabilities	7,578,433	1,284,176	8,862,609
Net	830,197	1,223,398	2,053,595
2009			
Assets			
Cash and short-term funds	2,785,845	92,081	2,877,926
Deposits and placements with banks and other financial institutions	132,354	6,698	139,052
Securities held-for-trading	-	16,938	16,938
Securities available-for-sale	561,785	441,334	1,003,119
Securities held-to-maturity	44,589	15,208	59,797
Financing, advances and receivables	6,099,357	972,818	7,072,175
Murabahah trading automobile	-	37,429	37,429
Musarakah capital investment	-	5,916	5,916
Other assets	-	365,314	365,314
Total Assets	9,623,930	1,953,736	11,577,666
Liabilities			
Deposits from customers	4,018,015	237,053	4,255,068
Deposits and placements of banks and other financial institutions	4,160,839	41,511	4,202,350
Subordinated Murabahah Tawarruq	-	374,700	374,700
Murabahah bank financing	-	51,397	51,397
Other liabilities	-	404,322	404,322
Total Liabilities	8,178,854	1,108,983	9,287,837
Net	1,445,076	844,753	2,289,829

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

49 MATURITY ANALYSIS (Cont'd.)

	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
Bank			
2010			
Assets			
Cash and short-term funds	2,463,569	279,079	2,742,648
Deposits and placements with banks and other financial institutions	266,561	6,698	273,259
Securities held-for-trading	-	110,083	110,083
Securities available-for-sale	480,332	445,601	925,933
Securities held-to-maturity	31,016	15,250	46,266
Financing, advances and receivables	5,175,308	897,476	6,072,784
Murabahah trading automobile	-	32	32
Musyarakah capital investment	-	5,898	5,898
Other assets	-	715,874	715,874
Total Assets	8,416,786	2,475,991	10,892,777
Liabilities			
Deposits from customers	4,142,993	405,089	4,548,082
Deposits and placements of banks and other financial institutions	3,420,201	53,577	3,473,778
Subordinated Murabahah Tawarruq	-	349,655	349,655
Murabahah bank financing	23,139	-	23,139
Other liabilities	-	476,412	476,412
Total Liabilities	7,586,333	1,284,733	8,871,066
Net	830,453	1,191,258	2,021,711
2009			
Assets			
Cash and short-term funds	2,850,204	83,068	2,933,272
Deposits and placements with banks and other financial institutions	132,354	6,698	139,052
Securities held-for-trading	-	16,938	16,938
Securities available-for-sale	561,785	342,865	904,650
Securities held-to-maturity	44,589	15,208	59,797
Financing, advances and receivables	6,099,357	979,306	7,078,663
Murabahah trading automobile	-	37,429	37,429
Musyarakah capital investment	-	5,916	5,916
Other assets	-	407,967	407,967
Total Assets	9,688,289	1,895,395	11,583,684
Liabilities			
Deposits from customers	4,018,015	246,690	4,264,705
Deposits and placements of banks and other financial institutions	4,173,639	41,511	4,215,150
Subordinated Murabahah Tawarruq	-	374,700	374,700
Murabahah bank financing	-	51,397	51,397
Other liabilities	-	402,612	402,612
Total Liabilities	8,191,654	1,116,910	9,308,564
Net	1,496,635	778,485	2,275,120

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT

As an Islamic Bank with diverse financial product offerings, the Group and the Bank are exposed to different types of financial risks arising from financial instruments. Financial risks encompass credit risks, liquidity risks, operational risks and market risks. Due to these, risk management is integral to the Bank's operation.

Risk management governance, structure, policies, and procedures, are described in Note 2(iii) of the Statement of Corporate Governance as set out on pages 9 to 18. The main financial risks affecting the Group and the Bank are discussed further as follow:

(a) CREDIT RISK

(i) Maximum exposure to credit risk without taking account of any collateral

The following tables show the maximum exposure to credit risk for the components of the statements of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

2010

Cash and short-term funds
Deposits and placements with banks and other financial institutions
Securities held-for-trading
Securities available-for-sale
Securities held-to-maturity
Financing, advances and other receivables
Other assets
Statutory deposits with Bank Negara Malaysia ("BNM")
Hedging financial instruments
- Ijarah rental swap
- Cross-currency Ijarah rental swap
- Promissory foreign exchange contract

Total On-Balance Sheet

Financial guarantees
Contingent liabilities
Commitments

Total Off-Balance Sheet

Total On and Off-Balance Sheet

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
2,649,962	2,742,648
273,259	273,259
110,083	110,083
1,034,506	906,933
46,266	46,266
6,603,272	6,603,272
392,085	372,908
44,854	44,854
19,702	19,702
22,170	22,170
35,924	35,924
11,232,083	11,178,019
644,403	644,403
345,931	345,931
1,243,002	1,243,002
2,233,336	2,233,336
13,465,419	13,411,355

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

	Geographic region			Total gross maximum exposure
	Malaysia	Middle east	Others	
	RM'000	RM'000	RM'000	RM'000
2010				
Group				
Cash and short-term funds	2,371,311	153,997	124,654	2,649,962
Deposits and placements with banks and other financial institutions	76,698	-	196,561	273,259
Securities held-for-trading				
- Quoted	-	-	-	-
- Unquoted	3,197	-	106,886	110,083
Securities available-for-sale				
- Quoted	-	-	-	-
- Unquoted	526,723	495,588	12,195	1,034,506
Securities held-to-maturity				
- Quoted	-	-	-	-
- Unquoted	15,250	31,016	-	46,266
Financing, advances and other receivables	5,750,012	367,086	486,174	6,603,272
Other assets	365,912	26,173	-	392,085
Statutory deposits with BNM	44,854	-	-	44,854
Hedging financial instruments				
- Ijarah rental swap	19,702	-	-	19,702
- Cross-currency Ijarah rental swap	22,170	-	-	22,170
- Promissory foreign exchange contract	35,615	-	309	35,924
Total On-Balance Sheet	9,231,444	1,073,860	926,779	11,232,083
Financial guarantees	494,233	170	150,000	644,403
Contingent liabilities	265,053	80,878	-	345,931
Commitments	1,236,616	928	5,458	1,243,002
Total Off-Balance Sheet	1,995,902	81,976	155,458	2,233,336
Total On and Off-Balance Sheet	11,227,346	1,155,836	1,082,238	13,465,419

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

	Geographic region			Total gross maximum exposure
	Malaysia	Middle east	Others	
	RM'000	RM'000	RM'000	RM'000
2010				
Bank				
Cash and short-term funds	2,463,997	153,997	124,654	2,742,648
Deposits and placements with banks and other financial institutions	76,698	-	196,561	273,259
Securities held-for-trading				
- Quoted	-	-	-	-
- Unquoted	3,197	-	106,886	110,083
Securities available-for-sale				
- Quoted	-	-	-	-
- Unquoted	427,170	479,763	-	906,933
Securities held-to-maturity				
- Quoted	-	-	-	-
- Unquoted	15,250	31,016	-	46,266
Financing, advances and other receivables	5,750,012	367,086	486,174	6,603,272
Other assets	346,551	26,173	184	372,908
Statutory deposits with BNM	44,854	-	-	44,854
Hedging financial instruments				
- Ijarah rental swap	19,702	-	-	19,702
- Cross-currency Ijarah rental swap	22,170	-	-	22,170
- Promissory foreign exchange contract	35,615	-	309	35,924
Total On-Balance Sheet	9,205,217	1,058,034	914,768	11,178,019
Financial guarantees	494,233	170	150,000	644,403
Contingent liabilities	265,053	80,878	-	345,931
Commitments	1,236,616	928	5,458	1,243,002
Total Off-Balance Sheet	1,995,902	81,976	155,458	2,233,336
Total On and Off-Balance Sheet	11,201,119	1,140,010	1,070,226	13,411,355

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry sector analysis of the Bank's financial assets, before taking into account collateral held by residual contractual maturity .

	Industry						Total gross maximum exposure RM'000
	Trading and manufacturing RM'000	Banks and financial institutions RM'000	Construction and real estate RM'000	Transportation, storage and communication RM'000	Government RM'000	Others RM'000	
2010 Group							
Cash and short-term funds	-	2,649,962	-	-	-	-	2,649,962
Deposits and placements with banks and other financial institutions	-	273,259	-	-	-	-	273,259
Securities held-for-trading	-	106,886	-	-	-	3,197	110,083
Securities available-for-sale	-	259,971	117,176	56,874	225,427	375,058	1,034,506
Securities held-to-maturity	-	-	31,015.70	-	-	15,250.23	46,266
Financing, advances and other receivables	1,639,680	696,682	2,100,177	721,796	-	1,444,936	6,603,272
Other assets	-	-	-	-	-	392,085	392,085
Statutory deposits with BNM	-	-	-	-	44,854	-	44,854
Hedging financial instruments	10	58,084	-	19,702	-	-	77,796
Total On-Balance Sheet	1,639,690	4,044,844	2,248,369	798,373	270,281	2,230,526	11,232,083
Financial guarantees	34,130	21,273	160,830	421,550	-	6,620	644,403
Contingent liabilities	93,662	106,044	126,007	9,862	-	10,355	345,931
Commitments	166,024	96,084	698,443	61,855	-	220,596	1,243,002
Total Off-Balance Sheet	293,816	223,401	985,280	493,268	-	237,572	2,233,336
Total On and Off-Balance Sheet	1,933,507	4,268,244	3,233,649	1,291,640	270,281	2,468,098	13,465,419

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

	Industry					Total gross maximum exposure RM'000	
	Trading and manufacturing RM'000	Banks and financial institutions RM'000	Construction and real estate RM'000	Transportation, storage and communication RM'000	Government RM'000		Others RM'000
2010 Bank							
Cash and short-term funds	-	2,742,648	-	-	-	-	2,742,648
Deposits and placements with banks and other financial institutions	-	273,259	-	-	-	-	273,259
Securities held-for-trading	-	106,886	-	-	-	3,197	110,083
Securities available-for-sale	-	231,950	117,176	56,874	212,181	288,751	906,933
Securities held-to-maturity	-	-	31,015.70	-	-	15,250.23	46,266
Financing, advances and other receivables	1,639,680	696,682	2,100,177	721,796	-	1,444,936	6,603,272
Other assets	-	-	-	-	-	372,908	372,908
Statutory deposits with BNM	-	-	-	-	44,854	-	44,854
Hedging financial instruments	10	58,084	-	19,702	-	-	77,796
Total On-Balance Sheet	1,639,690	4,109,509	2,248,369	798,373	257,035	2,125,042	11,178,019
Financial guarantees	34,130	21,273	160,830	421,550	-	6,620	644,403
Contingent liabilities	93,662	106,044	126,007	9,862	-	10,355	345,931
Commitments	166,024	96,084	698,443	61,855	-	220,596	1,243,002
Total Off-Balance Sheet	293,816	223,401	985,280	493,268	-	237,572	2,233,336
Total On and Off-Balance Sheet	1,933,507	4,332,910	3,233,649	1,291,640	257,035	2,362,614	13,411,355

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry residual maturity analysis of the Bank's financial assets, before taking into account collateral held is as follows:

	Residual Maturity				Not on demand and no maturity date	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years		
2010 Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	2,649,962	-	-	-	-	2,649,962
Deposits and placements with banks and other financial institutions	-	273,259	-	-	-	273,259
Securities held-for-trading	-	-	-	110,083	-	110,083
Securities available-for-sale	121,106	174,895	490,964	119,969	127,573	1,034,506
Securities held-to-maturity	-	-	46,266	-	-	46,266
Financing, advances and other receivables	4,875,465	53,974	957,500	681,040	35,292	6,603,272
Other assets	-	-	-	-	392,085	392,085
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	35,924	-	22,170	19,702	-	77,796
Total On-Balance Sheet	7,682,457	502,128	1,516,900	930,794	599,804	11,232,083
Financial guarantees	32,475	827	41,100	-	570,000	644,403
Contingent liabilities	277,537	18,143	45,700	4,551	-	345,931
Commitments	615,320	107,535	440,095	52,952	27,100	1,243,002
Total Off-Balance Sheet	925,333	126,505	526,895	57,503	597,100	2,233,336
Total On and Off-Balance Sheet	8,607,790	628,634	2,043,794	988,297	1,196,904	13,465,419

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2010						
Bank						
Cash and short-term funds	2,742,648	-	-	-	-	2,742,648
Deposits and placements with banks and other financial institutions	-	273,259	-	-	-	273,259
Securities held-for-trading	-	-	-	110,083	-	110,083
Securities available-for-sale	121,106	174,895	490,964	119,969	-	906,933
Securities held-to-maturity	-	-	46,266	-	-	46,266
Financing, advances and other receivables	4,875,465	53,974	957,500	681,040	35,292	6,603,272
Other assets	-	-	-	-	372,908	372,908
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	35,924	-	22,170	19,702	-	77,796
Total On-Balance Sheet	7,775,143	502,128	1,516,900	930,794	453,054	11,178,019
Financial guarantees	32,475	827	41,100	-	570,000	644,403
Contingent liabilities	277,537	18,143	45,700	4,551	-	345,931
Commitments	615,320	107,535	440,095	52,952	27,100	1,243,002
Total Off-Balance Sheet	925,333	126,505	526,895	57,503	597,100	2,233,336
Total On and Off-Balance Sheet	8,700,476	628,634	2,043,794	988,297	1,050,154	13,411,355

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount presented are gross of impairment allowances.

	Performing	Past due but not impaired	Restructured & rescheduled	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2010 Group					
Securities held-for-trading	110,083	-	-	-	110,083
Securities available-for-sale	1,023,882	-	10,624	-	1,034,506
Securities held-to-maturity	46,266	-	-	-	46,266
Financing, advances and other receivables	4,049,357	886,415	873,513	793,987	6,603,272
Other assets	6,403	-	-	-	6,403
Hedging financial instruments	77,796	-	-	-	77,796
Total On-Balance Sheet	5,313,787	886,415	884,137	793,987	7,878,326
Financial guarantees	644,403	-	-	-	644,403
Contingent liabilities	345,931	-	-	-	345,931
Commitments	1,243,002	-	-	-	1,243,002
Total Off-Balance Sheet	2,233,336	-	-	-	2,233,336
Total On and Off-Balance Sheet	7,547,122	886,415	884,137	793,987	10,111,662
Bank					
Securities held-for-trading	110,083	-	-	-	110,083
Securities available-for-sale	896,309	-	10,624	-	906,933
Securities held-to-maturity	46,266	-	-	-	46,266
Financing, advances and other receivables	4,049,357	886,415	873,513	793,987	6,603,272
Other assets	6,403	-	-	-	6,403
Hedging financial instruments	77,796	-	-	-	77,796
Total On-Balance Sheet	5,186,214	886,415	884,137	793,987	7,750,753
Financial guarantees	644,403	-	-	-	644,403
Contingent liabilities	345,931	-	-	-	345,931
Commitments	1,243,002	-	-	-	1,243,002
Total Off-Balance Sheet	2,233,336	-	-	-	2,233,336
Total On and Off-Balance Sheet	7,419,549	886,415	884,137	793,987	9,984,089

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit risk exposure based on the Bank's internal credit risk rating

The principal objective of credit risk measurement for KFHMB is to produce accurate quantitative assessment of the credit risk to which the Bank is exposed to. To determine the counterparty risk, KFHMB has a risk rating system that enables the rank-ordering of the customers' risk profile to assess the credit quality of customers and assigns them an internal risk rating. Over the year, to ensure that the integrity of the data used is in place, KFHMB has undergone a verification exercise with an independent consultant and is in the midst of further refining the rating process. The rating system is actively monitored and a monthly analysis of the corporate and commercial customers are provided to the senior management and the Board for oversight.

For retail banking, KFHMB has in place a series of scorecards, which will assess the credit worthiness of the individual customers prior to approval. The main attributes of the credit assessment within the scorecard is mostly based on statistically derived default patterns within the customer profile and also credit bureau data. The performance of the scorecard is being monitored to ensure that it continues to effectively discriminate between good and potentially bad customers.

2010 Group and Bank	Total RM'000
Corporate & Commercial	
Excellent	173,871
Strong	758,980
Minimum	1,563,632
Pass with condition	1,186,932
Early care	1,104,259
Impaired	793,987
New/SPV	480,536
Unrated	520,025
	6,582,222
SME	
Strong	5,158
Minimum	5,254
Weak/pass with condition	10,638
	21,050
Total	6,603,272

* Unrated segment includes retail consumer credit exposures

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit risk exposure based on the Bank's internal credit risk rating (Cont'd.)

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D		Government - guaranteed	Total
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated		RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities held-for-trading	-	3,197	106,886	-	-	-	110,083
Securities available-for-sale	84,519	432,345	90,504	-	123,897	303,240	1,034,506
Securities held-to-maturity	-	-	-	-	46,266	-	46,266
Bank							
Securities held-for-trading	-	3,197	106,886	-	-	-	110,083
Securities available-for-sale	72,324	419,100	90,504	-	21,765	303,240	906,933
Securities held-to-maturity	-	-	-	-	46,266	-	46,266

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iv) Aging analysis of past due but not impaired financing by class of financial assets

2010 Group and Bank	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RM'000	RM'000	RM'000	RM'000
Financing and advances to customers				
Corporate financing	-	-	-	-
Commercial financing	401,655	127,435	301,210	830,300
Retail & Consumer financing	55,874	240	-	56,114
Total	457,529	127,675	301,210	886,415

Impaired and past due financing by geographical regions

2010 Group and Bank	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	615,147	880,737	293,522	-	-
Middle East	117,713	3,830	116,428	118,773	-
Others	61,127	1,848	1,765	-	-
Total	793,987	886,415	411,715	118,773	-

Impaired and past due financing by industry sector

2010 Group and Bank	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Trading and manufacturing	64,763	305,768	45,505	-	-
Banks and financial institutions	76,663	125,717	72,034	-	-
Construction and real estate	228,084	91,005	105,657	118,773	-
Transportation, storage and communication	175,430	57,317	7,000	-	-
Government	-	-	-	-	-
Others	249,046	306,608	181,518	-	-
Total	793,987	886,415	411,715	118,773	-

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(v) Carrying amount by class of financial assets whose terms have been renegotiated

2010	Total
Group and Bank	RM'000
Financing and advances to customers	
Corporate financing	570,920
Commercial financing	301,529
Retail & Consumer financing	1,064
	873,513

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established clear guidelines that have been approved by the management and the Board on the types of acceptable collateral, valuation parameters and processes and secured margins to be taken.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Bank also obtains guarantees from parent companies for finance facilities extended to their subsidiaries. In line with the Bank's established credit guidelines, proper due diligence on the guarantor is conducted to ascertain their creditworthiness.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The fair value of collateral that the Bank holds relating to finance facilities individually determined to be impaired at 31 December 2010 amounts to RM304,006,233.

The fair value of collateral that the Bank holds relating to finance facilities past due but not impaired as at 31 December 2010 is RM251,660,707. The collateral consists of mainly real estate assets.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank uses the Bank Negara Malaysia's New Liquidity Framework as a foundation in managing its liquidity.

The objective of liquidity risk management is to ensure that cash needs always can be met at reasonable cost, either by:

- i) maturity or sale of assets, or
- ii) the acquisition of deposits or additional funding from the Islamic money markets.

Liquidity risk management function is overseen by the Asset and Liability Management Committee ("ALCO"), who is guided by the Bank's Asset and Liability Management Policy.

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

Group 2010	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,369,107	-	-	-	280,855	2,649,962
Deposits and placements with banks and other financial institutions	266,561	-	6,698	-	-	273,259
Securities held-for-trading	-	-	110,083	-	-	110,083
Securities available-for-sale	160,967	236,600	516,970	119,969	19,000	1,053,506
Securities held-to-maturity	-	-	46,266	-	-	46,266
Financing, advances and receivables	2,399,906	239,898	2,346,475	1,086,505	-	6,072,784
Murabahah trading automobile	-	-	-	-	32	32
Musarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	704,414	704,414
Total Assets	5,196,541	476,498	3,026,492	1,206,474	1,010,199	10,916,204

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Group 2010	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,860,113	281,307	-	-	405,089	4,546,509
Deposits and placements of banks and other financial institutions	3,371,534	40,767	53,577	-	-	3,465,878
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	349,655
Murabahah bank financing	23,139	-	-	-	-	23,139
Other liabilities	-	-	-	-	477,428	477,428
Total Liabilities	7,254,786	322,074	403,232	-	882,517	8,862,609
Shareholder's equity	-	-	-	-	2,053,595	2,053,595
Total Liabilities and Shareholder's equity	7,254,786	322,074	403,232	-	2,936,112	10,916,204
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	387,073	58,048	306,924	72,272	616,864	1,441,181
Net maturity mismatch	(2,445,318)	96,376	2,316,336	1,134,202	(2,542,777)	(1,441,181)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Group 2009	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,877,926	-	-	-	-	2,877,926
Deposits and placements with banks and other financial institutions	132,354	-	6,698	-	-	139,052
Securities held-for-trading	16,938	-	-	-	-	16,938
Securities available-for-sale	155,570	14,391	697,709	116,449	19,000	1,003,119
Securities held-to-maturity	10,140	-	49,657	-	-	59,797
Financing, advances and receivables	2,680,726	286,038	2,639,225	1,465,086	1,100	7,072,175
Murabahah trading automobile	-	-	-	-	37,429	37,429
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	365,314	365,314
Total Assets	5,873,654	300,429	3,393,289	1,587,451	422,843	11,577,666
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	611,663	-	3,643,405	-	-	4,255,068
Deposits and placements of banks and other financial institutions	638,585	-	3,563,765	-	-	4,202,350
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	51,397
Other liabilities	-	-	3,267	-	401,055	404,322
Total Liabilities	1,250,248	-	7,636,534	-	401,055	9,287,837
Shareholder's equity	-	-	-	-	2,289,829	2,289,829
Total Liabilities and Shareholder's equity	1,250,248	-	7,636,534	-	2,690,884	11,577,666
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	514,242	-	2,056,968	-	-	2,571,210
Net maturity mismatch	4,109,164	300,429	(6,300,213)	1,587,451	(2,268,041)	(2,571,210)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Bank 2010	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,463,569	-	-	-	279,079	2,742,648
Deposits and placements with banks and other financial institutions	266,561	-	6,698	-	-	273,259
Securities held-for-trading	-	-	110,083	-	-	110,083
Securities available-for-sale	136,365	174,895	475,704	119,969	19,000	925,933
Securities held-to-maturity	-	-	46,266	-	-	46,266
Financing, advances and receivables	2,399,906	239,898	2,346,475	1,086,505	-	6,072,784
Murabahah trading automobile	-	-	-	-	32	32
Musarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	715,874	715,874
Total Assets	5,266,401	414,793	2,985,226	1,206,474	1,019,883	10,892,777
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,861,686	281,307	-	-	405,089	4,548,082
Deposits and placements of banks and other financial institutions	3,379,434	40,767	53,577	-	-	3,473,778
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	349,655
Murabahah bank financing	23,139	-	-	-	-	23,139
Other liabilities	-	-	-	-	476,412	476,412
Total Liabilities	7,264,259	322,074	403,232	-	881,501	8,871,066
Shareholder's equity	-	-	-	-	2,021,711	2,021,711
Total Liabilities and Shareholder's equity	7,264,259	322,074	403,232	-	2,903,212	10,892,777
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	387,073	58,048	306,924	72,272	616,864	1,441,181
Net maturity mismatch	(2,384,931)	34,671	2,275,070	1,134,202	(2,500,193)	(1,441,181)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Bank 2009	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,933,272	-	-	-	-	2,933,272
Deposits and placements with banks and other financial institutions	132,354	-	6,698	-	-	139,052
Securities held-for-trading	16,938	-	-	-	-	16,938
Securities available-for-sale	155,570	14,391	599,240	116,449	19,000	904,650
Securities held-to-maturity	10,140	-	49,657	-	-	59,797
Financing, advances and receivables	2,687,796	286,038	2,638,643	1,465,086	1,100	7,078,663
Murabahah trading automobile	-	-	-	-	37,429	37,429
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	407,967	407,967
Total Assets	5,936,070	300,429	3,294,238	1,587,451	465,496	11,583,684
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	621,300	-	3,643,405	-	-	4,264,705
Deposits and placements of banks and other financial institutions	651,385	-	3,563,765	-	-	4,215,150
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	51,397
Other liabilities	-	-	-	-	402,612	402,612
Total Liabilities	1,272,685	-	7,633,267	-	402,612	9,308,564
Shareholder's equity	-	-	-	-	2,275,120	2,275,120
Total Liabilities and Shareholder's equity	1,272,685	-	7,633,267	-	2,677,732	11,583,684
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	514,242	-	2,056,968	-	-	2,571,210
Net maturity mismatch	4,149,143	300,429	(6,395,997)	1,587,451	(2,212,236)	(2,571,210)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

The following table summarises the maturity analysis for financial liabilities that shows the remaining contractual maturities based on the position as at 31 December 2010.

2010 Group	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	3,860,114	281,307	-	-	405,089	4,546,509
Deposit and placements of banks and other financial institutions	3,371,534	40,767	53,577	-	-	3,465,878
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	349,655
Murabahah bank financing	23,139	-	-	-	-	23,139
Other liabilities	-	-	-	-	469,106	469,106
Total	7,254,787	322,073	403,232	-	874,194	8,854,286
Bank						
Deposits from customers	3,861,687	281,307	-	-	405,089	4,548,082
Deposit and placements of banks and other financial institutions	3,379,434	40,767	53,577	-	-	3,473,778
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	349,655
Murabahah bank financing	23,139	-	-	-	-	23,139
Other liabilities	-	-	-	-	468,090	468,090
Total	7,264,260	322,073	403,232	-	873,179	8,862,744

To manage the risk inherent from the above position, limits on the following ratios are imposed to ensure that the Bank has sufficient liquidity to meet the liability obligations:

- i) The sum of assets to mature within a period of one week and liquefiable assets over the liabilities that will mature within a period of 1 week;
- ii) The sum of assets to mature within a period of one month and liquefiable assets over the liabilities that will mature within a period of 1 month; and
- iii) The sum of cash, bank balances, placements and deposits with banks and financial institutions, and liquefiable assets over the total deposits from the 10 largest depositors of the Bank.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

Trading

All positions, when the change in fair values will affect the current financial year net profit, are classified as trading positions. Limits on the trading exposures, annual loss and holding period are imposed to manage the potential impact of the trading positions on the Bank's profit and loss. Risk Management Division will review these limits regularly and will recommend to Board Risk Management Committee changes or additional limits, when necessary.

The capital requirement for the Bank's trading exposures is guided by Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank ("CAFIB").

(i) Benchmark Rate Risk

Rate sensitive financial instruments are normally affected by general changes in the market profit rate, known as general risk. Changes in factor related to a specific issuer, in particular issuer's credit quality, which would affect the instrument, are known as specific risk. The Bank has adopted the maturity method as defined in CAFIB in computing the general risk charge of rate sensitive instruments.

The Bank's exposures to benchmark rate risk comprise of exposures in securities held-for-trading, ljarah rental swap ("IRS") and cross-currency ljarah rental swap ("CCIRS"). As at 31 December 2010, the total risk-weighted assets for exposures with benchmark rate risk was RM31.350 million (2009: RM21.750 million) with a total capital charge of RM2.508 million (2009: RM1.740 million).

All positions in IRS and CCIRS were fully squared (2009: Squared). The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities held-for-trading against the movement in market benchmark rates.

Securities held-for-trading

Group and Bank	2010			2009		
	Nominal amount RM	Modified duration	BPV	Nominal amount RM	Modified duration	BPV
US Dollar (USD)	107,983,750	0.12	1,314	17,132,495	4.4	7,452

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

(ii) Foreign exchange risk

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

As at 31 December 2010, the total risk-weighted assets for exposures with foreign exchange rate risk is RM148.190 million (2009: RM173.690 million) with a total capital charge of RM11.966 million (2009: RM13.895 million).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2010. The analysis calculates the effect of a reasonably possible movement of the currencies' exchange rates against Ringgit Malaysia, with all other variables held constant, on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2010		2009	
	Change in exchange rate %	Effect on Income Statements / Equity RM	Change in exchange rate %	Effect on Income Statements / Equity RM
Group				
Singapore Dollar (SGD)	1	(92,000)	1	(444,000)
US Dollar (USD)	1	(323,000)	1	4,425,000
Euro (EUR)	1	(1,651,000)	1	(544,000)
Bank				
Singapore Dollar (SGD)	1	(92,000)	1	(444,000)
US Dollar (USD)	1	(1,328,000)	1	4,425,000
Euro (EUR)	1	(817,000)	1	(544,000)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

(iii) Inventory risk

Inventory risk is defined as the risk arising from the holding of items in inventory either for resale under a Murabahah contract, or with a view to leasing under an ijarah contract. The Bank's exposures in inventory risk mainly are due from the holding of vehicles held for resale.

A vehicle held in inventory under sale or return basis carries risk weight similar to normal financing as it is considered as a financing of an inventory item. As at 31 December 2010, the total risk weighted assets for exposures with inventory risk was RM0.032 million (2009: RM37.429 million) with a total capital charge of RM0.005 million (2009: RM4.801 million).

The table below indicates the breakdown of the risk-weighted assets of inventories held under resale or return basis and the normal inventories.

Group and Bank

Type of Inventory	2010	2009
	RM	RM
Held under resale or return basis	-	25,805,300
Not held under resale or return basis	32,000	11,624,393

Non-Trading

All positions, when the change in fair values will affect the Bank's equity, are classified as non-trading positions. The Bank's exposures in securities available-for-sale are classified as non-trading market risk positions. At present, these exposures are not subject to market risk capital charge requirement.

The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities available-for-sale against the movement in market benchmark rates.

Securities available-for-sale

Group	2010			2009		
	Nominal amount RM	Modified duration	BPV	Nominal amount RM	Modified duration	BPV
Ringgit Malaysia	385,000,000	2.90	107,683	415,482,500	3.01	124,124
US Dollar	566,802,375	1.01	56,879	530,764,695	1.51	40,617
Bank						
Ringgit Malaysia	385,000,000	2.90	107,683	415,482,500	3.01	124,124
US Dollar	553,802,375	0.81	42,124	530,764,695	1.51	40,617

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK

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

Group 2010	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	2,369,107	-	-	-	-	280,855	-	2,649,962	2.34
Deposits and placements with banks and other financial institutions	-	228,394	38,167	6,698	-	-	-	273,259	1.87
Securities held-for-trading	-	-	-	-	-	-	110,083	110,083	2.39
Securities available-for-sale	131,076	278,115	157,447	376,792	91,076	19,000	-	1,053,506	2.42
Securities held-to-maturity	31,016	-	-	15,250	-	-	-	46,266	3.33
Financing, advances and receivables	2,217,532	2,595,022	362,754	869,421	28,055	-	-	6,072,784	5.08
Murabahah trading automobile	-	-	-	-	-	-	32	32	-
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	704,414	-	704,414	-
TOTAL ASSETS	4,748,731	3,101,531	558,368	1,268,161	119,131	1,010,167	110,115	10,916,204	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,438,054	1,181,052	523,887	-	-	403,516	-	4,546,509	2.66
Deposits and placements of banks and other financial institutions	2,806,296	498,672	107,333	53,577	-	-	-	3,465,878	2.63
Subordinated Murabahah Tawarruq	-	-	-	349,655	-	-	-	349,655	3.63
Murabahah bank financing	-	-	23,139	-	-	-	-	23,139	1.59
Other liabilities	-	-	-	-	-	477,428	-	477,428	-
Total Liabilities	5,244,350	1,679,724	654,359	403,232	-	880,944	-	8,862,609	
Shareholder's equity	-	-	-	-	-	2,053,595	-	2,053,595	
Total Liabilities and Shareholder's equity	5,244,350	1,679,724	654,359	403,232	-	2,934,539	-	10,916,204	
On-balance sheet profit sensitivity gap	(495,619)	1,421,807	(95,991)	864,929	119,131	(1,924,372)	110,115	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(495,619)	1,421,807	(95,991)	864,929	119,131	(1,924,372)	110,115	-	

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK (Cont'd.)

Group	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
2009									
ASSETS									
Cash and short-term funds	2,785,845	-	-	-	-	92,081	-	2,877,926	1.93
Deposits and placements with banks and other financial institutions	-	132,354	-	6,698	-	-	-	139,052	1.45
Securities held-for-trading	-	-	-	-	-	-	16,938	16,938	3.88
Securities available-for-sale	142,815	196,670	222,300	238,922	84,942	117,470	-	1,003,119	2.28
Securities held-to-maturity	34,449	10,140	-	15,208	-	-	-	59,797	3.21
Financing, advances and receivables	2,792,929	2,381,560	924,868	626,419	122,903	223,496	-	7,072,175	5.58
Murabahah trading automobile	-	-	-	-	-	-	37,429	37,429	-
Musarakah capital investment	-	-	-	-	-	5,916	-	5,916	-
Other assets	-	-	-	-	-	365,314	-	365,314	-
TOTAL ASSETS	5,756,038	2,720,724	1,147,168	887,247	207,845	804,277	54,367	11,577,666	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,398,536	979,621	639,858	-	-	237,053	-	4,255,068	2.20
Deposits and placements of banks and other financial institutions	2,126,208	1,461,418	573,213	41,511	-	-	-	4,202,350	2.24
Subordinated Murabahah Tawarruq	-	-	-	374,700	-	-	-	374,700	3.30
Murabahah bank financing	-	-	-	51,397	-	-	-	51,397	1.81
Other liabilities	-	-	-	-	-	404,322	-	404,322	-
Total Liabilities	4,524,744	2,441,039	1,213,071	467,608	-	641,375	-	9,287,837	
Shareholder's equity	-	-	-	-	-	2,289,829	-	2,289,829	
Total Liabilities and Shareholder's equity	4,524,744	2,441,039	1,213,071	467,608	-	2,931,204	-	11,577,666	
On-balance sheet profit sensitivity gap	1,231,294	279,685	(65,903)	419,639	207,845	(2,126,927)	54,367	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	1,231,294	279,685	(65,903)	419,639	207,845	(2,126,927)	54,367	-	

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK (Cont'd.)

Bank 2010	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	2,463,569	-	-	-	-	279,079	-	2,742,648	2.30
Deposits and placements with banks and other financial institutions	-	228,394	38,167	6,698	-	-	-	273,259	1.85
Securities held-for-trading	-	-	-	-	-	-	110,083	110,083	2.39
Securities available-for-sale	131,076	278,115	71,141	335,525	91,076	19,000	-	925,933	2.39
Securities held-to-maturity	31,016	-	-	15,250	-	-	-	46,266	3.33
Financing, advances and receivables	2,217,532	2,595,022	362,754	869,421	28,055	-	-	6,072,784	5.08
Murabahah trading automobile	-	-	-	-	-	-	32	32	-
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	715,874	-	715,874	-
TOTAL ASSETS	4,843,193	3,101,531	472,062	1,226,894	119,131	1,019,851	110,115	10,892,777	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,438,054	1,181,052	523,887	-	-	405,089	-	4,548,082	2.66
Deposits and placements of banks and other financial institutions	2,809,196	498,672	112,333	53,577	-	-	-	3,473,778	2.63
Subordinated Murabahah Tawarruq	-	-	-	349,655	-	-	-	349,655	3.63
Murabahah bank financing	-	-	23,139	-	-	-	-	23,139	1.59
Other liabilities	-	-	-	-	-	476,412	-	476,412	-
Total Liabilities	5,247,250	1,679,724	659,359	403,232	-	881,501	-	8,871,066	
Shareholder's equity	-	-	-	-	-	2,021,711	-	2,021,711	
Total Liabilities and Shareholder's equity	5,247,250	1,679,724	659,359	403,232	-	2,903,212	-	10,892,777	
On-balance sheet profit sensitivity gap	(404,057)	1,421,807	(187,297)	823,662	119,131	(1,883,361)	110,115	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(404,057)	1,421,807	(187,297)	823,662	119,131	(1,883,361)	110,115	-	

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK (Cont'd.)

Bank 2009	Non-trading book						Trading book	Total	Effective profit rate			
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive				RM'000	RM'000	%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000						
ASSETS												
Cash and short-term funds	2,850,204	-	-	-	-	83,068	-	2,933,272	1.94			
Deposits and placements with banks and other financial institutions	-	132,354	-	6,698	-	-	-	139,052	1.45			
Securities held-for-trading	-	-	-	-	-	-	16,938	16,938	3.88			
Securities available-for-sale	142,815	196,670	222,300	238,922	84,942	19,001	-	904,650	2.52			
Securities held-to-maturity	34,449	10,140	-	15,208	-	-	-	59,797	3.21			
Financing, advances and receivables	2,792,929	2,381,560	924,868	626,419	122,903	229,984	-	7,078,663	5.57			
Murabahah trading automobile	-	-	-	-	-	-	37,429	37,429	-			
Musarakah capital investment	-	-	-	-	-	5,916	-	5,916	-			
Other assets	-	-	-	-	-	407,967	-	407,967	-			
TOTAL ASSETS	5,820,397	2,720,724	1,147,168	887,247	207,845	745,936	54,367	11,583,684				
LIABILITIES AND SHAREHOLDER'S EQUITY												
Deposits from customers	2,398,536	979,621	639,858	-	-	246,690	-	4,264,705	2.20			
Deposits and placements of banks and other financial institutions	2,139,008	1,461,418	573,213	41,511	-	-	-	4,215,150	2.24			
Subordinated Murabahah Tawarruq	-	-	-	374,700	-	-	-	374,700	3.30			
Murabahah bank financing	-	-	-	51,397	-	-	-	51,397	1.81			
Other liabilities	-	-	-	-	-	402,612	-	402,612	-			
Total Liabilities	4,537,544	2,441,039	1,213,071	467,608	-	649,302	-	9,308,564				
Shareholder's equity	-	-	-	-	-	2,275,120	-	2,275,120				
Total Liabilities and Shareholder's equity	4,537,544	2,441,039	1,213,071	467,608	-	2,924,422	-	11,583,684				
On-balance sheet profit sensitivity gap	1,282,853	279,685	(65,903)	419,639	207,845	(2,178,486)	54,367	-				
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-				
Total profit sensitivity gap	1,282,853	279,685	(65,903)	419,639	207,845	(2,178,486)	54,367	-				

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK

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

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

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

Group 2010	MYR	SGD	USD	EUR	KWD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and short-term funds	2,389,754	44,131	209,797	-	-	6,280	2,649,962
Deposits and placements with banks and other financial institutions	76,698	196,561	-	-	-	-	273,259
Securities held-for-trading	-	-	110,083	-	-	-	110,083
Securities available-for-sale	394,564	-	658,942	-	-	-	1,053,506
Securities held-to-maturity	15,250	-	31,016	-	-	-	46,266
Financing, advances and receivables	4,818,264	14,746	1,197,170	-	-	42,604	6,072,784
Murabahah trading automobile	32	-	-	-	-	-	32
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	704,414	-	-	-	-	-	704,414
Total Assets	8,404,874	255,438	2,207,008	-	-	48,884	10,916,204

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Group
2010 (Cont'd.)

**LIABILITIES AND
SHAREHOLDER'S EQUITY**

Deposits from customers
Deposits and placements of banks and other financial institutions
Subordinated Murabahah Tawarruq
Murabahah bank financing
Other liabilities
Total Liabilities
Shareholder's equity
Total Liabilities and Shareholder's equity

On-balance sheet open position
Off-balance sheet open position
Net open position

	MYR	SGD	USD	EUR	KWD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	4,047,974	259,302	239,233	-	-	-	4,546,509
Deposits and placements of banks and other financial institutions	2,571,362	-	815,834	40,425	-	38,257	3,465,878
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	-	349,655
Murabahah bank financing	-	-	23,139	-	-	-	23,139
Other liabilities	477,428	-	-	-	-	-	477,428
Total Liabilities	7,096,764	259,302	1,427,861	40,425	-	38,257	8,862,609
Shareholder's equity	2,053,595	-	-	-	-	-	2,053,595
Total Liabilities and Shareholder's equity	9,150,359	259,302	1,427,861	40,425	-	38,257	10,916,204
On-balance sheet open position	(745,485)	(3,864)	779,147	(40,425)	-	10,627	-
Off-balance sheet open position	791,635	11	(768,679)	-	-	-	22,967
Net open position	46,150	(3,853)	10,468	(40,425)	-	10,627	22,967

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Group 2009	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,687,936	5,357	154,192	3,477	16,458	10,506	2,877,926
Deposits and placements with banks and other financial institutions	21,698	53,550	44,544	19,260	-	-	139,052
Securities held-for-trading	-	-	16,938	-	-	-	16,938
Securities available-for-sale	417,536	-	585,583	-	-	-	1,003,119
Securities held-to-maturity	25,349	-	34,448	-	-	-	59,797
Financing, advances and receivables	5,376,804	19,248	1,626,858	-	-	49,265	7,072,175
Murabahah trading automobile	25,916	-	422	9,714	-	1,377	37,429
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	239,615	23,963	82,827	9	8	18,892	365,314
Total Assets	8,800,770	102,118	2,545,812	32,460	16,466	80,040	11,577,666
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,780,403	83,582	348,098	18,240	16,262	8,483	4,255,068
Deposits and placements of banks and other financial institutions	3,325,619	-	777,867	51,854	-	47,010	4,202,350
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	-	51,397
Other liabilities	403,846	400	-	57	-	19	404,322
Total Liabilities	7,509,868	83,982	1,552,062	70,151	16,262	55,512	9,287,837
Shareholder's equity	2,289,829	-	-	-	-	-	2,289,829
Total Liabilities and Shareholder's equity	9,799,697	83,982	1,552,062	70,151	16,262	55,512	11,577,666
On-balance sheet open position	(998,927)	18,136	993,750	(37,691)	204	24,528	-
Off-balance sheet open position	815,913	13	(803,828)	-	-	-	12,098
Net open position	(183,014)	18,149	189,922	(37,691)	204	24,528	12,098

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2010	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,387,977	44,131	283,843	20,417	-	6,280	2,742,648
Deposits and placements with banks and other financial institutions	76,698	196,561	-	-	-	-	273,259
Securities held-for-trading	-	-	110,083	-	-	-	110,083
Securities available-for-sale	394,564	-	531,369	-	-	-	925,933
Securities held-to-maturity	15,250	-	31,016	-	-	-	46,266
Financing, advances and receivables	4,818,264	14,746	1,197,170	-	-	42,604	6,072,784
Murabahah trading automobile	32	-	-	-	-	-	32
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	715,874	-	-	-	-	-	715,874
Total Assets	8,414,557	255,438	2,153,481	20,417	-	48,884	10,892,777
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,049,547	259,302	239,233	-	-	-	4,548,082
Deposits and placements of banks and other financial institutions	2,579,262	-	815,834	40,425	-	38,257	3,473,778
Subordinated Murabahah Tawarruq	-	-	349,655	-	-	-	349,655
Murabahah bank financing	-	-	23,139	-	-	-	23,139
Other liabilities	476,412	-	-	-	-	-	476,412
Total Liabilities	7,105,221	259,302	1,427,861	40,425	-	38,257	8,871,066
Shareholder's equity	2,021,711	-	-	-	-	-	2,021,711
Total Liabilities and Shareholder's equity	9,126,932	259,302	1,427,861	40,425	-	38,257	10,892,777
On-balance sheet open position	(712,375)	(3,864)	725,620	(20,008)	-	10,627	-
Off-balance sheet open position	791,635	11	(768,679)	-	-	-	22,967
Net open position	79,260	(3,853)	(43,059)	(20,008)	-	10,627	22,967

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2009	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,678,922	5,357	191,884	30,145	16,458	10,506	2,933,272
Deposits and placements with banks and other financial institutions	21,698	53,550	44,544	19,260	-	-	139,052
Securities held-for-trading	-	-	16,938	-	-	-	16,938
Securities available-for-sale	417,536	-	487,114	-	-	-	904,650
Securities held-to-maturity	25,349	-	34,448	-	-	-	59,797
Financing, advances and receivables	5,383,292	19,248	1,626,858	-	-	49,265	7,078,663
Murabahah trading automobile	25,916	-	422	9,714	-	1,377	37,429
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	282,268	23,963	82,827	9	8	18,892	407,967
Total Assets	8,840,897	102,118	2,485,035	59,128	16,466	80,040	11,583,684
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,790,040	83,582	348,098	18,240	16,262	8,483	4,264,705
Deposits and placements of banks and other financial institutions	3,338,419	-	777,867	51,854	-	47,010	4,215,150
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	-	51,397
Other liabilities	402,136	400	-	57	-	19	402,612
Total Liabilities	7,530,595	83,982	1,552,062	70,151	16,262	55,512	9,308,564
Shareholder's equity	2,275,120	-	-	-	-	-	2,275,120
Total Liabilities and Shareholder's equity	9,805,715	83,982	1,552,062	70,151	16,262	55,512	11,583,684
On-balance sheet open position	(964,818)	18,136	932,973	(11,023)	204	24,528	-
Off-balance sheet open position	815,913	13	(803,828)	-	-	-	12,098
Net open position	(148,905)	18,149	129,145	(11,023)	204	24,528	12,098

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK

Profit rate risk refers to movements in profit rates that can expose the Bank to higher funding costs or lower investment and financing yields. Due to the nature of the Bank's business, changes in profit rates can adversely affect the Bank in the form of lower net revenue depending on the mix and form of assets and liabilities.

The profit rate risk management function is overseen by the Asset and Liability Management Committee ("ALCO"), with the secretariat resided at Risk Management Division. ALCO is chaired by Chief Executive Officer with members comprised of senior management representing major business units, Finance Division, Credit & Risk Management Division.

The primary aim of profit rate risk management is to maintain the Bank's profit rate risk exposure within acceptable parameters when there is a change in the market profit rate. Profit rate risk limits shall provide the means for achieving this objective. ALCO had set the limits for the following ratios:

- i) The total of fixed rate financing over the Bank's total financing; and
- ii) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2010. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

Exposures to profit rate risk

2010

Group

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Rate sensitive assets	7,850	494	64	1,504	1,010	10,922
Rate sensitive liabilities	6,924	309	322	54	1,245	8,854
Monthly mismatch	926	185	(258)	1,451	(236)	
Cumulative mismatch	926	1,111	853	2,304	2,068	
Bank						
Rate sensitive assets	8,273	314	3	1,204	1,105	10,899
Rate sensitive liabilities	6,927	314	322	54	1,246	8,863
Monthly mismatch	1,346	-	(319)	1,150	(141)	
Cumulative mismatch	1,346	1,346	1,026	2,177	2,036	

The above analysis is performed on a monthly basis and subsequently, reported to ALCO for review and deliberation.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK (Cont'd.)

The following table indicates the sensitivity of the net revenue and the economic value of equity on over the rate of return upward and downward rate shocks.

Profit rate risk simulation sensitivity analysis (%)

2010 Group	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	(2.80)	(1.37)	(0.66)	0.83	1.66	3.32
Change in Economic Value of Equity	3.47	1.68	0.83	(0.80)	(1.58)	(3.07)
Bank						
Change in Net Revenue	(2.25)	(1.09)	(0.52)	0.69	1.39	2.78
Change in Economic Value of Equity	3.21	1.55	0.76	(0.74)	(1.46)	(2.83)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach

For the calculation of credit risk-weighted assets under the Standardised Approach for Capital Adequacy Framework for Islamic Bank ("CAFIB") issued by Bank Negara Malaysia ("BNM"), external credit assessments (or external ratings) on the obligor (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios in the banking book. The Bank captures all available external ratings of obligor or issues and adheres to the conditions stipulated in the BNM CAFIB to choose the applicable rating assessment for exposures with single or multiple external ratings. The Bank then assigns the appropriate risk weight to the banking book exposure that is equivalent to the standard risk-weights in CAFIB for issue-specific rating. The Bank also applies the principles stipulated in CAFIB to determine the applicable risk weights to the exposures that do not have issue-specific rating.

(i) Names of External Credit Assessment Institution ("ECAIs") used are :

Standard & Poor's Rating Services ("S&P")
 Moody's Investor's Service ("Moody's")
 Fitch Ratings ("Fitch")
 Rating Agency Malaysia ("RAM")
 Malaysian Rating Corporation Berhad ("MARC")

(ii) Types of exposures for which each ECAI is used :

Exposures to Sovereign and Central Banks
 Exposures to Non-Federal Government Public Sector Entities ("PSEs")
 Exposures to Multilateral Banks ("MDB"s)
 Exposures to Banking Institutions and Corporates

(iii) The breakdown of all rated and unrated exposures risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

Exposure class	Rating of Corporates by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc ³⁸	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000
Credit exposures (using corporate risk-weights)						
Group and Bank						
Public sector entities (applicable for entities risk-weighted based on their external ratings as corporates)		-	-	-	-	95,704
Insurance companies, securities firms and fund managers		-	-	-	-	-
Corporates		129,068	101,658	13,523	-	6,992,463
		129,068	101,658	13,523	-	7,088,167

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc ³⁸	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Sovereigns/Central Banks		-	13,245	-	-	-	2,195,026
Bank Sovereigns/Central Banks		-	-	-	-	-	2,181,781

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc ³⁸	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Banks, MDBs and FDIs		87,515	330,118	214,742	62	-	877,857
Bank Banks, MDBs and FDIs		73,600	330,118	214,742	62	-	956,494

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:-

2010

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk				
(a) On-Balance Sheet Exposures				
Sovereigns/Central Banks	2,195,026	-	-	-
Public Sector Entities	91,076	91,076	-	-
Banks, Development Financial Institutions & MDBs	1,314,937	-	-	-
Corporates	4,637,334	91,059	329,118	-
Higher Risk Assets ¹	142,035	-	1,778	-
Equity Exposure	86,307	-	-	-
Other Assets	459,734	-	-	-
Defaulted Exposures ²	1,786,739	-	18,450	-
Total On Balance Sheet Exposures	10,713,188	182,135	349,346	-
(b) Off-Balance Sheet Exposures*				
OTC Derivatives ³	133,199	-	-	-
Off-balance sheet exposures other than OTC derivatives ²	1,258,345	450,000	-	-
Defaulted Exposures ²	49,637	-	-	-
Total Off-Balance Sheet Exposures	1,441,182	450,000	-	-
Total On and Off-Balance Sheet Exposures	12,154,369	632,135	349,346	-

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2010

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk				
(a) On-Balance Sheet Exposures				
Sovereigns/Central Banks	2,181,781	-	-	-
Public Sector Entities	91,076	91,076	-	-
Banks, Development Financial Institutions & MDBs	1,379,659	-	-	-
Corporates	4,637,334	91,059	329,118	-
Higher Risk Assets ¹	141,920	-	1,778	-
Other Assets	439,237	-	-	-
Defaulted Exposures ²	1,786,739	-	18,450	-
Total On-Balance Sheet Exposures	10,657,746	182,135	349,346	-
(b) Off-Balance Sheet Exposures*				
OTC Derivatives ³	133,199	-	-	-
Off-balance sheet exposures other than OTC derivatives ²	1,258,345	450,000	-	-
Defaulted Exposures ²	49,637	-	-	-
Total Off Balance Sheet Exposures	1,441,182	450,000	-	-
Total On and Off-Balance Sheet Exposures	12,098,927	632,135	349,346	-

* Credit equivalent of off-balance sheet items

¹ Higher risk assets are defined in CAFIB guidelines issued by Bank Negara Malaysia which comprised of i) exposures structured as Musyarakah and Mudharabah contracts and ii) Investment in equity financial instruments that are non-publicly traded.

² Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikely to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

³ Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

⁴ Comprising of trade finance facilities, underwriting and undrawn balances.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
2010				
Direct credit substitutes	644,403		644,403	424,463
Transaction related contingent Items	268,240		134,120	127,233
Short-term self liquidating trade related contingencies	77,691		15,538	13,542
Foreign exchange related contracts				
- One year or less	1,128,680	35,924	46,946	21,775
- Over one year to five years	250,219	12,856	27,870	16,654
- Over five years	99,748	9,313	15,298	5,568
Profit rate related contracts				
- Over five years	340,262	19,702	43,520	33,993
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	882,953		441,476	481,752
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	360,049		72,010	71,291
	4,052,244	77,796	1,441,182	1,196,271
2009				
Direct credit substitutes				
Transaction related contingent Items	1,276,312		1,276,312	810,140
Short-term self liquidating trade related contingencies	257,737		128,868	101,198
Assets sold with recourse	34,982		6,996	6,329
Foreign exchange related contracts				
- One year or less	1,253,163	14,143	24,240	12,000
- Over one year to five years	196,897	5,587	23,308	12,371
- Over five years	105,772	5,446	14,966	7,468
Profit rate related contracts				
- Over five years	407,919	17,659	50,293	37,240
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,483,535		741,768	808,731
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	202,093		40,419	40,419
	5,218,411	42,836	2,307,170	1,835,895

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions)

2010
Group and Bank

Equity

(i) Privately Held

(a) Subsidiaries

Kuwait Finance House (Labuan) Berhad
KFH Nominees (Tempatan) Sdn. Bhd.
KFH Asset Management Sdn. Bhd.
Kuwait Finance House (Australia) Pty Ltd
Kuwait Finance House (Singapore) Pte. Ltd.

(b) Associate

Reetaj City Centre Sdn Bhd

(c) Musyarakah Capital Investment

(ii) Publicly traded

Amount	Unrealised Gain/(Loss)	Risk-Weighted Assets
RM	RM	RM
67,896,836	(35,413,611)	Capital Deduction
10,199,750	-	Capital Deduction
2	-	Capital Deduction
20,000,000	-	Capital Deduction
21,703,800	-	Capital Deduction
15,993,284	-	Capital Deduction
19,000,000	-	28,500,000
5,898,000	-	8,847,000
-	-	-