

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2011

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

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1 PERFORMANCE OVERVIEW

The Group and the Bank registered a loss after tax of RM596.2 million and RM577.4 million respectively for the financial year ended 31 December 2011. The losses were primarily attributed to the impairment allowances made during the end of the final quarter of the year. The Board and the Management positively took cognizance of the business restructuring and realignment plans embarked in the previous year, and the impairment allowances made are in line with the overall organizational and business restructuring plans supported by the strong capitalized position of the Bank.

The Group's Risk Weighted Capital Ratio and Core Capital Ratio as 31 December 2011 stood at a commendable 18.40% and 14.08% respectively.

As part of the business realignment focus initiated in late 2010, the Bank saw a marked expansion in its Retail and Consumer business in 2011, which grew by more than 437%; augmented by the opening of additional 4 new branches during the financial year.

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 the highest calibre.

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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 seven (7) members, comprising four (4) independent non-executive directors, three (3) non-independent non-executive directors.

Directors' Profile

Dr. Nabeel A E A Al-Mannae

Chairman

Independent non-executive director

(52 years of age – Kuwaiti) PhD. in Economics from the University of Miami (1987), Florida, Masters of Arts (Economics) from Florida International University (1983) and a Degree in Commerce (Economics) from the Kuwait University.

Dr. Nabeel had served at the Central Bank of Kuwait in a career that spanned 21 years from 1987 to 2008, held numerous key positions including as the Deputy Governor for a period of 10 years.

He had also been the Board Member for various corporations in Kuwait and Member of various national and international specialized committees. He joined Kuwait Finance House as Vice Chairman on 14 March 2011.

He was appointed as Director and Chairman of the Bank on 5 September 2011.

Shaheen H A KH SH Alghanem

Deputy Chairman

Non-independent non-executive director

(44 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 is now a Deputy Assistant General Manager in the Investment Sector of Kuwait Finance House.

He was appointed as Director of the Bank on 18 March 2007 and was the Chairman of the Bank from 6 August 2007 until 5 September 2011. He is now a Deputy Chairman of the Bank since 5 September 2011.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Prof. Mohamed Ismail Mohamed Shariff

Member

Independent non-executive director

(68 years of age - Malaysian) LL.B. (Hons.) (S'pore), LL.M. (Lond.), FCI Arb., FMI Arb., Barrister at Law, Lincoln's Inn; Adjunct Professor, INCEIF

Prof. Ismail has been in private legal practice since 1970 and is a corporate lawyer. He has been involved in Islamic banking since its introduction in Malaysia in 1983 and drafted the first Islamic banking documents used in Malaysia. He acted as the Malaysian Counsel in the US\$600m Sovereign Global Sukuk Issuance by the Government of Malaysia in 2002 (the first of its kind in the world) and also in the US\$350m Corporate Global Sukuk Issuance by Guthrie Berhad in 2001 (also the first of its kind in the world). He has appeared as leading counsel in landmark cases on Islamic banking and finance in the Superior Courts of Malaysia.

Prof. Ismail has presented papers at numerous National and International Conferences and delivered talks to bankers, lawyers and judicial officers. He sits on Committees of Islamic Banking and Finance in Bank Negara Malaysia and the Securities Commission Malaysia.

He has been recognised for his contributions to Islamic banking and finance by various organisations: as a leading Lawyer by Islamic Finance News in 2009 and 2010; "highly recommended as a leading lawyer in Banking & Finance: Islamic Finance" Asia's Leading Lawyers for Business 2010 by Chambers and Partners; Inducted as an Honored Member for 2010-2011 in Continental Who's Who, a publication of a U.S.-based organisation dedicated to the Recognition of Excellence of Professionals and Executives all over the world; and in July 2011 Lawyer Monthly, an international publication, has named Prof. Ismail as a "Leading LAWYER 50, Islamic Finance 2011", that is to say as one of 50 lawyers chosen from around the world as Leading Lawyers in Islamic Finance. To quote from the publication, "As the name suggests only 50 legal professionals across the globe make the list – this no compromise approach ensures the calibre of the entrants."

He was appointed as an Adjunct Professor at INCEIF in January 2012.

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

Khalid Sufat

Member

Independent non-executive director

(56 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, Tradewinds (M) Berhad, UMW Holding Berhad and Chemical Company of Malaysia Berhad.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Haji Ismail Ibrahim

Member

Independent non-executive director

(62 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 in charge of retail loan. He was promoted to Senior Manager in 1989 and subsequently in 1990 was promoted to Assistant General Manager in charge 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 in charge 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.

Mohamed Zaheer Mohamed Azreen

Member

Non-independent non-executive director

(42 years of age – Sri Lankan) Chartered Institute of Management Accountants (CIMA) UK, Institute of Chartered Accountants (ICASL) of Sri Lanka, Institute of Certified Management Accountants (ICMA) of Sri Lanka, Certified Risk Analyst (CRA) US.

Mr Azreen was appointed to the Board of the Bank on 10 April 2011. He is an Associate Member of CIMA UK, an Associate Member of ICASL of Sri Lanka, a Fellow Member of ICMA of Sri Lanka and Charter holder of CRA.

Mr Azreen started his career as article clerk and then promoted as Manager Audit and Consultancy at KPMG Ford Rhodes Thornton & Co in Colombo, Sri Lanka in 1991. He then joined Messrs Ernst & Young (EY), Bahrain Office in October 1996 as the Senior Accountant and was assigned the responsibilities of managing business community training unit which provide in house training to EY employees and its clients on various accounting and finance disciplines. He then joined Kuwait Finance House, Kuwait (KFHK) in 1999 as Investment Manager, Direct Investment Department. He is currently the Senior Investment Manager, Direct Investment Department whereby he is responsible in managing a portfolio in excess of USD2billion distributed in different sectors and geographies.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Abdul Wahab I.A.A AlRushood

Member

Non-independent non-executive director

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

Mr. Abdul Wahab worked with the Treasury Department of 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.

Board Meetings

During the financial year ended 31 December 2011, ten (10) Board meetings, eleven (11) Special Board meetings and one (1) Adjourned Board meeting were held and attended by the directors. In the said Board, Special and Adjourned 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:

Board Audit Committee ("BAC")

The Board Audit Committee ("BAC") consists of three (3) independent non-executive directors and one (1) non-independent non-executive director and held five (5) BAC meetings and six (6) Special BAC meetings during the financial year. The members are as follows:

Khalid Sufat - Chairman (Appointed on 27 April 2011)

Professor Mohamed Ismail Mohamed Shariff - Member (Change of designation on 27 April 2011)

Haji Ismail Ibrahim - Member (Appointed on 27 April 2011)

Mohamed Zaheer Mohamed Azreen - Member (Appointed on 27 April 2011)

Khairil Anuar Abdullah (Resigned on 27 April 2011)

The roles and responsibilities of the BAC 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 BAC 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.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

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

Haji Ismail Ibrahim - Chairman (Appointed on 27 April 2011)
Shaheen H A KH SH Alghanem - Member (Appointed on 27 April 2011)
Khalid Sufat - Member (Appointed on 27 April 2011)
Mohamed Zaheer Mohamed Azreen - Member (Appointed on 27 April 2011)
Khairil Anuar Abdullah (Resigned on 27 April 2011)
Professor Mohamed Ismail Mohamed Shariff (Resigned on 27 April 2011)
Abdul Wahab I.A.A. AlRushood (Resigned on 27 April 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 robust and functions effectively.

Nominating Committee

The Nominating Committee ("NC") consists of four (4) independent non-executive directors and two (2) non-independent non-executive directors. Five (5) NC meetings were held during the financial year. The members are as follows:

Dr. Nabeel A E A Al-Mannae - Chairman (Appointed on 7 September 2011)
Shaheen H A KH SH Alghanem - Member
Professor Mohamed Ismail Mohamed Shariff - Member
Abdul Wahab I.A.A. AlRushood - Member
Khalid Sufat - Member (Appointed on 27 April 2011)
Haji Ismail Ibrahim - Member (Change of designation on 27 April 2011)
Khairil Anuar Abdullah (Resigned on 27 April 2011)

The roles and responsibilities of the NC are to provide a formal and transparent procedure for the appointment of directors, Chief Executive Officer and key senior management personal, 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 two (2) non-independent non-executive directors. Three (3) RC meetings were held during the financial year. The members are as follows:

Professor Mohamed Ismail Mohamed Shariff - Chairman
Abdul Wahab I.A.A. AlRushood - Member
Khalid Sufat - Member (Appointed on 27 April 2011)
Mohamed Zaheer Mohamed Azreen- Member (Appointed on 27 April 2011)
Khairil Anuar Abdullah (Resigned on 27 April 2011)

The roles and responsibilities of the RC 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.

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

Board Credit and Investment Committee

The Board Credit and Investment Committee ("BCIC") consists of three (3) non-independent non-executive directors and one (1) independent non-executive director. Seventeen (17) BCIC meetings and three (3) Special BCIC meetings were held during the financial year. The members are as follows:

Shaheen H A KH SH Alghanem - Chairman

Abdul Wahab I.A.A. AlRushood - Member

Haji Ismail Ibrahim - Member (Appointed on 27 April 2011)

Mohamed Zaheer Mohamed Azreen - Member (Appointed on 27 April 2011)

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

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 oversees the formulation of risk strategies on an on-going basis and addresses issues arising from changes in both the external business environment and internal operating conditions.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

The Board Audit Committee ("BAC") 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 Board Audit Committee ("BAC") meetings are tabled to the Board of the Bank on a periodical basis.

The Board Audit Committee ("BAC") is supported by the Internal Audit Division, which examines the Bank and its subsidiaries for compliance with policies, procedures, applicable law, rules and regulations and assesses the effectiveness of the internal control systems, highlighting findings that carry significant financial and non-financial impact to the Bank. Status of implementation of action plans to address the findings are closely monitored and reported to the Board Audit Committee ("BAC"). The annual audit plan, prioritized based on risks associated with key business processes is reviewed and approved by the Board Audit Committee ("BAC").

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management

Audited information according to FRS 7 and FRS 101

Risk management disclosures provided in line with the requirements of the Financial Reporting Standard ("FRS") 7 *Financial Instruments: Disclosures*, and disclosures on capital management as required by FRS 101 *Presentation of Financial Statements (Revised)* form part of the financial statements audited by the Bank's independent auditors Ernst & Young. This information (the audited texts and tables) is marked by a bar on the left-hand side throughout this report and incorporated by cross-reference into the financial statements of this report.

The Credit and Risk management function is overseen by the Chief Risk Officer, who reports to BRMC, a Board committee chaired by an independent Board member.

Capital Adequacy Framework Initiatives

The Bank views with great importance having in place sound practices in managing the range of risks that the Bank's faces and the potential impact that they posed on the Bank's capital. Hence the Capital Planning and Regulatory Standards unit has continued to complement the risk management practices that are carried out in the Bank. The unit is also dedicated to ensure successful adoption of Pillars 1, 2 and 3 under BNM Capital Adequacy Framework (CAFIB).

Pillar 1

Under BNM Guideline entitled Capital Adequacy Framework for Islamic Banks which specifies the risk measurement methodologies for the purpose of calculating minimum capital requirements to be held by Islamic banks, the Bank has adopted the following approaches:

- (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 regulatory capital ratios prescribed under Pillar 1 throughout the year.

Pillar 2 (Internal Capital Adequacy Assessment Process – ICAAP)

Going forward, the Bank will implement ICAAP as required by BNM Guideline issued on 3 December 2010, entitled Capital Adequacy Framework for Islamic Banks – Internal Capital Adequacy Assessment Process (Pillar 2) and updated on 2 December 2011, as part of its conscientious efforts to ensure adequate capital is available to support its' activities and operations at all times, in line with BNM guidelines and international best practices.

The Bank has carried out a comprehensive assessment of its' existing capital and risk management practices against expectations set forth in the BNM Guidelines - Capital Adequacy Framework for Islamic Banks – Internal Capital Adequacy Assessment Process (Pillar 2). The ICAAP readiness review report was submitted to BNM on 30 June 2011 together with the action plan and proposed timelines for the Bank's ICAAP implementation.

The Bank will use ICAAP in assessing the overall capital adequacy in relation to its risk profile and take steps to strengthen the risk and capital management capability. In addition, where possible, the Bank will leverage on KFH Group ICAAP and take into consideration the Group's risk assessment and governance framework.

Pillar 3

The Bank is also in compliance with the BNM Guideline on Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), where applicable.

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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.

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 2011, 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 steadily, as new business initiatives and strategies have been executed over the year. New products such as auto financing and personal financing have started to make an impact in both the retail banking portfolio as well as the bank's portfolio in 2011, growing from 2.62% out of the total retail banking portfolio in 2010 to 73.52% in 2011.

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. The approval process has been made more stringent with the refinement of the credit guidelines, country limits, target markets, revised scorecard for the Middle Market portfolio.

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

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

The Bank is in compliance with BNM's Guideline on Classification and Impairment Provisions for Financing for the classification of impaired financing and has adopted the new Financial Instruments 139: Recognition and Measurement ("FRS 139") impairment requirements in prior year except on collective impairment assessment where Bank Negara Malaysia's transitional arrangement has been used. Several refinements to the Bank's internal policy were also approved by Board Risk Management Committee (BRMC) in 2011.

The Risk Management team made concrete progress in ensuring that more relevant and granular reports are presented to management. The RMD team is working to complete the implementation of an interactive analytical tool to be made available to various business and support functions. This will allow users to physically make changes and customise different forms of analysis right at their fingertips, which will be extremely useful for monitoring of performance and identification of business opportunities.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Market Risk Management

The objective of the market risk management is to ensure that all activities that are exposed to potential loss due to movement of market 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.

Liquidity Risk Management

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.

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

Profit Rate (Rate of Return) Risk Management

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 ALCO. ALCO is chaired by Chief Executive Officer with members comprise of senior management representing major business units, Finance Division, Credit 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.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Operational Risk Management ("ORM") Team

The Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risk, reputational risk and Shariah compliance risk but excludes strategic risk.

The Bank continuously places high importance in having adequate and effective measures in monitoring and controlling the material operational risks inherent in the Bank's daily business and operational activities in order to achieve a sound and stable operating environment within the Bank. Several operational risk management tools/assessments have been implemented bankwide such as Risk Event/Incident Reporting, Risk Control Self Assessment, Risk Assessment Scorecard and Key Risk Indicators. The implementation of these tools is part of the Bank's initiative to effectively manage and focus on its critical risk areas. Monitoring of the operational risk is an ongoing process to continuously identify the opportunity for improvement in the Bank's day to day business and operational activities and also to achieve best operational risk management practices.

Each new and/or variation of new products and services are subject to independent review by the Operational Risk Management team to ensure that all the critical risk areas are properly identified, assessed and the appropriate control measures are implemented in order to manage the risk.

The Bank also actively promotes a risk and compliance culture, and strives to provide a clearer ownership and accountability of operational risks and compliance by the Business and Support Departments. Training on operational risk is being conducted for all the new hires.

In order to ensure effective monitoring and managing of the operational risks, all the outcome from the implementation of the operational risk management tools/assessments and independent review performed are being presented in the Operational Risk Management and Compliance (ORMC) Committee. ORMC Committee deliberates and provides the direction on the best course of action that need to be implemented in order to mitigate the recurrence of risk events, deter frauds and minimise operational losses due to staff negligence or errors.

The Bank also has in place an Operational Risk Management System to facilitate the entry, collection, transfer, storage, tracking and reporting of operational risk information drawn from the various departments/divisions within the Bank into a single system.

Regulatory and Anti Money Laundering (AML) Compliance

The Regulatory and Anti Money Laundering Compliance function was restructured in November 2011 by amalgamating the Risk Compliance Review team with the Regulatory and Anti Money Laundering Compliance team. The key objective of the restructuring is to harmonise the two teams in validating the implementation of new guidelines and improve the compliance culture within the Bank. The main tasks of the two teams within the unit are as follows:

- (a) Risk Compliance Review: Monitors and review Bankwide operational and credit compliance activities.
- (b) Ignorance of any regulation is no excuse for non-compliance.
- (b) Regulatory and AML Review: Monitors the implementation of new regulatory requirements and undertake ongoing AML customer due diligent review at transactional level.

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(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Regulatory and Anti Money Laundering (AML) Compliance (Cont'd.)

Risk Compliance Review

Risk Compliance Review was established within RMD with the core objective of assisting the Bank in identifying, managing and monitoring compliance to regulatory requirement, adequacy of policy and procedure and adequacy of the risk identification and mitigation process.

This was achieved by performing end-to-end review on Bank's critical operational and credit processes. In carrying out the review, a risk based review plan was developed to identify the Bank's critical operation and credit process. The plan would be endorsed by management and approved by the BRMC.

Risk Compliance review key processes include, 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.

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 and operational lapses.

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
- (b) The Bank must provide appropriate level of compliance awareness and training to their employees in matters affecting their assignments

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Regulatory and Anti Money Laundering (AML) Compliance (Cont'd.)

Regulatory & Anti-Money Laundering Compliance ("RAC") (Cont'd.)

Under the Bank's compliance policy, the line management plays an important role in cultivating a compliance culture within the organization. Recognizing this, the Bank has implemented the appointment of Business Unit Compliance Officers (BUCOs) at divisional/departamental 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, gaps in work processes and the status of any corrective action.

As a fully licensed Islamic Bank, KFHMB 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 commitment 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) Establish Know Your Customer (KYC) policy and procedures to address the establishment of new business relationship with customers;
- (b) Implemented the ERASE anti-money laundering system since 15 July 2008. This has enabled the Bank to effectively conduct ongoing monitoring of customer transactions through a dedicated Management Information System (MIS) for prompt detection and reporting of suspicious transaction;
- (c) Record keeping procedure in accordance with statutory requirements;
- (d) Regular AML/CFT training sessions to create staff awareness i.e. for 2011, the Bank has conducted 18 training sessions for the staff; and
- (e) Regular update to Management and BRMC on AML trend of the Bank.

The above measures especially with the implementation of a dedicated MIS to systematically conduct ongoing customer due diligence and to monitor the customers' transactions on a daily basis, demonstrate the Bank's and Group's, including its managed affiliates worldwide, strong commitment in ensuring compliance to the relevant AML legislation.

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2011.

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>(596,208)</u>	<u>(577,436)</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:

Dr. Nabeel A E A Al-Mannae (Chairman) (Appointed on 5 September 2011)
Shaheen H A KH SH Alghanem (Deputy Chairman) (Change of designation on 5 September 2011 due to BNM guidelines on Corporate Governance for Licensed Islamic Banks, Part 2 - Principles of Corporate Governance, Minimum Standards and Specific Requirements)
Professor Mohamed Ismail Mohamed Shariff
Abdul Wahab I.A.A. AlRushood
Khalid Sufat
Haji Ismail Ibrahim
Mohamed Zaheer Mohamed Azreen (Appointed on 10 April 2011)
Khairil Anuar Abdullah (Resigned on 27 April 2011)

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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 37 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 40 to the financial statements.

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 2011

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.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

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 allowances for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowances 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 allowances 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.

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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 2012

2011 was a year of continuing efforts in consolidating and streamlining operations to improve stakeholders' confidence. The Bank is expected to continue striving to achieve the same objective in 2012 by leveraging on four strategic thrusts namely balance sheet realignment, build internal capability, business refocusing and cost optimisation.

In terms of balance sheet realignment, the Bank intends to further build up its asset quality by focusing more on potential customers with certain range of credit rating and quality assets as well as improving and diversifying its income base.

In order to support the above strategic thrust, the Bank expects to build or strengthen its internal capability and capacity by increasing its visibility and presence in the market. In addition, the Bank will continue focusing on improving staff competency and internal operational and support process efficiency.

Then, with the support of strong internal capability and capacity, the Bank will refocus its business by further building up retail asset composition and revitalise investment banking.

Finally, in terms of cost optimisation, the Bank is putting down strategic plan to improve cost-to-income ratio to a certain level by 2015.

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OUTLOOK FOR 2012

The Malaysian economy is forecasted to expand slower between 4.5% to 5.0% y-o-y in 2012, from 5.1% recorded in 2011, as economic activity slows in the country's major export markets. However, we believe private consumption and investment will remain the main drivers of economic growth in 2012. Expansion in private consumption will be underpinned by one-off payments made to various socio-economic groups and by salary increases for civil servants, who make up around 10% of the total labour force.

Consumer price inflation is expected to moderate in 2012, whereby the deceleration will reflect a drop in global prices for oil and non-oil commodities in 2012. The moderation in inflation to 2.7% y-o-y in January 2012 may increase the central bank's scope to leave interest rates unchanged while assessing the risks to growth from a faltering global economy. BNM is of the view that the OPR level is still supportive of economic activity.

The ringgit will remain strong during 2012 and continue to be supported by large surpluses on Malaysia's trade and current accounts and by strong capital inflows. Bank Negara Malaysia (BNM) will maintain its current exchange-rate regime, under which the ringgit is subject to a managed float against a trade-weighted basket of currencies.

However, as it stands, the global economy is still struggling to grapple with lingering concerns over the sovereign debt problems in the Eurozone and the weak recovery in the US economy. In addition, the Chinese economy is showing signs of further easing, following several rounds of aggressive credit and monetary policy tightening by the Chinese authorities to bring its asset prices and inflation under control.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Classification	Assigned
Malaysian Rating Corporation Berhad (MARC)	September 2011	Long term Short term	AA+ MARC-1

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Thirteen (13) Shariah Committee meetings were held during the financial year. The Shariah Committee comprises of five (5) qualified Shariah scholars who are appointed by the Board for a two-year term as follows:

- (a) Sheikh Prof. Dr. Mohammed Abdul Razzaq Al-Tabtabae (Chairman)
- (b) Sheikh Dr. Anwar Shuaib Abdulsalam (Member)
- (c) Sheikh Dr. Adnan Ali Ibrahim Al-Mulla (Member)
- (d) Sheikh Isa Abdulla Yusuf Dowaishan (Member)
- (e) Sheikh Dr. Engku Muhammad Tajuddin Engku Ali (Member)

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DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

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

- (a) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- (b) To evaluate and endorse sample of contracts, agreements of the Bank's transactions;
- (c) To clarify Shariah rulings in relation to the Bank's transactions as observed by the Committee based on what was referred to them by the Board of Directors, the Chairman or the Shariah Division;
- (d) To present Shariah's views to the Board of Directors in relation to any matter raised in regards to the transactions of the Bank;
- (e) To confirm that the Bank's transactions and contracts are in compliance with Shariah via reports submitted by the Shariah Advisor/Shariah Division to the Shariah Committee on a periodic basis, explaining the activities and the implementation of the fatwa and rulings issued by the Shariah Committee. The Shariah Committee shall rectify any shortcomings to ensure its conformity to Shariah;
- (f) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:
 - (i) when the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and
 - (ii) when the Bank submits applications to Bank Negara Malaysia for the approval of new products in accordance with guidelines on product approval issued by Bank Negara Malaysia;
- (g) To review 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 7 March 2012.

KHALID BIN SUFAT

Director

PROF. MOHAMED ISMAIL BIN MOHAMED SHARIFF

Director

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STATEMENT BY DIRECTORS

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

We, Khalid bin Sufat and Prof. Mohamed Ismail bin 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 27 to 149 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 2011 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 7 March 2012.

KHALID BIN SUFAT

Director

PROF. MOHAMED ISMAIL BIN MOHAMED SHARIFF

Director

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STATUTORY DECLARATION

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

I, Khalid bin Sufat, 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 27 to 149, 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 Khalid bin Sufat
at Kuala Lumpur, in the Federal Territory on 7 March 2012

BEFORE ME:

Commissioner for Oaths

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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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 and approved the policies, products and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries ("the Group") during the period ended 31 December 2011. 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 rulings issued by us.

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

We conducted our review through Shariah Division and approved samples of contracts, agreements and reviewed operations related to the transactions of Kuwait Finance House (Malaysia) Berhad's with shareholders, investors and others. This has been done by selecting random samples according to the annual Shariah Review Plan on all departments, and by regular reports submitted by Shariah Division regarding the review process, field visits, conduct of business and proper implementation of decisions issued by the Committee.

We obtained all 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 all transactions that had been presented to us.

In our opinion:

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2011 that we have 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 put aside in a separate account and disposed of to charitable causes; and
- (d) the calculation of Zakat is in compliance with Shariah rules and principles.

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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. Mohammad Abdul Razaq Al-Tabtabae

Chairman

Signature:

Date:

Sheikh Dr. Anwar Shuaib Abdulsalam

Member

Signature:

Date:

Sheikh Dr. Adnan Ali Ibrahim Al-Mulla

Member

Signature:

Date:

Sheikh Isa Abdulla Yusuf Dowaishan

Member

Signature:

Date:

Sheikh Dr. Engku Muhammad Tajuddin Engku Ali

Member

Signature:

Date:

Kuala Lumpur, Malaysia

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**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 2011 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 27 to 149.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the 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.

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

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 Bank as at 31 December 2011 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' report of the subsidiary of which we have not acted as auditors, which is indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditor's 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.

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
7 March 2012

Chan Hooi Lam
No. 2844/02/14(J)
Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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STATEMENTS OF FINANCIAL POSITION

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
ASSETS					
Cash and short-term funds	4	1,973,012	2,651,695	2,076,287	2,744,436
Deposits and placements with banks and other financial institutions	5	734,973	275,092	734,973	275,092
Securities held-for-trading	6	90,216	110,083	83,776	110,083
Hedging financial instruments	12	43,688	80,632	43,688	80,632
Securities available-for-sale	7	1,096,340	1,053,506	977,255	925,933
Securities held-to-maturity	8	47,125	46,266	47,125	46,266
Financing, advances and other receivables	9	5,219,857	6,072,784	5,219,857	6,072,784
Murabahah trading automobile	10	32	32	32	32
Other assets	11	411,730	385,682	406,948	366,450
Statutory deposits with Bank Negara Malaysia	13	180,200	44,854	180,200	44,854
Musarakah capital investment	14	5,898	5,898	5,898	5,898
Investment in subsidiaries	15	-	-	30,952	32,397
Investment in jointly controlled entity	16	-	932	-	-
Property and equipment	17	23,855	27,340	23,624	26,915
Intangible assets	18	23,422	27,529	23,403	27,508
Deferred tax assets	19	288,388	125,557	288,301	125,175
TOTAL ASSETS		10,138,736	10,907,882	10,142,319	10,884,455
LIABILITIES					
Deposits from customers	20	4,717,854	4,560,037	4,719,586	4,561,610
Deposits and placements of banks and other financial institutions	21	3,134,572	3,478,689	3,152,042	3,486,642
Hedging financial instruments	12	72,655	39,789	72,655	39,789
Murabahah bank financing	24	-	23,233	-	23,233
Subordinated Murabahah Tawarruq	25	373,589	350,797	373,589	350,797
Other liabilities	22	365,785	398,002	364,588	396,933
Provision for zakat	23	3,740	3,740	3,740	3,740
TOTAL LIABILITIES		8,668,195	8,854,287	8,686,200	8,862,744
SHAREHOLDER'S EQUITY					
Share capital	26	2,266,125	2,266,125	2,266,125	2,266,125
Reserves	27	(795,584)	(212,530)	(810,006)	(244,414)
TOTAL SHAREHOLDER'S EQUITY		1,470,541	2,053,595	1,456,119	2,021,711
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		10,138,736	10,907,882	10,142,319	10,884,455

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STATEMENTS OF FINANCIAL POSITION (CONT'D.)

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
COMMITMENTS AND CONTINGENCIES	41	3,516,405	4,052,245	3,516,405	4,052,245
CAPITAL ADEQUACY					
Core capital ratio	43	14.08%	20.15%	13.98%	20.00%
Risk-weighted capital ratio	43	18.40%	24.56%	17.79%	23.76%
NET ASSETS PER SHARE (RM)		0.65	0.91	0.64	0.89

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

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INCOME STATEMENTS

	Note	Group		Bank	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Operating revenue	28	459,788	447,989	450,331	444,562
Income derived from investment of depositors' funds and others	29	342,673	342,407	343,833	342,389
Income derived from investment of shareholder's equity	30	117,115	105,582	106,498	102,173
Total gross income		459,788	447,989	450,331	444,562
Impairment allowances on financing, advances and other receivables	31	(795,997)	(191,316)	(795,997)	(191,316)
Impairment loss and allowances on investments	32	(20,000)	954	(2,833)	(34,546)
Total distributable (loss)/income		(356,209)	257,627	(348,499)	218,700
Income attributable to the depositors	33	(208,486)	(188,046)	(208,686)	(188,297)
Total net (loss)/income		(564,695)	69,581	(557,185)	30,403
Personnel expenses	34	(94,843)	(99,582)	(87,892)	(88,244)
Other overheads and expenditures	35	(91,032)	(73,940)	(87,145)	(67,598)
Finance cost	36	(12,949)	(13,918)	(12,949)	(13,918)
Loss before zakat and taxation		(763,519)	(117,859)	(745,171)	(139,357)
Zakat		-	(1,565)	-	(1,565)
Taxation	38	167,311	43,787	167,735	43,632
Net loss for the year		(596,208)	(75,637)	(577,436)	(97,290)
Attributable to:					
- Equity holder of the Bank		(596,208)	(75,637)	(577,436)	(97,290)
Loss per share (sen)					
- Basic/Diluted	39	(26.31)	(3.34)		

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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Net loss for the year	(596,208)	(75,637)	(577,436)	(97,290)
Other comprehensive (loss)/income:				
Securities available-for-sale:				
Net gain taken to equity	18,391	26,099	18,386	25,305
Exchange differences on translation of foreign operations:				
Net gain/(loss) taken to equity	1,242	(5,125)	-	-
Income tax relating to components of other comprehensive income (Note 19)	(6,479)	(6,474)	(6,542)	(6,326)
Other comprehensive income for the year, net of tax	13,154	14,500	11,844	18,979
Total comprehensive loss for the year	(583,054)	(61,137)	(565,592)	(78,311)
Total comprehensive loss for the year attributable to equity holder of the Bank	(583,054)	(61,137)	(565,592)	(78,311)

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF CHANGES IN EQUITY

	Share Capital RM'000	Non-distributable			Distributable	Total RM'000
		Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Securities Available- For-Sale RM'000	Accumulated Losses RM'000	
Group						
At 1 January 2011	2,266,125	34,952	(7,367)	(15,155)	(224,960)	2,053,595
Total comprehensive income /(loss)	-	-	1,242	11,912	(596,208)	(583,054)
At 31 December 2011	2,266,125	34,952	(6,125)	(3,243)	(821,168)	1,470,541
At 1 January 2010	2,266,125	34,952	(2,094)	(34,928)	(149,323)	2,114,732
Total comprehensive (loss) /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
Bank						
At 1 January 2011	2,266,125	34,952	-	(15,949)	(263,417)	2,021,711
Total comprehensive income /(loss)	-	-	-	11,844	(577,436)	(565,592)
At 31 December 2011	2,266,125	34,952	-	(4,105)	(840,853)	1,456,119
At 1 January 2010	2,266,125	34,952	-	(34,928)	(166,127)	2,100,022
Total comprehensive income /(loss)	-	-	-	18,979	(97,290)	(78,311)
At 31 December 2010	2,266,125	34,952	-	(15,949)	(263,417)	2,021,711

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before zakat and taxation	(763,519)	(117,859)	(745,171)	(139,357)
Adjustments for:				
Impairment allowances on financing, advances and other receivables (Note 31)	796,263	191,316	796,263	191,316
Amortisation of premium less accretion of discounts	1,081	250	1,081	250
Finance cost (Note 36)	12,949	13,918	12,949	13,918
Depreciation of property and equipment (Note 35)	11,631	11,508	11,422	10,903
Amortisation of intangible assets (Note 35)	8,192	8,254	8,185	8,237
Loss on disposal of property and equipment	14	10	-	11
Write-offs of property and equipment	45	203	45	8
Net gains on sale of securities available-for-sale	(915)	-	(915)	-
Net gains on sale of securities held-for-trading	(847)	(539)	(777)	(539)
Short-term accumulated compensated absences	61	-	61	-
Impairment allowance/(write-back) on securities available-for-sale (Note 32)	19,150	(772)	1,368	(772)
Impairment write-back on Murabahah trading automobile (Note 32)	-	(182)	-	(182)
Impairment on jointly controlled entity (Note 32)	850	-	-	-
Impairment on subsidiaries (Note 32)	-	-	1,465	35,500
Unrealised loss/(gain) on securities held-for-trading, and hedging financial instruments	78,691	(51,507)	80,465	(61,473)
Operating profit before working capital changes	163,646	54,600	166,441	57,820
(Increase)/decrease in operating assets				
Deposits and placements with banks and other financial institutions	(459,880)	(136,041)	(459,880)	(136,041)
Financing, advances and other receivables	56,664	31,812	56,664	31,300
Murabahah trading automobile	-	37,579	-	37,579
Other assets	(39,300)	(206,394)	(53,690)	(209,323)
Statutory deposits with Bank Negara Malaysia	(135,346)	4,646	(135,346)	4,646
Increase/(decrease) in operating liabilities				
Deposits from customers	157,818	291,441	157,977	296,905
Deposits and placements of banks and other financial institutions	(344,117)	(736,472)	(334,601)	(728,508)
Other liabilities	(36,874)	46,430	(37,002)	36,817
Cash used in operations	(637,389)	(612,399)	(639,437)	(608,805)
Tax refunded/(paid)	15,784	(9,076)	15,855	(9,000)
Zakat paid	-	(1,092)	-	(1,092)
Net cash used in operating activities	(621,605)	(622,567)	(623,582)	(618,897)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of securities	(23,176)	(102,860)	(9,078)	(73,756)
Proceeds from disposal of Musyarakah capital	-	18	-	18
Proceeds from transfer of financing assets	-	542,800	-	542,800
Investment in subsidiaries	-	-	-	(1,754)
Repayment of advances/(investment and advances to) jointly controlled entity	307	(932)	-	-
Proceeds from disposal of property and equipment	20	414	-	365
Purchase of property and equipment	(8,217)	(2,458)	(8,176)	(2,328)
Purchase of intangible assets	(4,084)	(7,115)	(4,080)	(7,120)
Net cash generated from/(used in) investing activities	(35,150)	429,867	(21,334)	458,225
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Murabahah bank financing	(23,233)	(28,258)	(23,233)	(28,164)
Net cash used in financing activities	(23,233)	(28,258)	(23,233)	(28,164)
Net decrease in cash and cash equivalents	(679,988)	(220,958)	(668,149)	(188,836)
Cash and cash equivalents at beginning of year	2,651,695	2,877,926	2,744,436	2,933,272
Exchange differences on translation of opening balances	1,305	(5,273)	-	-
Cash and cash equivalents at end of year (Note 4)	1,973,012	2,651,695	2,076,287	2,744,436

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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 7 March 2012.

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 2011, as disclosed in Note 3.

Certain qualitative disclosures under FRS 7 *Financial Instruments: Disclosures* about the nature and extent of risks and capital management disclosures under FRS 101 *Presentation of Financial Statements (Revised)* have been included in the audited parts of the "Risk Management" section in the Statement of Corporate Governance.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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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.

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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.

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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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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.

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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.

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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. There is no zakat paid during the financial year.

(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.

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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.

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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 FRS

On 1 January 2011, 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 2011:

FRSs, Amendments and Interpretations	Effective for financial period beginning on and after
* Amendments to FRS 132: Financial Instruments: Presentation	1 March 2010
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 Derivatives</i>	1 July 2010
IC Interpretation 12 <i>Service Concession Arrangements</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 1 <i>Additional Exemption for First-time Adopters</i>	1 January 2011
Amendments to FRS 1 <i>Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters</i>	1 January 2011
Amendments to FRS 1 <i>First-time Adoption of Financial Reporting Standards</i>	1 January 2011
Amendments to FRS 2 - <i>Group Cash-settled Share-based</i>	1 January 2011
Amendments to FRS 3: <i>Business Combinations</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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

On 1 January 2011, 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 2011 (Cont'd.):

	Effective for financial period beginning on and after
FRSs, Amendments and Interpretations (Cont'd.)	
TR i-4 <i>Shariah Compliant Sale Contracts</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

- * The amendments to FRS 132: Financial Instruments: Presentation in paragraphs 11, 16 and 97E, are relating to Classification of Rights Issues.

The adoption of the above FRS, amendments to FRS and IC Interpretations did not have any material impact on the financial statements of the Bank, except for the following:

- (a) the adoption of amendments to FRS 7 which resulted in removal of some disclosures as well as additional disclosures in the financial statements, but did not affect the earnings, retained earnings or other reserves

Amendments to FRS 7 introduce changes to credit risk disclosures as well as enhanced disclosures on fair value measurement and liquidity risk.

The adoption is effected prospectively for annual periods beginning on or after 1 January 2011 except for credit risk disclosures whereby the changes in the disclosures are effected retrospectively. The details of disclosure are mainly disclosed in Note 50 and the relevant financial instrument notes to the financial statements.

3.3 Malaysian Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture ("MFRS 141") and IC Interpretation 15 Agreements for Construction of Real Estate ("IC 15"), including its parent, significant investor and venturer.

The Group and the Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Bank will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Malaysian Financial Reporting Standards (Cont'd.)

The Bank has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Bank considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

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) Deferred tax and income taxes

Significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the period in which the estimate is revised or the final liability is established.

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

4 CASH AND SHORT-TERM FUNDS

Cash and balances with banks and other financial institutions
Money at call and interbank placements with remaining maturity less than one month

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
71,835	280,855	70,851	279,078
1,901,177	2,370,840	2,005,436	2,465,358
1,973,012	2,651,695	2,076,287	2,744,436

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Licensed Islamic banks
Other financial institutions

267,453	78,531	267,453	78,531
467,520	196,561	467,520	196,561
734,973	275,092	734,973	275,092

6 SECURITIES HELD-FOR-TRADING

At fair value

Unquoted Islamic private debt securities/sukuk

90,216	110,083	83,776	110,083
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7 SECURITIES AVAILABLE-FOR-SALE

At fair value

Bank Negara Malaysia Ijarah sukuk

Unquoted securities

Islamic private debt securities/sukuks
Malaysian Government sukuk
Property funds

-	121,106	-	121,106
880,896	749,752	850,522	721,731
123,466	77,341	106,962	64,096
72,207	86,307	-	-
1,076,569	913,400	957,484	785,827

At cost

Unquoted shares in Malaysia

19,771	19,000	19,771	19,000
1,096,340	1,053,506	977,255	925,933

8 SECURITIES HELD-TO-MATURITY

At amortised cost

Unquoted securities:

Islamic private debt securities/sukuk

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
47,125	46,266	47,125	46,266

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

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
(vii) Movements in impairment allowances on financing, advances and other receivables				
Collective assessment				
At 1 January	118,773	113,701	118,773	113,701
Allowance made during the year	-	5,072	-	5,072
At 31 December	118,773	118,773	118,773	118,773
As % of total gross financing, advances and other receivables less individual impairment allowance	2.22%	1.92%	2.22%	1.92%
Individual assessment				
At 1 January	411,715	504,647	411,715	504,647
Allowance made during the year	796,263	186,244	796,263	186,244
<i>Allowance charged during the period</i>	<i>950,387</i>	<i>564,291</i>	<i>950,387</i>	<i>564,291</i>
<i>Allowance written-back during the period</i>	<i>(154,124)</i>	<i>(378,047)</i>	<i>(154,124)</i>	<i>(378,047)</i>
Amount written off	(110,727)	-	(110,727)	-
Amount written-back in respect of SPSIA arrangement *	-	(272,328)	-	(272,328)
Exchange difference	(7,373)	(6,848)	(7,373)	(6,848)
At 31 December	1,089,878	411,715	1,089,878	411,715

* In 2010, 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.

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12 HEDGING FINANCIAL INSTRUMENTS

Group and Bank

2011

Forward foreign exchange related contracts
Ijarah rental swap related contracts
Total

2010

Forward foreign exchange related contracts
Ijarah rental swap related contracts
Total

Notional Amount RM'000	Fair Value	
	Assets RM'000	Liabilities RM'000
917,884	719	34,338
618,888	42,969	38,317
1,536,772	43,688	72,655
1,128,680	38,760	5,023
690,229	41,872	34,766
1,818,909	80,632	39,789

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	
2011 RM'000	2010 RM'000
30,200	30,200
15,993	37,697
46,193	67,897
(15,241)	(35,500)
30,952	32,397

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15 INVESTMENT IN SUBSIDIARIES (Cont'd.)

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2011	2010
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
Kuwait Finance House (Australia) Pty Ltd ^	Fund management	Australia	100	100
KFH Asset Management Sdn. Bhd.	Asset management	Malaysia	100	100

* The name of the company was struck off from the register in Singapore on 9 March 2011

^ Audited by member firm of Ernst & Young Global in Australia

16 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Group	
	2011 RM'000	2010 RM'000
Unquoted shares, at cost	84	84
Advances	542	848
	626	932
Less: Accumulated impairment losses	(626)	-
	-	932

The details of the jointly controlled entity held by a subsidiary of the Bank, which have a financial year end of 31 December are as follows:

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16 INVESTMENT IN JOINTLY CONTROLLED ENTITY (Cont'd.)

	Counterparty of Incorporation	Effective Interest		Principal Activity
		2011	2010	
		%	%	
Name of Company				
Global Shipping Investment				Fund
Management Limited	Cayman Island	50	50	Management

The aggregate share of the current assets, non-current assets, current liabilities, non-current liabilities, income and expenses of the jointly controlled entities is as follows:

	Group	
	2011	2010
	RM'000	RM'000
Assets and liabilities		
Current assets, representing total assets	-	740
Current liabilities, representing total liabilities	1,084	1,697
Results		
Revenue	1	1
Expenses, including finance costs and taxation	33	1,112

Subsequent to year-end the joint venture partners have decided for the jointly controlled entity to cease operations.

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17 PROPERTY AND EQUIPMENT

Group 2011	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	16,994	9,379	10,631	21,348	1,321	1,531	61,204
Additions	849	1,465	462	2,099	-	6,155	11,030
Disposals	-	-	-	(40)	-	-	(40)
Write-offs	(109)	-	-	-	-	-	(109)
Transfers	978	251	1,521	636	-	(6,199)	(2,813)
Exchange difference	2	2	-	5	-	-	9
At 31 December	18,714	11,097	12,614	24,048	1,321	1,487	69,281
<u>Accumulated depreciation</u>							
At 1 January	10,015	5,692	6,800	10,862	495	-	33,864
Charge for the year (Note 35)	3,743	2,179	1,748	3,720	241	-	11,631
Disposals	-	-	-	(6)	-	-	(6)
Write-off	(64)	-	-	-	-	-	(64)
Transfers	(2)	(15)	12	5	-	-	-
Exchange difference	(2)	-	-	3	-	-	1
At 31 December	13,690	7,856	8,560	14,584	736	-	45,426
<u>Net book value</u>							
At 31 December	5,024	3,241	4,054	9,464	585	1,487	23,855
Bank 2011							
<u>Cost</u>							
At 1 January	16,657	9,333	10,586	21,048	1,321	1,531	60,476
Additions	812	1,465	462	2,095	-	6,155	10,989
Disposals	-	-	-	-	-	-	-
Write-offs	(109)	-	-	-	-	-	(109)
Transfers	978	251	1,521	636	-	(6,199)	(2,813)
At 31 December	18,338	11,049	12,569	23,779	1,321	1,487	68,543
<u>Accumulated depreciation</u>							
At 1 January	9,870	5,668	6,781	10,747	495	-	33,561
Charge for the year (Note 35)	3,615	2,147	1,740	3,679	241	-	11,422
Write-offs	(64)	-	-	-	-	-	(64)
Transfers	(2)	(15)	12	5	-	-	-
At 31 December	13,419	7,800	8,533	14,431	736	-	44,919
<u>Net book value</u>							
At 31 December	4,919	3,249	4,036	9,348	585	1,487	23,624

The additions for the year in respect of renovation include accrued restoration cost for the Group of RM553,691 (2010: RM372,138) and the Bank of RM520,000 (2010: RM246,437).

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17 PROPERTY AND EQUIPMENT (Cont'd.)

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 (Note 35)	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 (Note 35)	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

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18 INTANGIBLE ASSETS

At 31 December

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
46,457	39,368	46,416	39,296
1,271	3,923	1,267	3,923
2,813	3,197	2,813	3,197
1	(31)	-	-
50,542	46,457	50,496	46,416
18,928	10,700	18,908	10,671
8,192	8,254	8,185	8,237
-	(26)	-	-
27,120	18,928	27,093	18,908
23,422	27,529	23,403	27,508

Deferred tax assets (net)

125,557	88,244	125,175	87,869
(6,479)	(6,474)	(6,542)	(6,326)
169,310	43,787	169,668	43,632
288,388	125,557	288,301	125,175
288,388	125,557	288,301	125,175

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

At 31 December

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
84,291	5,317	44,271	133,879
(63,529)	-	231,782	168,253
-	(6,542)	63	(6,479)
20,762	(1,225)	276,116	295,653
81,842	11,643	2,119	95,604
2,449	-	42,300	44,749
-	(6,326)	(148)	(6,474)
84,291	5,317	44,271	133,879

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19 DEFERRED TAXATION (Cont'd.)

Deferred tax assets of the Bank:

2011

At 1 January	84,291	5,317	43,889	133,497
Recognised in income statement	(63,529)	-	232,140	168,611
Recognised in other comprehensive income	-	(6,542)	-	(6,542)
At 31 December	20,762	(1,225)	276,029	295,566

2010

At 1 January	81,842	11,643	1,744	95,229
Recognised in income statement	2,449	-	42,145	44,594
Recognised in other comprehensive income	-	(6,326)	-	(6,326)
At 31 December	84,291	5,317	43,889	133,497

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 liabilities of the Group and Bank:

2011

At 1 January,	8,322	8,322
Recognised in income statement	(1,057)	(1,057)
At 31 December	7,265	7,265

2010

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

Accelerated capital allowances RM'000	Total RM'000

Unutilised tax losses and unabsorbed capital allowance

At the reporting date, the Group and the Bank has recognised deferred tax asset on the following temporary difference:

Unutilised tax losses
Unabsorbed capital allowances

Group and Bank	
2011 RM'000	2010 RM'000
1,043,637	352,018
44,901	44,901
1,088,538	396,919

The deferred tax assets have been recognised as at 31 December 2011 as the directors are of the view that it is probable for the Bank to realise the deferred tax asset.

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19 DEFERRED TAXATION (Cont'd.)

Unutilised tax losses and unabsorbed capital allowance (Cont'd.)

At the reporting date the Group and the Bank has not recognised the deferred tax asset in respect of the following items:

Unutilised tax losses
Unabsorbed capital allowances

Group and Bank	
2011 RM'000	2010 RM'000
159,352	133,601
9,961	2,588
169,313	136,189

The unutilised tax losses and unabsorbed capital allowance above are available for offset against future taxable profits of the Bank.

In evaluating the ability to realise the deferred tax assets, the Bank relies principally on forecasted taxable income using historical and projected future operating results and the reversal of existing temporary differences within a five to six years horizon.

The availability of unutilised tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the bank are subject to no substantial changes in shareholding of the bank under the Income Tax Act 1967 and other guidelines issued by the authority.

20 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

Non Mudharabah

- Demand deposits	465,933	374,023	467,665	375,596
- Gold deposits	149,578	29,493	149,578	29,493
- Wakalah deposits	531,609	11,870	531,609	11,870

Mudharabah

- Savings deposits	37,368	27,178	37,368	27,178
- General investment deposits	277,602	343,191	277,602	343,191
- Negotiable Instrument Deposit	601,716	-	601,716	-

Murabahah

2,654,048	3,774,282	2,654,048	3,774,282
4,717,854	4,560,037	4,719,586	4,561,610

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20 DEPOSITS FROM CUSTOMERS (Cont'd.)

(ii) By type of customer

Business enterprises
Individuals
Subsidiaries
Government and statutory bodies
Others

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
2,367,190	2,290,527	2,365,171	2,290,222
210,708	175,805	210,708	175,805
-	-	3,749	1,878
1,344,183	1,399,716	1,344,183	1,399,716
795,773	693,989	795,775	693,989
4,717,854	4,560,037	4,719,586	4,561,610

21 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Murabahah

Licensed Islamic banks
Bank Negara Malaysia
Licensed investment banks
Other financial institutions

404,534	263,740	404,277	263,740
339,083	246,951	339,084	246,951
-	30,765	-	30,765
2,390,955	2,937,233	2,408,681	2,945,186
3,134,572	3,478,689	3,152,042	3,486,642

22 OTHER LIABILITIES

Note

Sundry creditors
Project clearing account
Amount due to agent from the purchase of commodity assets
Accrued restoration cost
Other provisions and accruals

(i)	138,672	105,536	138,663	105,534
(ii)	1,595	4,605	1,595	4,605
	195,037	256,700	195,037	256,700
	3,808	3,266	3,698	3,200
	26,673	27,895	25,595	26,894
	365,785	398,002	364,588	396,933

(i) Included in sundry creditors relates to amount payable to holding company of RM77.9 million (2010: RM60.5 million) arising from revenue streams of SPSIA (see Note 9 (vii)).

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

23 PROVISION FOR ZAKAT

Zakat

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
3,740	3,740	3,740	3,740

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24 MURABAHAH BANK FINANCING

The principal of Murabahah bank financing in 2010 of USD7,500,000 or equivalent RM23,139,375 was an unsecured financing facility obtained in 2008 with a tenure of two years and was fully paid during the year. The Murabahah price was determined based on effective cost of funds.

25 SUBORDINATED MURABAHAH TAWARRUQ

The principal of 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 RM316,800,000 (2010: USD100,000,000 or equivalent RM308,530,000) 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").

26 SHARE CAPITAL

Authorised:

At 1 January/ At 31 December

Issued and fully paid:

At 1 January/ At 31 December

Number of ordinary shares at RM1.00 each		Amount	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
3,000,000	3,000,000	3,000,000	3,000,000
2,266,125	2,266,125	2,266,125	2,266,125

27 RESERVES

Non-distributable

Statutory reserve

Exchange fluctuation reserve

Unrealised loss on securities available-for-sale

Distributable

Accumulated losses

Note	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
(i)	34,952	34,952	34,952	34,952
(ii)	(6,125)	(7,367)	-	-
(iii)	(3,243)	(15,155)	(4,105)	(15,949)
	25,584	12,430	30,847	19,003
	(821,168)	(224,960)	(840,853)	(263,417)
	(795,584)	(212,530)	(810,006)	(244,414)

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27 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	(15,155)	(34,928)	(15,949)	(34,928)
Unrealised gain on securities available-for-sale	11,912	19,773	11,844	18,979
At 31 December	(3,243)	(15,155)	(4,105)	(15,949)

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28 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.

29 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Income derived from investment of :				
(i) General investment deposits	13,595	17,380	13,548	17,409
(ii) Other deposits	329,078	325,027	330,285	324,980
	342,673	342,407	343,833	342,389
(i) Income derived from investment of general investment deposits				
Finance income from financing, advances and other receivables	9,051	12,983	9,026	12,987
Finance income from impaired financing	515	664	505	667
Securities				
- Held-for-trading	63	73	84	44
- Available-for-sale	840	980	781	981
- Held-to-maturity	49	65	49	65
Money-at-call and deposits with financial institutions	2,427	1,996	2,456	2,045
	12,945	16,761	12,901	16,789
Amortisation of premium less accretion of discounts	(33)	(10)	(33)	(10)
Total finance income and hibah	12,912	16,751	12,868	16,779
Gain arising from sale of securities				
- Held-for-trading	26	23	25	23
- Available-for-sale	30	-	28	-
Profit from Murabahah trading on automobile	-	18	-	18
Foreign exchange gain	542	518	542	519
Gain on Ijarah rental swap obligations	85	70	85	70
	13,595	17,380	13,548	17,409

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
(ii) Income derived from investment of other deposits				
Finance income from financing, advances and other receivables	218,965	241,043	219,747	240,838
Finance income from impaired financing	12,153	12,197	12,266	12,156
Securities				
- Held-for-trading	1,441	1,476	2,015	871
- Available-for-sale	20,477	18,339	19,158	18,322
- Held-to-maturity	1,197	1,203	1,197	1,202
Money-at-call and deposits with financial institutions	59,400	37,987	60,450	38,848
Amortisation of premium less accretion of discounts	313,633 (833)	312,245 (189)	314,833 (833)	312,237 (189)
Total finance income and hibah	312,800	312,056	314,000	312,048
Profit from Murabahah trading on automobile	-	333	-	331
Gain arising from sale of securities				
- Held-for-trading	652	408	600	407
- Available-for-sale	694	-	706	-
Foreign exchange gain	13,013	10,934	13,054	10,899
Gain on Ijarah rental swap obligations	1,919	1,296	1,925	1,295
	329,078	325,027	330,285	324,980

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30 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Finance income from financing, advances and other receivables	58,200	64,622	57,442	64,823
Finance income from impaired financing	3,286	3,249	3,184	3,288
Securities				
- Held-for-trading	397	367	532	225
- Available-for-sale	5,419	4,890	4,989	4,907
- Held-to-maturity	316	321	313	322
Money-at-call and deposits with financial institutions	15,687	10,057	15,712	10,326
Amortisation of premium less accretion of discounts	83,305 (215)	83,506 (51)	82,172 (215)	83,891 (51)
Total finance income and hibah	83,090	83,455	81,957	83,840
Fee income				
- Commissions	4,754	3,597	4,756	3,598
- Fund management fee	7,772	4,377	-	-
- Other fee income	6,018	6,642	7,634	6,610
Gain arising from sale of securities				
- Held-for-trading	169	109	153	109
- Available-for-sale	190	-	180	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(2,490)	(2,231)	(3,322)	(1,455)
Profit from Murabahah trading on automobile	-	89	-	90
Foreign exchange gain	15,824	7,290	15,323	8,499
Gain on Ijarah rental swap obligations	531	347	525	348
Gross dividend from property funds (securities available-for-sale)	1,271	2,151	-	-
Loss on disposal of property and equipment	(14)	(10)	-	(11)
Management fee	-	(234)	(708)	545
	117,115	105,582	106,498	102,173

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31 IMPAIRMENT ALLOWANCES ON FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Allowances for:				
- Collective assessment	-	5,072	-	5,072
- Individual assessment	796,263	186,244	796,263	186,244
<i>Allowances charged during the period</i>	<i>950,387</i>	<i>564,291</i>	<i>950,387</i>	<i>564,291</i>
<i>Allowances written-back during the period</i>	<i>(154,124)</i>	<i>(378,047)</i>	<i>(154,124)</i>	<i>(378,047)</i>
Bad debt recovered on financing	(266)	-	(266)	-
	795,997	191,316	795,997	191,316

32 IMPAIRMENT LOSS AND ALLOWANCES ON INVESTMENTS

Securities available-for-sale	19,150	(772)	1,368	(772)
Murabahah trading automobile *	-	(182)	-	(182)
Investment in jointly control entity and subsidiaries	850	-	1,465	35,500
	20,000	(954)	2,833	34,546

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

33 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Deposits from customers				
- Mudharabah	10,125	10,723	10,125	10,894
- Non Mudharabah	114,846	89,752	114,846	89,832
Deposits and placements of banks and other financial institutions				
- Non Mudharabah	83,515	87,571	83,715	87,571
	208,486	188,046	208,686	188,297

34 PERSONNEL EXPENSES

Salaries and wages	58,061	64,825	53,327	56,766
Social security costs	369	324	358	312
Pension costs - defined contribution plan	11,524	11,892	10,675	10,784
Other staff related costs	24,889	22,541	23,532	20,382
	94,843	99,582	87,892	88,244

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 RM2,552,000 (2010: RM1,094,000)

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35 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Promotion				
Advertisement and publicity	10,924	3,629	10,911	3,627
Establishment				
Rental	11,930	10,974	11,190	8,439
Depreciation of property and equipment (Note 17)	11,631	11,508	11,422	10,903
Amortisation of intangible assets (Note 18)	8,192	8,254	8,185	8,237
IT expenses	7,181	5,167	7,171	5,104
Hire of equipment	1,359	791	959	654
General expenses				
Auditors remuneration				
- Statutory audit	307	265	193	165
- Other services	255	338	255	338
Professional fees	8,767	3,152	7,648	2,583
Non executive directors' remuneration (Note 37)	2,134	1,897	1,782	1,495
Shariah Committee's remuneration (Note 37)	479	464	479	464
Murabahah agent fees	2,165	2,831	2,165	2,831
Subscription fees	5,022	5,199	4,857	4,926
Communication expenses	3,947	3,126	3,885	2,961
Other fees	2,829	513	2,829	513
Others	13,910	15,832	13,214	14,358
	91,032	73,940	87,145	67,598
36 FINANCE COST				
Subordinated Murabahah Tawarruq	12,914	13,116	12,914	13,116
Murabahah bank financing	35	802	35	802
	12,949	13,918	12,949	13,918
37 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION				
Non-Executive Directors				
Fees	1,260	1,039	1,260	1,039
Other remuneration	522	456	522	456
	1,782	1,495	1,782	1,495

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37 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION (Cont'd.)

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Directors of subsidiary company				
Fees	328	363	-	-
Other remuneration	24	39	-	-
	352	402	-	-
Shariah Committee				
Fees	312	312	312	312
Other remuneration	167	152	167	152
	479	464	479	464

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	
	2011	2010
Non-Executive Directors		
RM50,001 - RM100,000	2	-
RM100,001 - RM150,000	1	-
RM150,001 - RM200,000	1	-
RM200,001 - RM250,000	1	-
RM250,001 - RM300,000	3	4
RM300,001 - RM350,000	1	1
Total	9	5

38 TAXATION

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Malaysian income tax				
- Current year	66	70	-	-
- Under/(over) provision of income tax in prior year	1,933	(70)	1,933	-
Deferred tax (Note 19):				
- Relating to origination and reversal of temporary differences	(174,916)	(24,019)	(175,274)	(32,668)
- Under/(over) provision of deferred tax in prior year	5,606	(19,768)	5,606	(10,964)
	(167,311)	(43,787)	(167,735)	(43,632)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2011 have reflected these changes.

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

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38 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loss before taxation	(763,519)	(117,859)	(745,171)	(139,357)
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	(190,880)	(29,465)	(186,293)	(34,839)
Income subject to different tax rates	424	(155)	-	-
Losses/(income) not subject to tax	4,587	(41)	-	-
Expenses not deductible for tax purposes	2,738	934	2,738	934
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	8,281	4,778	8,281	1,237
Under/(over) provision of deferred tax in prior year	5,606	(19,768)	5,606	(10,964)
Under/(over) provision of tax expense in prior year	1,933	(70)	1,933	-
Tax credit for the year	(167,311)	(43,787)	(167,735)	(43,632)

39 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	
	2011	2010
Net loss for the year (RM'000)	(596,208)	(75,637)
Weighted average number of ordinary shares in issues ('000)	2,266,125	2,266,125
Basic/diluted loss per share (sen)	(26.31)	(3.34)

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40 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., Saudi Kuwaiti Finance House S.S.C., Liquidity Management House K.S.C.C., KFH Research Limited, International Turnkey System and Kuveyt Turk Participation K.S.C..

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.

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40 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
2011						
(i) Income						
- Management fees	-	780	-	-	-	-
- Profit income on placements	7	1,036	9,201	-	-	-
- Profit income on financing	-	-	-	32	18,573	-
	7	1,816	9,201	32	18,573	-
(ii) Expenditure						
- Profit expense on deposits	7,284	176	46	7	1,580	4
- Other fees	-	1,488	3,337	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	12,914	-	-	-	-	-
	20,198	1,664	3,383	7	1,580	4
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	373,589	-	-	-	-	-
- Deposits from customers	-	3,749	13,205	1,486	25,332	1,016
- Deposits and placements of banks and other FIs	356,295	17,714	-	-	-	-
- Sundry creditors (Note 22)	77,873	-	-	-	-	-
	807,757	21,463	13,205	1,486	25,332	1,016
(iv) Amount due from related parties						
- Securities	-	-	94,839	-	-	-
- Financing	-	-	21,128	997	512,306	-
- Deposits and placements with banks and other FIs	5,683	104,214	427,680	-	-	-
- Other assets	288	17	1,615	-	-	-
	5,971	104,231	545,262	997	512,306	-
(v) Others						
- Purchases of intangible assets	-	-	2,764	-	-	-
	-	-	2,764	-	-	-

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

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

2010

(i) Income

- Management fees
- Profit income on placements
- Profit income on financing

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
-	545	-	-	-	-
81	1,379	1,058	-	-	-
-	-	-	39	17,510	-
81	1,924	1,058	39	17,510	-
10,440	306	29	10	37	4
-	-	2,275	-	-	-
13,116	-	-	-	-	-
23,556	306	2,304	10	37	4
350,797	-	-	-	-	-
-	1,878	491	771	1,022	4,630
234,556	7,900	1,132	-	-	-
60,549	-	-	-	-	-
644,760	9,778	1,623	771	1,022	4,630
-	-	-	1,174	340,838	-
-	94,463	61,705	-	-	-
674	9,628	1,620	-	-	-
674	104,091	63,325	1,174	340,838	-
-	-	1,247	-	-	-
-	-	1,247	-	-	-

(ii) Expenditure

- Profit expense on deposits
- Other fees
- Profit expense on Subordinated Murabahah Tawarruq

(iii) Amount due to related parties

- Subordinated Murabahah Tawarruq
- Deposits from customers
- Deposits and placements of banks and other FIs
- Sundry creditors (Note 22)

(iv) Amount due from related parties

- Financing
- Deposits and placements with banks and other FIs
- Other assets

(v) Others

- Purchases of intangible assets

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Short-term employee benefits				
- Salary and other remuneration	10,460	11,654	8,739	10,084
- Benefits-in-kind	-	127	-	127
	10,460	11,781	8,739	10,211

The total key management personnel compensation includes Chief Executive Officer/Managing Director's remuneration of which details are disclosed in Note 37.

(c) Credit transactions and exposures with connected parties

As at 31 December 2011			
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)	9	571,892	21,128
Equities and Islamic Private Debt Securities held	3	122,100	-
Off-balance sheet exposures	1	1,000	-
672,262	13	694,992	21,128
Total exposure to connected parties as % capital base		44.6%	1.4%
Total exposure to connected parties as % of total outstanding credit exposures		10.0%	0.3%

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)	11	595,032	20,579
Equities and Islamic Private Debt Securities held	3	87,600	-
Off-balance sheet exposures	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%

* Included total outstanding and unutilised limit.

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40 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 their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

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41 COMMITMENTS AND CONTINGENCIES

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

	2011			2010		
	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	637,113	637,113	411,526	644,403	644,403	424,463
Transaction related contingencies	108,859	54,429	38,877	268,240	134,120	127,233
Trade related contingencies	28,683	5,737	4,990	77,691	15,538	13,542
Irrevocable commitments to extend credit						
- maturity less than one year	395,901	79,180	77,513	360,049	72,010	71,291
- maturity more than one year	809,077	404,538	437,906	882,953	441,476	481,752
Foreign exchange related contracts *						
- less than one year	917,884	11,668	6,218	1,128,680	46,946	21,775
- one year to five years	197,286	14,610	8,833	250,219	27,870	16,654
- five years and above	101,772	11,032	3,714	99,749	15,298	5,568
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	319,830	43,331	35,655	340,261	43,520	33,993
	3,516,405	1,261,638	1,025,232	4,052,245	1,441,181	1,196,271

Note 43 (d) Note 43 (d)

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

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

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.

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 2011, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM43,688,000 (2010: RM80,632,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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42 CAPITAL COMMITMENTS

Capital expenditure :

Authorised and contracted for

- purchase of equipment
- renovation

Authorised but not contracted for

- purchase of equipment

Group		Bank	
2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
7,534	8,254	7,534	8,249
1,458	2,701	1,458	2,701
1,192	-	1,192	-
10,184	10,955	10,184	10,949

43 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.

For the purpose of the computation of capital adequacy ratios, the Group has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The definition and classification of the counterparty, exposure and asset types applied for the purpose of Capital Adequacy's reports are as per the Bank Negara Malaysia's CAFIB.

In addition, the Bank has also provided detailed Capital Adequacy disclosures as per the requirements stipulated in Bank Negara Malaysia CAFIB - Disclosures Requirements (Pillar 3) guidelines.

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

Core capital ratio

Credit risk

Credit, market, operational and large exposure risks

Risk-weighted capital ratio

Credit risk

Credit, market, operational and large exposure risks

Group		Bank	
2011	2010	2011	2010
15.19%	21.89%	15.06%	21.69%
14.08%	20.15%	13.98%	20.00%
19.85%	26.68%	19.17%	25.77%
18.40%	24.56%	17.79%	23.76%

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43 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<u>Tier I capital</u>				
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	(821,168)	(224,960)	(840,853)	(263,417)
	1,479,909	2,076,117	1,460,224	2,037,660
Less: Deferred tax assets (net)	(288,388)	(125,556)	(288,301)	(125,174)
Total Tier-I capital	1,191,521	1,950,561	1,171,923	1,912,486
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	253,440	308,530	253,440	308,530
Collective impairment on financing	112,716	118,773	112,716	118,773
Total Tier-II capital	366,156	427,303	366,156	427,303
Less: Investment in subsidiaries	-	-	(46,193)	(67,897)
Capital base	1,557,677	2,377,864	1,491,886	2,271,892

(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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total credit RWA	7,845,359	8,911,615	7,783,184	8,817,375
Total market RWA	102,799	180,981	102,799	180,981
Total operational RWA	504,470	577,513	487,523	551,074
Large exposure risk RWA for equity holdings	11,948	11,948	11,948	11,948
Total Risk-Weighted Assets	8,464,576	9,682,057	8,385,454	9,561,378
Computation of Capital Ratios				
Core capital	1,191,521	1,950,561	1,171,923	1,912,486
Capital base	1,557,677	2,377,864	1,491,886	2,271,892
Core capital ratio	14.08%	20.15%	13.98%	20.00%
Risk-weighted capital ratio	18.40%	24.56%	17.79%	23.76%

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43 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
2011					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,335,299	1,335,299	20,551	20,551	1,644
Public Sector Entities	110,204	110,204	-	-	-
Banks, Development Financial Institutions & MDBs	2,185,042	2,185,042	762,704	762,704	61,016
Corporates	3,497,139	3,497,139	3,210,729	3,210,729	256,858
Regulatory Retail	883,177	883,177	662,345	662,345	52,988
Residential Mortgages	68,365	68,365	28,381	28,381	2,270
Higher Risk Assets ¹	261,827	261,827	392,740	392,740	31,419
Other Assets	557,205	557,205	383,738	383,738	30,699
Defaulted Exposures ²	997,833	997,833	1,358,939	1,358,939	108,715
	9,896,091	9,896,091	6,820,127	6,820,127	545,609
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	79,818	79,818	53,184	53,184	4,255
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	1,175,981	1,175,981	964,039	964,039	77,123
Defaulted Exposures ²	5,839	5,839	8,009	8,009	641
	1,261,638	1,261,638	1,025,232	1,025,232	82,019
Total On and Off-Balance Sheet Exposures	11,157,729	11,157,729	7,845,359	7,845,359	627,628
(ii) Large Exposures Risk Requirement	24,898	24,898	11,948	11,948	956
(iii) Market Risk					
Benchmark Rate Risk	679,480	(645,623)	33,857	20,812	1,665
Foreign Currency Risk ⁵	78,952	(27,198)	51,754	81,926	6,554
Inventory Risk	32	-	32	61	5
		85,643	102,799	102,799	8,224
(iv) Operational Risk			504,470	504,470	40,358
(v) Total RWA and Capital Requirements			8,464,576	8,464,576	677,166

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43 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
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	24,898	24,898	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	14,479
(iv) Operational Risk			577,513	577,513	46,201
(v) Total RWA and Capital Requirements			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 contr

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

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.

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43 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
2011					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,322,037	1,322,037	17,900	17,900	1,432
Public Sector Entities	110,204	110,204	-	-	-
Banks, Development Financial Institutions & MDBs	2,253,081	2,253,081	778,815	778,815	62,305
Corporates	3,498,726	3,498,726	3,212,316	3,212,316	256,985
Regulatory Retail	883,177	883,177	662,345	662,345	52,988
Residential Mortgages	68,365	68,365	28,381	28,381	2,270
Higher Risk Assets ¹	261,795	261,795	392,692	392,692	31,416
Other Assets	480,031	480,031	306,564	306,564	24,525
Defaulted Exposures ²	997,832	997,832	1,358,939	1,358,939	108,715
	9,875,248	9,875,248	6,757,952	6,757,952	540,636
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	79,818	79,818	53,184	53,184	4,255
Off-balance sheet exposures other than OTC hedging financial instruments ⁴	1,175,981	1,175,981	964,039	964,039	77,123
Defaulted Exposures ²	5,839	5,839	8,009	8,009	641
	1,261,638	1,261,638	1,025,232	1,025,232	82,019
Total On and Off-Balance Sheet Exposures	11,136,886	11,136,886	7,783,184	7,783,184	622,655
(ii) Large Exposures Risk Requirement	24,898	24,898	11,948	11,948	956
	Long Position	Short Position			
(iii) Market Risk					
Benchmark Rate Risk	673,041	(645,623)	27,418	20,812	1,665
Foreign Currency Risk ⁵	78,952	(27,198)	51,754	81,926	6,554
Inventory Risk	32	-	32	61	5
			79,204	102,799	8,224
(iv) Operational Risk			487,523	487,523	39,002
(v) Total RWA and Capital Requirements			8,385,454	8,385,454	670,837

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43 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
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	24,898	24,898	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	14,479
(iv) Operational Risk			551,074	551,074	44,086
(v) Total RWA and Capital Requirements			9,561,378	9,561,378	764,910

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43 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:

2011	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	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group Risk-Weights										
0%	1,232,542	110,204	58,067	203,755	50	-	-	173,467	1,778,085	-
20%	102,757	2,574	1,021,571	112,231	-	-	-	-	1,239,133	247,827
35%	-	-	-	-	-	38,678	-	-	38,678	13,537
50%	-	-	1,171,717	590,760	1	29,687	-	-	1,792,165	896,083
75%	-	-	-	-	886,576	-	-	-	886,576	664,932
100%	-	-	-	3,839,577	-	-	-	383,738	4,223,315	4,223,315
150%	-	-	-	738,010	164	-	461,603	-	1,199,777	1,799,665
	1,335,299	112,778	2,251,355	5,484,333	886,791	68,365	461,603	557,205	11,157,729	7,845,359
Bank Risk-Weights										
0%	1,232,542	110,204	45,541	203,755	50	-	-	173,467	1,765,559	-
20%	89,495	2,574	1,102,135	112,231	-	-	-	-	1,306,435	261,287
35%	-	-	-	-	-	38,678	-	-	38,678	13,537
50%	-	-	1,171,717	590,760	1	29,687	-	-	1,792,165	896,082
75%	-	-	-	-	886,576	-	-	-	886,576	664,932
100%	-	-	-	3,841,164	-	-	-	306,564	4,147,728	4,147,728
150%	-	-	-	738,010	164	-	461,571	-	1,199,745	1,799,618
	1,322,037	112,778	2,319,393	5,485,920	886,791	68,365	461,571	480,031	11,136,886	7,783,184

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43 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:

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	Equity	
	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
50%	-	-	454,079	627,264	-	-	-	1,081,343
100%	-	-	-	4,729,281	-	415,714	86,307	5,231,302
150%	-	-	68,636	1,306,816	573,688	-	-	1,949,140
	2,195,026	95,704	1,511,076	7,231,056	575,466	459,734	86,307	12,154,369
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
50%	-	-	454,079	627,264	-	-	-	1,081,343
100%	-	-	-	4,729,281	-	395,218	-	5,124,499
150%	-	-	68,636	1,306,816	573,574	-	-	1,949,026
	2,181,781	95,704	1,575,798	7,231,056	575,352	439,236	-	12,098,927

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43 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
2011				
0%	1,778,085	-	1,765,559	-
20%	1,239,133	247,827	1,306,435	261,287
35%	38,678	13,537	38,678	13,537
50%	1,792,165	896,083	1,792,165	896,083
75%	886,576	664,932	886,576	664,932
100%	4,223,315	4,223,315	4,147,728	4,147,728
150%	1,199,777	1,799,665	1,199,745	1,799,618
Risk-weighted assets for credit risk	11,157,729	7,845,359	11,136,886	7,783,184
Risk-weighted assets for market risk		102,799		102,799
Risk-weighted assets for operational risk		504,470		487,523
Large exposure risk-weighted assets for equity holdings		11,948		11,948
Total risk-weighted assets		8,464,576		8,385,454
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

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

Group and Bank	2011		2010	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Benchmark Rate Risk	20,812	1,665	31,350	2,508
Foreign Exchange Risk	81,926	6,554	149,570	11,966
Inventory Risk	61	5	61	5
Total	102,799	8,224	180,981	14,479

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44 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 ljarah 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.

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44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2011	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	124,921	144,324	128,954	61,589	-	459,788
Revenue from other segments	172,194	3,220	7,091	46,977	(229,482)	-
Total Revenue	297,115	147,544	136,045	108,566	(229,482)	459,788
Segment results	(14,788)	(358,133)	(344,066)	45,571	1,240	(670,176)
Unallocated expenses						(93,343)
Loss from operations						(763,519)
Taxation						167,311
Net loss for the year						(596,208)
Other information						
Segment assets	3,938,990	2,696,717	1,131,946	1,979,285	-	9,746,938
Unallocated corporate assets						391,798
Total assets						10,138,736
Segment liabilities	5,998,496	109,388	244,108	1,795,469	-	8,147,461
Unallocated corporate liabilities						520,734
Total liabilities						8,668,195
Other segment items						
Purchase of property and equipment	-	-	-	8,217	-	8,217
Purchase of intangible assets	-	-	-	4,084	-	4,084
Depreciation of property and equipment	-	-	-	11,631	-	11,631
Amortisation of intangible assets	-	-	-	8,192	-	8,192
Other non-cash expense other than depreciation	19,118	400,682	395,250	2,155	(1,208)	815,997

(b) Secondary Segment - By Geographical Locations

Group 2011	Operating Revenue RM'000	Loss Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	458,185	(763,831)	10,138,301
Outside Malaysia	1,603	312	435
	459,788	(763,519)	10,138,736

The Group has fund management operations in Australia.

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44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2010	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	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)
Profit from operations						(117,859)
Zakat						(1,565)
Taxation						43,787
Net profit 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						350,873
Total assets						10,907,882
Segment liabilities	6,541,528	317,043	217,730	1,695,809		8,772,110
Unallocated corporate liabilities						82,177
Total liabilities						8,854,287
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 RM'000	Loss Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	447,962	(108,478)	10,942,987
Outside Malaysia	27	(9,381)	(35,105)
	447,989	(117,859)	10,907,882

The Group has fund management operations in Australia and Singapore.

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45 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.

Group 2011

Financial assets

Securities held-for-trading	90,216	90,216
Securities available-for-sale	1,096,340	1,096,340
Hedging financial instruments	43,688	43,688
Total	1,230,244	1,230,244

Financial liability

Hedging financial instruments	72,655	72,655
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2010

Financial assets

Securities held-for-trading	110,083	110,083
Securities available-for-sale	1,034,506	1,034,506
Hedging financial instruments	80,632	80,632
Total	1,225,221	1,225,221

Financial liability

Hedging financial instruments	39,789	39,789
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Bank

2011

Financial assets

Securities held-for-trading	83,776	83,776
Securities available-for-sale	977,255	977,255
Hedging financial instruments	43,688	43,688
Total	1,104,719	1,104,719

Financial liability

Hedging financial instruments	72,655	72,655
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2010

Financial assets

Securities held-for-trading	110,083	110,083
Securities available-for-sale	906,933	906,933
Hedging financial instruments	80,632	80,632
Total	1,097,648	1,097,648

Financial liability

Hedging financial instruments	39,789	39,789
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Level 2	Total
RM'000	RM'000
90,216	90,216
1,096,340	1,096,340
43,688	43,688
1,230,244	1,230,244
72,655	72,655
110,083	110,083
1,034,506	1,034,506
80,632	80,632
1,225,221	1,225,221
39,789	39,789
83,776	83,776
977,255	977,255
43,688	43,688
1,104,719	1,104,719
72,655	72,655
110,083	110,083
906,933	906,933
80,632	80,632
1,097,648	1,097,648
39,789	39,789

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45 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.

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

(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.

46 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	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Within one year	21,170	9,812	20,288	9,019
Between one and five years	31,599	6,662	31,171	5,754
	52,769	16,474	51,458	14,773

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.

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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.

	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
Group			
2011			
Assets			
Cash and short-term funds	1,973,012	-	1,973,012
Deposits and placements with banks and other financial institutions	734,973	-	734,973
Securities held-for-trading	60,907	29,309	90,216
Securities available-for-sale	281,394	814,946	1,096,340
Securities held-to-maturity	47,125	-	47,125
Financing, advances and receivables	2,854,605	2,365,252	5,219,857
Murabahah trading automobile	-	32	32
Musarakah capital investment	-	5,898	5,898
Other assets	-	971,283	971,283
Total Assets	5,952,016	4,186,720	10,138,736
Liabilities			
Deposits from customers	4,097,047	620,807	4,717,854
Deposits and placements of banks and other financial institutions	3,134,572	-	3,134,572
Subordinated Murabahah Tawarruq	-	373,589	373,589
Other liabilities	-	442,180	442,180
Total Liabilities	7,231,619	1,436,576	8,668,195
Net	(1,279,603)	2,750,144	1,470,541
2010			
Assets			
Cash and short-term funds	2,651,695	-	2,651,695
Deposits and placements with banks and other financial institutions	267,590	7,502	275,092
Securities held-for-trading	-	110,083	110,083
Securities available-for-sale	397,567	655,939	1,053,506
Securities held-to-maturity	-	46,266	46,266
Financing, advances and receivables	2,639,804	3,432,980	6,072,784
Murabahah trading automobile	-	32	32
Musarakah capital investment	-	5,898	5,898
Other assets	-	692,526	692,526
Total Assets	8,408,630	2,507,574	10,907,882
Liabilities			
Deposits from customers	4,154,948	405,089	4,560,037
Deposits and placements of banks and other financial institutions	3,422,181	56,508	3,478,689
Subordinated Murabahah Tawarruq	-	350,797	350,797
Murabahah bank financing	23,233	-	23,233
Other liabilities	-	441,531	441,531
Total Liabilities	7,578,433	1,284,176	8,854,287
Net	830,197	1,223,398	2,053,595

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49 MATURITY ANALYSIS (Cont'd.)

	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
Bank			
2011			
Assets			
Cash and short-term funds	2,076,287	-	2,076,287
Deposits and placements with banks and other financial institutions	734,973	-	734,973
Securities held-for-trading	60,907	22,869	83,776
Securities available-for-sale	281,393	695,862	977,255
Securities held-to-maturity	47,125	-	47,125
Financing, advances and receivables	2,854,605	2,365,252	5,219,857
Murabahah trading automobile	-	32	32
Musarakah capital investment	-	5,898	5,898
Other assets	-	997,116	997,116
Total Assets	6,055,290	4,087,029	10,142,319
Liabilities			
Deposits from customers	4,100,028	619,558	4,719,586
Deposits and placements of banks and other financial institutions	3,152,042	-	3,152,042
Subordinated Murabahah Tawarruq	-	373,589	373,589
Other liabilities	-	440,983	440,983
Total Liabilities	7,252,070	1,434,130	8,686,200
Net	(1,196,780)	2,652,899	1,456,119
2010			
Assets			
Cash and short-term funds	2,744,436	-	2,744,436
Deposits and placements with banks and other financial institutions	267,590	7,502	275,092
Securities held-for-trading	-	110,083	110,083
Securities available-for-sale	311,260	614,673	925,933
Securities held-to-maturity	-	46,266	46,266
Financing, advances and receivables	2,639,804	3,432,980	6,072,784
Murabahah trading automobile	-	32	32
Musarakah capital investment	-	5,898	5,898
Other assets	-	703,931	703,931
Total Assets	5,963,090	4,921,365	10,884,455
Liabilities			
Deposits from customers	4,156,521	405,089	4,561,610
Deposits and placements of banks and other financial institutions	3,430,134	56,508	3,486,642
Subordinated Murabahah Tawarruq	-	350,797	350,797
Murabahah bank financing	23,233	-	23,233
Other liabilities	-	440,462	440,462
Total Liabilities	7,609,888	1,252,856	8,862,744
Net	(1,646,798)	3,668,509	2,021,711

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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 14. 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.

2011

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
1,973,012	2,076,287
734,973	734,973
90,216	83,776
1,076,569	957,484
47,125	47,125
6,428,508	6,428,508
411,730	406,948
180,200	180,200
24,334	24,334
18,635	18,635
719	719
10,986,021	10,958,989
637,113	637,113
137,542	137,542
1,204,977	1,204,977
1,979,632	1,979,632
12,965,653	12,938,621

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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.)

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
2,651,695	2,744,436
275,092	275,092
110,083	110,083
1,034,506	906,933
46,266	46,266
6,603,272	6,603,272
385,682	366,450
44,854	44,854
19,862	19,862
24,846	24,846
35,924	35,924
11,232,082	11,178,018
644,403	644,403
345,931	345,931
1,243,002	1,243,002
2,233,336	2,233,336
13,465,418	13,411,354

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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.)

2011

Group

Cash and short-term funds	
Deposits and placements with banks and other financial institutions	
Securities held-for-trading	
- Unquoted	
Securities available-for-sale	
- Unquoted	
Securities held-to-maturity	
- Unquoted	
Financing, advances and other receivables	
Other assets	
Statutory deposits with 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

Geographic region			Total gross maximum exposure
Malaysia	Middle east	Others	
RM'000	RM'000	RM'000	RM'000
1,771,115	40,076	161,821	1,973,012
267,453	411,840	55,680	734,973
13,259	9,611	67,346	90,216
445,099	538,173	93,297	1,076,569
15,268	31,857	-	47,125
6,014,971	116,278	297,259	6,428,508
411,442	288	-	411,730
180,200	-	-	180,200
24,334	-	-	24,334
18,635	-	-	18,635
485	-	234	719
9,162,260	1,148,124	675,637	10,986,021
487,078	35	150,000	637,113
91,975	-	45,567	137,542
1,198,274	6,703	-	1,204,977
1,777,327	6,738	195,567	1,979,632
10,939,587	1,154,862	871,204	12,965,653

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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.)

2010

Group

Cash and short-term funds
 Deposits and placements with banks and other financial institutions
 Securities held-for-trading
 - Unquoted
 Securities available-for-sale
 - Unquoted
 Securities held-to-maturity
 - Unquoted
 Financing, advances and other receivables
 Other assets
 Statutory deposits with 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

Geographic region			Total gross maximum exposure
Malaysia	Middle east	Others	
RM'000	RM'000	RM'000	RM'000
2,372,940	154,074	124,681	2,651,695
78,531	-	196,561	275,092
3,197	-	106,886	110,083
526,722	495,588	12,196	1,034,506
15,250	31,016	-	46,266
5,750,012	367,086	486,174	6,603,272
359,586	26,096	-	385,682
44,854	-	-	44,854
19,861	-	-	19,861
24,847	-	-	24,847
35,615	-	309	35,924
9,231,415	1,073,860	926,807	11,232,082
494,233	170	150,000	644,403
265,053	80,878	-	345,931
1,236,616	928	5,458	1,243,002
1,995,902	81,976	155,458	2,233,336
11,227,317	1,155,836	1,082,265	13,465,418

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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.)

2011

Bank

Cash and short-term funds
 Deposits and placements with banks and other financial institutions
 Securities held-for-trading
 - Unquoted
 Securities available-for-sale
 - Unquoted
 Securities held-to-maturity
 - Unquoted
 Financing, advances and other receivables
 Other assets
 Statutory deposits with 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

Geographic region			Total gross maximum exposure
Malaysia	Middle east	Others	
RM'000	RM'000	RM'000	RM'000
1,874,390	40,076	161,821	2,076,287
267,453	411,840	55,680	734,973
13,259	9,611	60,906	83,776
431,837	460,014	65,633	957,484
15,268	31,857	-	47,125
6,014,971	116,278	297,259	6,428,508
406,647	288	13	406,948
180,200	-	-	180,200
24,334	-	-	24,334
18,635	-	-	18,635
485	-	234	719
9,247,477	1,069,965	641,547	10,958,989
487,078	35	150,000	637,113
91,975	-	45,567	137,542
1,198,274	6,703	-	1,204,977
1,777,327	6,738	195,567	1,979,632
11,024,804	1,076,703	837,114	12,938,621

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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.)

2010

Bank

Cash and short-term funds
 Deposits and placements with banks and other financial institutions
 Securities held-for-trading
 - Unquoted
 Securities available-for-sale
 - Unquoted
 Securities held-to-maturity
 - Unquoted
 Financing, advances and other receivables
 Other assets
 Statutory deposits with 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

Geographic region			Total gross maximum exposure
Malaysia	Middle east	Others	
RM'000	RM'000	RM'000	RM'000
2,465,671	154,074	124,691	2,744,436
78,531	-	196,561	275,092
3,197	-	106,886	110,083
427,170	479,763	-	906,933
15,250	31,016	-	46,266
5,750,012	367,086	486,174	6,603,272
340,208	26,095	147	366,450
44,854	-	-	44,854
19,861	-	-	19,861
24,847	-	-	24,847
35,615	-	309	35,924
9,205,216	1,058,033	914,768	11,178,018
494,233	170	150,000	644,403
265,053	80,878	-	345,931
1,236,616	928	5,458	1,243,002
1,995,902	81,976	155,458	2,233,336
11,201,118	1,140,009	1,070,226	13,411,354

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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 .

2011 Group	Industry						Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	1,973,012	-	-	-	-	1,973,012
Deposits and placements with banks and other financial institutions	-	734,973	-	-	-	-	734,973
Securities held-for-trading	-	70,518	-	-	13,259	6,439	90,216
Securities available-for-sale	-	317,604	96,949	71,377	110,204	480,435	1,076,569
Securities held-to-maturity	-	-	31,857	-	-	15,268	47,125
Financing, advances and other receivables	1,388,488	473,949	1,662,654	630,003	-	2,273,414	6,428,508
Other assets	-	-	-	-	-	411,730	411,730
Statutory deposits with BNM	-	-	-	-	180,200	-	180,200
Hedging financial instruments	374	15,918	-	24,315	-	3,081	43,688
Total On-Balance Sheet	1,388,862	3,585,975	1,791,460	725,695	303,663	3,190,367	10,986,021
Financial guarantees	439,469	21,374	15,621	1,137	-	159,513	637,113
Contingent liabilities	31,914	66,976	28,246	9,958	-	449	137,542
Commitments	279,128	126,564	411,948	71,902	-	315,435	1,204,977
Total Off-Balance Sheet	750,510	214,913	455,815	82,998	-	475,396	1,979,632
Total On and Off-Balance Sheet	2,139,372	3,800,888	2,247,275	808,692	303,663	3,665,764	12,965,653

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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 .

2010 Group	Industry						Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	2,651,695	-	-	-	-	2,651,695
Deposits and placements with banks and other financial institutions	-	275,092	-	-	-	-	275,092
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	-	-	31,016	-	-	15,250	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	-	-	-	-	-	385,682	385,682
Statutory deposits with BNM	-	-	-	-	44,854	-	44,854
Hedging financial instruments	10	60,770	-	19,852	-	-	80,632
Total On-Balance Sheet	1,639,690	4,051,096	2,248,369	798,523	270,281	2,224,123	11,232,082
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	4,274,496	3,233,649	1,291,790	270,281	2,461,695	13,465,418

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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
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011							
Bank							
Cash and short-term funds	-	2,076,287	-	-	-	-	2,076,287
Deposits and placements with banks and other financial institutions	-	734,973	-	-	-	-	734,973
Securities held-for-trading	-	70,518	-	-	13,258	-	83,776
Securities available-for-sale	-	317,604	96,949	71,377	110,204	361,350	957,484
Securities held-to-maturity	-	-	31,857	-	-	15,268	47,125
Financing, advances and other receivables	1,388,488	473,949	1,662,654	630,003	-	2,273,414	6,428,508
Other assets	-	-	-	-	-	406,948	406,948
Statutory deposits with BNM	-	-	-	-	180,200	-	180,200
Hedging financial instruments	374	15,918	-	24,315	-	3,081	43,688
Total On-Balance Sheet	1,388,862	3,689,249	1,791,460	725,695	303,662	3,060,061	10,958,989
Financial guarantees	439,469	21,374	15,621	1,137	-	159,513	637,113
Contingent liabilities	31,914	66,976	28,246	9,958	-	449	137,542
Commitments	279,128	126,564	411,948	71,902	-	315,435	1,204,977
Total Off-Balance Sheet	750,510	214,913	455,815	82,998	-	475,396	1,979,632
Total On and Off-Balance Sheet	2,139,372	3,904,162	2,247,275	808,693	303,662	3,535,457	12,938,621

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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
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2010						
Bank						
Cash and short-term funds	-	2,744,436	-	-	-	2,744,436
Deposits and placements with banks and other financial institutions	-	275,092	-	-	-	275,092
Securities held-for-trading	-	106,886	-	-	-	110,083
Securities available-for-sale	-	231,950	117,176	56,874	212,181	906,933
Securities held-to-maturity	-	-	31,016	-	-	46,266
Financing, advances and other receivables	1,639,680	696,682	2,100,177	721,796	-	6,603,272
Other assets	-	-	-	-	-	366,450
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	10	60,770	-	19,852	-	80,632
Total On-Balance Sheet	1,639,690	4,115,816	2,248,369	798,523	257,035	11,178,018
Financial guarantees	34,130	21,273	160,830	421,550	-	644,403
Contingent liabilities	93,662	106,044	126,007	9,862	-	345,931
Commitments	166,024	96,084	698,443	61,855	-	1,243,002
Total Off-Balance Sheet	293,816	223,401	985,280	493,268	-	2,233,336
Total On and Off-Balance Sheet	1,933,507	4,339,217	3,233,649	1,291,790	257,035	13,411,354

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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:

2011 Group	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
Cash and short-term funds	1,973,012	-	-	-	-	1,973,012
Deposits and placements with banks and other financial institutions	689,983	44,990	-	-	-	734,973
Securities held-for-trading	-	60,907	22,870	6,439	-	90,216
Securities available-for-sale	120,904	183,434	598,060	119,745	54,426	1,076,569
Securities held-to-maturity	15,268	31,857	-	-	-	47,125
Financing, advances and other receivables	3,990,687	29,484	717,915	1,608,101	82,321	6,428,508
Other assets	-	-	-	-	411,730	411,730
Statutory deposits with BNM	-	-	-	-	180,200	180,200
Hedging financial instruments	3,625	15,922	-	24,141	-	43,688
Total On-Balance Sheet	6,793,479	366,595	1,338,845	1,758,426	728,677	10,986,022
Financial guarantees	41,850	10,686	14,576	-	570,000	637,112
Contingent liabilities	91,332	7,287	34,372	4,551	-	137,542
Commitments	522,019	103,269	356,485	196,104	27,100	1,204,977
Total Off-Balance Sheet	655,201	121,242	405,433	200,655	597,100	1,979,631
Total On and Off-Balance Sheet	7,448,680	487,837	1,744,278	1,959,081	1,325,777	12,965,653

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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:

2010 Group	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
Cash and short-term funds	2,651,695	-	-	-	-	2,651,695
Deposits and placements with banks and other financial institutions	-	275,092	-	-	-	275,092
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	-	-	-	-	385,682	385,682
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	38,760	-	22,170	19,702	-	80,632
Total On-Balance Sheet	7,687,026	503,961	1,516,900	930,794	593,401	11,232,082
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	8,612,359	630,467	2,043,794	988,297	1,190,501	13,465,418

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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
2011						
Bank						
Cash and short-term funds	2,076,287	-	-	-	-	2,076,287
Deposits and placements with banks and other financial institutions	689,983	44,990	-	-	-	734,973
Securities held-for-trading		60,906	22,870	-	-	83,776
Securities available-for-sale	107,643	183,434	562,857	103,551	-	957,484
Securities held-to-maturity	15,268	31,857	-	-	-	47,125
Financing, advances and other receivables	3,990,687	29,484	717,915	1,608,101	82,321	6,428,508
Other assets	-	-	-	-	406,948	406,948
Statutory deposits with BNM	-	-	-	-	180,200	180,200
Hedging financial instruments	3,625	15,922	-	24,141	-	43,688
Total On-Balance Sheet	6,883,492	366,594	1,303,642	1,735,792	669,469	10,958,989
Financial guarantees	41,850	10,686	14,576	-	570,000	637,113
Contingent liabilities	91,332	7,287	34,372	4,551	-	137,542
Commitments	522,019	103,269	356,485	196,104	27,100	1,204,977
Total Off-Balance Sheet	655,201	121,242	405,434	200,655	597,100	1,979,632
Total On and Off-Balance Sheet	7,538,693	487,836	1,709,075	1,936,448	1,266,569	12,938,621

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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	2,744,436	-	-	-	-	2,744,436
Deposits and placements with banks and other financial institutions	-	275,092	-	-	-	275,092
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	681,041	35,292	6,603,272
Other assets	-	-	-	-	366,450	366,450
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	38,760	-	22,170	19,702	-	80,632
Total On-Balance Sheet	7,779,767	503,961	1,516,900	930,794	446,596	11,178,018
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	8,705,100	630,466	2,043,794	988,297	1,043,696	13,411,354

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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	Unrated	Past due but not impaired	Restructured & rescheduled	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011 Group						
Securities held-for-trading	90,216	-	-	-	-	90,216
Securities available-for-sale	973,589	21,090	-	-	81,890	1,076,569
Securities held-to-maturity	47,125	-	-	-	-	47,125
Financing, advances and other receivables	2,741,712	1,188,364	555,173	449,611	1,493,648	6,428,508
Other assets	270	-	-	-	-	270
Hedging financial instruments	43,688	-	-	-	-	43,688
Total On-Balance Sheet	3,896,600	1,209,454	555,173	449,611	1,575,538	7,686,376
Financial guarantees	637,113	-	-	-	-	637,113
Contingent liabilities	137,542	-	-	-	-	137,542
Commitments	1,204,977	-	-	-	-	1,204,977
Total Off-Balance Sheet	1,979,632	-	-	-	-	1,979,632
Total On and Off-Balance Sheet	5,876,232	1,209,454	555,173	449,611	1,575,538	9,666,008
Bank						
Securities held-for-trading	83,776	-	-	-	-	83,776
Securities available-for-sale	947,801	-	-	-	9,683	957,484
Securities held-to-maturity	47,125	-	-	-	-	47,125
Financing, advances and other receivables	2,741,712	1,188,364	555,173	449,611	1,493,648	6,428,508
Other assets	270	-	-	-	-	270
Hedging financial instruments	43,688	-	-	-	-	43,688
Total On-Balance Sheet	3,864,372	1,188,364	555,173	449,611	1,503,331	7,560,851
Financial guarantees	637,113	-	-	-	-	637,113
Contingent liabilities	137,542	-	-	-	-	137,542
Commitments	1,204,977	-	-	-	-	1,204,977
Total Off-Balance Sheet	1,979,632	-	-	-	-	1,979,632
Total On and Off-Balance Sheet	5,844,004	1,188,364	555,173	449,611	1,503,331	9,540,483

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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.

2010 Group	Performing RM'000	Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
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
Hedging financial instruments	80,632	-	-	-	-	80,632
Total On-Balance Sheet	5,310,219	-	886,415	884,137	793,987	7,874,759
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	7,543,555	-	886,415	884,137	793,987	10,108,095
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
Hedging financial instruments	80,632	-	-	-	-	80,632
Total On-Balance Sheet	5,182,647	-	886,415	884,137	793,987	7,747,186
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	7,415,982	-	886,415	884,137	793,987	9,980,522

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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.

2011 Group and Bank	Total RM'000
Corporate & Commercial	
Excellent	68,096
Strong	649,006
Minimum	1,029,966
Pass with condition	1,104,802
Early care	468,849
Impaired	1,397,346
New/SPV	63,126
Unrated	1,623,236
Total Corporate & Commercial	6,404,427
SME	
Strong	2,422
Minimum	9,820
Weak/pass with condition	11,839
	24,081
Total	6,428,508

* Unrated segment includes retail consumer credit exposures

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

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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.)

2011

Securities

Moodys	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			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government -guaranteed	Total RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities held-for-trading	-	22,870	67,346	-	-	-	90,216
Securities available-for-sale	144,653	343,430	284,009	-	102,980	201,497	1,076,569
Securities held-to-maturity	-	47,125	-	-	-	-	47,125
Bank							
Securities held-for-trading	-	22,870	60,906	-	-	-	83,776
Securities available-for-sale	132,127	330,168	284,009	-	9,683	201,497	957,484
Securities held-to-maturity	-	47,125	-	-	-	-	47,125

2010

Securities

Moodys	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			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government -guaranteed	Total 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

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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

	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RM'000	RM'000	RM'000	RM'000
2011				
Group and Bank				
Financing and advances to customers				
Corporate financing	1,262	-	-	1,262
Commercial financing	151,453	12,629	5,138	169,220
Retail & Consumer financing	259,615	115,561	9,515	384,691
	412,330	128,190	14,653	555,173

Impaired and past due financing by geographical regions

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Group and Bank					
Malaysia	1,277,834	553,317	943,997		61,802
Middle East	93,574	773	86,574		56,298
Others	122,240	1,083	59,307		-
Total	1,493,648	555,173	1,089,878	118,773	118,100

Impaired and past due financing by industry sector

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Group and Bank					
Trading and manufacturing	570,080	89,057	485,976		4,554
Banks and financial institutions	99,376	1,437	78,013		42,992
Construction and real estate	343,391	17,985	209,321		44,561
Transportation, storage and communication	174,350	52,420	117,559		-
Others	306,451	394,274	199,009		25,993
Total	1,493,648	555,173	1,089,878	118,773	118,100

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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

	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RM'000	RM'000	RM'000	RM'000
2010				
Group and Bank				
Financing and advances to customers				
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

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

Impaired and past due financing by industry sector

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
2010					
Group and Bank					
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		-
Transportation, storage and communication	175,430	57,317	7,000		-
Others	249,046	306,608	181,518		-
Total	793,987	886,415	411,715	118,773	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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.

As at 31 December 2011, 70.3% of financing, advances and other receivables of the Bank are collateralised (2010: 90.2% collateralised).

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 Management Committee for approval and subsequently to Board Credit and Investment Committee for concurrence. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

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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 2011	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	1,901,177	-	-	-	71,835	1,973,012
Deposits and placements with banks and other financial institutions	689,982	44,991	-	-	-	734,973
Securities held-for-trading	-	60,907	22,870	6,439	-	90,216
Securities available-for-sale	97,959	183,435	621,005	119,745	74,196	1,096,340
Securities held-to-maturity	15,268	31,857	-	-	-	47,125
Financing, advances and receivables	2,834,068	20,537	834,938	1,449,083	81,231	5,219,857
Murabahah trading automobile	-	-	-	-	32	32
Musarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	971,283	971,283
Total Assets	5,538,454	341,727	1,478,813	1,575,267	1,204,475	10,138,736

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Group
2011

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers

Deposits and placements of banks and other financial institutions

Subordinated Murabahah Tawarruq

Other liabilities

Total Liabilities

Shareholder's equity

Total Liabilities and Shareholder's equity

OFF-BALANCE SHEET LIABILITIES

Commitments & contingencies

Net maturity mismatch

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
3,315,023	782,024	4,512	-	616,295	4,717,854
3,073,215	61,357	-	-	-	3,134,572
-	-	373,589	-	-	373,589
-	-	-	-	442,180	442,180
6,372,567	835,636	376,959	-	1,083,033	8,668,195
-	-	-	-	1,470,541	1,470,541
6,372,567	835,636	376,959	-	2,379,043	10,138,736
140,171	60,480	1,060,988	-	-	1,261,638
(974,284)	(554,389)	40,866	1,575,267	(1,174,568)	(1,261,638)

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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
ASSETS						
Cash and short-term funds	2,370,840	-	-	-	280,855	2,651,695
Deposits and placements with banks and other financial institutions	267,590	-	7,502	-	-	275,092
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
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	692,526	692,526
Total Assets	5,196,541	476,498	3,026,492	1,206,474	1,001,877	10,907,882
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,872,469	282,479	-	-	405,089	4,560,037
Deposits and placements of banks and other financial institutions	3,380,598	41,583	56,508	-	-	3,478,689
Subordinated Murabahah Tawarruq	-	-	350,797	-	-	350,797
Murabahah bank financing	23,233	-	-	-	-	23,233
Other liabilities	-	-	-	-	441,531	441,531
Total Liabilities	7,254,786	322,074	403,232	-	874,195	8,854,287
Shareholder's equity	-	-	-	-	2,053,595	2,053,595
Total Liabilities and Shareholder's equity	7,254,786	322,074	403,232	-	2,927,790	10,907,882
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)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Bank
2011

ASSETS

Cash and short-term funds	2,005,436	-	-	-	70,851	2,076,287
Deposits and placements with banks and other financial institutions	689,981	44,992	-	-	-	734,973
Securities held-for-trading	-	60,907	22,869	-	-	83,776
Securities available-for-sale	97,959	183,434	572,540	103,551	19,771	977,255
Securities held-to-maturity	15,268	31,857	-	-	-	47,125
Financing, advances and receivables	2,834,068	20,537	834,938	1,449,083	81,231	5,219,857
Murabahah trading automobile	-	-	-	-	32	32
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	997,116	997,116

Total Assets

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
2,005,436	-	-	-	70,851	2,076,287
689,981	44,992	-	-	-	734,973
-	60,907	22,869	-	-	83,776
97,959	183,434	572,540	103,551	19,771	977,255
15,268	31,857	-	-	-	47,125
2,834,068	20,537	834,938	1,449,083	81,231	5,219,857
-	-	-	-	32	32
-	-	-	-	5,898	5,898
-	-	-	-	997,116	997,116
5,642,712	341,727	1,430,347	1,552,634	1,174,899	10,142,319
3,318,004	782,024	4,512	-	615,046	4,719,586
3,090,684	61,358	-	-	-	3,152,042
-	-	373,589	-	-	373,589
-	-	-	-	-	-
-	-	-	-	440,983	440,983
6,408,688	843,382	378,101	-	1,056,029	8,686,200
-	-	-	-	1,456,119	1,456,119
6,408,688	843,382	378,101	-	2,512,148	10,142,319
140,171	60,480	1,060,988	-	-	1,261,638
(906,147)	(562,135)	(8,742)	1,552,634	(1,337,249)	(1,261,638)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Bank
2010

ASSETS

Cash and short-term funds	2,465,357	-	-	-	279,079	2,744,436
Deposits and placements with banks and other financial institutions	267,590	-	7,502	-	-	275,092
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
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	703,931	703,931

Total Assets

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers	3,874,042	282,479	-	-	405,089	4,561,610
Deposits and placements of banks and other financial institutions	3,388,551	41,583	56,508	-	-	3,486,642
Subordinated Murabahah Tawarruq	-	-	350,797	-	-	350,797
Murabahah bank financing	23,233	-	-	-	-	23,233
Other liabilities	-	-	-	-	440,462	440,462

Total Liabilities

Shareholder's equity

Total Liabilities and Shareholder's equity

OFF-BALANCE SHEET LIABILITIES

Commitments & contingencies

Net maturity mismatch

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
2,465,357	-	-	-	279,079	2,744,436
267,590	-	7,502	-	-	275,092
-	-	110,083	-	-	110,083
136,365	174,895	475,704	119,969	19,000	925,933
-	-	46,266	-	-	46,266
2,399,906	239,898	2,346,475	1,086,505	-	6,072,784
-	-	-	-	32	32
-	-	-	-	5,898	5,898
-	-	-	-	703,931	703,931
5,266,401	414,793	2,985,226	1,206,474	1,011,561	10,884,455
3,874,042	282,479	-	-	405,089	4,561,610
3,388,551	41,583	56,508	-	-	3,486,642
-	-	350,797	-	-	350,797
23,233	-	-	-	-	23,233
-	-	-	-	440,462	440,462
7,264,259	322,074	403,232	-	873,179	8,862,744
-	-	-	-	2,021,711	2,021,711
7,264,259	322,074	403,232	-	2,894,890	10,884,455
387,073	58,048	306,924	72,272	616,864	1,441,181
(2,384,931)	34,671	2,275,070	1,134,202	(2,500,193)	(1,441,181)

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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 2011.

	Up to 6 months	> 6 -12 months	> 1 – 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2011					
Group					
Deposits from customers	3,315,023	782,024	4,512	616,295	4,717,854
Deposit and placements of banks and other financial institutions	3,073,215	61,357	-	-	3,134,572
Subordinated Murabahah Tawarruq	-	-	373,589	-	373,589
Other liabilities	-	-	-	442,180	442,180
Total	6,388,238	843,381	378,101	1,058,475	8,668,195
Bank					
Deposits from customers	3,318,004	782,024	4,512	615,046	4,719,586
Deposit and placements of banks and other financial institutions	3,090,684	61,358	-	-	3,152,042
Subordinated Murabahah Tawarruq	-	-	373,589	-	373,589
Murabahah bank financing	-	-	-	-	-
Other liabilities	-	-	-	440,983	440,983
Total	6,408,688	843,382	378,101	1,056,029	8,686,200

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

	Up to 6 months	> 6 -12 months	> 1 – 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2010 Group					
Deposits from customers	3,872,470	282,479	-	405,088	4,560,037
Deposit and placements of banks and other financial institutions	3,380,598	41,583	56,508	-	3,478,689
Subordinated Murabahah Tawarruq	-	-	350,797	-	350,797
Murabahah bank financing	23,233	-	-	-	23,233
Other liabilities	-	-	-	441,531	441,531
Total	7,276,301	324,062	407,305	846,619	8,854,287
Bank					
Deposits from customers	3,874,043	282,479	-	405,088	4,561,610
Deposit and placements of banks and other financial institutions	3,388,551	41,583	56,508	-	3,486,642
Subordinated Murabahah Tawarruq	-	-	350,797	-	350,797
Murabahah bank financing	23,233	-	-	-	23,233
Other liabilities	-	-	-	440,462	440,462
Total	7,285,827	324,062	407,305	845,550	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:

- 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;
- 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
- 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.

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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 Held-for-Trading (HTM) sukuk, ijarah rental swap (IRS) and cross currency ijarah rental swap (CCIRS). As at 31 December 2011, the total risk weighted assets for exposures with benchmark rate risk was RM20.81 million (31 December 2010: RM31.350 million) with a total capital charge of RM1.665 million (31 December 2010: RM2.508 million).

All positions in IRS and CCIRS were fully squared (31 December 2010: 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	2011			2010		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
US Dollar (USD)	76,032	0.96	7,405	107,984	0.12	1,314

Securities held-for-trading

Bank	2011			2010		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
US Dollar (USD)	69,696	0.50	3,567	107,984	0.12	1,314

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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 2011, the total risk weighted assets for exposures with foreign exchange rate risk was RM81.926 million (31 December 2010: RM148.190 million) with a total capital charge of RM6.554 million (31 December 2010: RM11.966 million).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2011. 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.

Group	2011		2010	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
Singapore Dollar (SGD)	1	(390)	1	(92)
US Dollar (USD)	1	742	1	(323)
Euro (EUR)	1	(724)	1	(1,651)
Bank				
Singapore Dollar (SGD)	1	(390)	1	(92)
US Dollar (USD)	1	(838)	1	(1,328)
Euro (EUR)	1	(736)	1	(817)

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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 2011, the total risk weighted assets for exposures with inventory risk was RM0.032 million (31 December 2010: RM0.032 million) with total capital charge of RM0.005 million (31 December 2010: RM0.005 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

	2011	2010
Type of Inventory	RM'000	RM'000
Not held under resale or return basis	32	32

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	2011			2010		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
Ringgit Malaysia	295,000	4.22	121,483	385,000	2.9	107,683
US Dollar	722,304	2.09	151,002	566,802	1.01	56,879
Bank						
Ringgit Malaysia	295,000	4.22	121,483	385,000	2.9	107,683
US Dollar	658,944	1.93	127,628	553,802	0.81	42,124

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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 2011	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			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS								
Cash and short-term funds	1,901,177	-	-	-	-	71,835	1,973,012	2.40
Deposits and placements with banks and other financial institutions	-	370,123	364,850	-	-	-	734,973	2.87
Securities held-for-trading	-	-	-	-	-	90,216	90,216	2.61
Securities available-for-sale	-	266,184	45,824	621,005	89,130	74,197	1,096,340	3.16
Securities held-to-maturity	-	47,125	-	-	-	-	47,125	3.52
Financing, advances and receivables	1,815,700	1,768,047	36,852	488,495	1,029,533	81,230	5,219,857	5.91
Murabahah trading automobile	-	-	-	-	-	32	32	-
Musyarakah capital investment	-	-	-	-	-	5,898	5,898	-
Other assets	-	-	-	-	-	971,283	971,283	-
TOTAL ASSETS	3,716,877	2,451,479	447,526	1,109,500	1,118,663	1,204,443	90,248	10,138,736
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits from customers	1,826,034	1,069,570	1,204,424	4,512	-	613,314	4,717,854	2.71
Deposits and placements of banks and other financial institutions	2,040,157	892,398	202,017	-	-	-	3,134,572	2.83
Subordinated Murabahah Tawarruq	-	189,023	184,566	-	-	-	373,589	3.62
Other liabilities	-	-	-	-	-	442,180	442,180	-
Total Liabilities	3,866,191	2,150,991	1,591,007	4,512	-	1,055,494	8,668,195	
Shareholder's equity	-	-	-	-	-	1,470,541	1,470,541	-
Total Liabilities and Shareholder's equity	3,866,191	2,150,991	1,591,007	4,512	-	2,526,035	10,138,736	
On-balance sheet profit sensitivity gap	(149,314)	300,488	(1,143,481)	1,104,988	1,118,663	(1,321,592)	90,248	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(149,314)	300,488	(1,143,481)	1,104,988	1,118,663	(1,321,592)	90,248	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2010	Non-trading book						Trading book	Total RM'000	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	2,370,840	-	-	-	-	280,855	-	2,651,695	2.34
Deposits and placements with banks and other financial institutions	-	229,423	38,167	7,502	-	-	-	275,092	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	-	-	-	-	-	692,526	-	692,526	-
TOTAL ASSETS	4,750,464	3,102,560	558,368	1,268,965	119,131	998,279	110,115	10,907,882	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,450,410	1,182,224	523,887	-	-	403,516	-	4,560,037	2.66
Deposits and placements of banks and other financial institutions	2,815,360	499,488	110,264	53,577	-	-	-	3,478,689	2.63
Subordinated Murabahah Tawarruq	-	-	-	350,797	-	-	-	350,797	3.63
Murabahah bank financing	-	-	23,233	-	-	-	-	23,233	1.59
Other liabilities	-	-	-	-	-	441,531	-	441,531	-
Total Liabilities	5,265,770	1,681,712	657,384	404,374	-	845,047	-	8,854,287	
Shareholder's equity	-	-	-	-	-	2,053,595	-	2,053,595	-
Total Liabilities and Shareholder's equity	5,265,770	1,681,712	657,384	404,374	-	2,898,642	-	10,907,882	
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	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2011	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	2,005,436	-	-	-	-	70,851	-	2,076,287	2.34
Deposits and placements with banks and other financial institutions	-	370,123	364,850	-	-	-	-	734,973	2.87
Securities held-for-trading	-	-	-	-	-	-	83,776	83,776	2.50
Securities available-for-sale	183,434	139,409	196,937	364,767	72,936	19,772	-	977,255	3.16
Securities held-to-maturity	31,857	15,268	-	-	-	-	-	47,125	3.52
Financing, advances and receivables	1,815,700	1,768,047	36,852	488,495	1,029,533	81,230	-	5,219,857	5.91
Murabahah trading automobile	-	-	-	-	-	-	32	32	-
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	997,116	-	997,116	-
TOTAL ASSETS	4,036,427	2,292,847	598,639	853,262	1,102,469	1,174,868	83,808	10,142,319	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,826,034	1,069,570	1,204,423	4,512	-	615,047	-	4,719,586	2.71
Deposits and placements of banks and other financial institutions	2,057,626	892,398	202,018	-	-	-	-	3,152,042	2.83
Subordinated Murabahah Tawarruq	-	189,023	184,566	-	-	-	-	373,589	3.62
Other liabilities	-	-	-	-	-	440,983	-	440,983	-
Total Liabilities	3,883,660	2,150,991	1,591,007	4,512	-	1,056,030	-	8,686,200	
Shareholder's equity	-	-	-	-	-	1,456,119	-	1,456,119	-
Total Liabilities and Shareholder's equity	3,883,660	2,150,991	1,591,007	4,512	-	2,512,149	-	10,142,319	
On-balance sheet profit sensitivity gap	152,767	141,856	(992,368)	848,750	1,102,469	(1,337,281)	83,808	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	152,767	141,856	(992,368)	848,750	1,102,469	(1,337,281)	83,808	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2010	Non-trading book						Trading book	Total RM'000	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	2,465,357	-	-	-	-	279,079	-	2,744,436	2.30
Deposits and placements with banks and other financial institutions	-	229,423	38,167	7,502	-	-	-	275,092	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	-	-	-	-	-	703,931	-	703,931	-
TOTAL ASSETS	4,844,981	3,102,560	472,062	1,227,698	119,131	1,007,908	110,115	10,884,455	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,450,410	1,182,224	523,887	-	-	405,089	-	4,561,610	2.66
Deposits and placements of banks and other financial institutions	2,818,313	499,488	115,264	53,577	-	-	-	3,486,642	2.63
Subordinated Murabahah Tawarruq	-	-	-	350,797	-	-	-	350,797	3.63
Murabahah bank financing	-	-	23,233	-	-	-	-	23,233	1.59
Other liabilities	-	-	-	-	-	440,462	-	440,462	-
Total Liabilities	5,268,723	1,681,712	662,384	404,374	-	845,551	-	8,862,744	
Shareholder's equity	-	-	-	-	-	2,021,711	-	2,021,711	-
Total Liabilities and Shareholder's equity	5,268,723	1,681,712	662,384	404,374	-	2,867,262	-	10,884,455	
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	-	

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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
2011**

ASSETS

Cash and short-term funds	1,571,924	120,764	263,310	-	5,685	11,329	1,973,012
Deposits and placements with banks and other financial institutions	249,378	48,743	436,852	-	-	-	734,973
Securities held-for-trading	-	-	90,216	-	-	-	90,216
Securities available-for-sale	290,073	-	781,580	24,687	-	-	1,096,340
Securities held-to-maturity	15,268	-	31,857	-	-	-	47,125
Financing, advances and receivables	4,314,656	10,814	894,387	-	-	-	5,219,857
Murabahah trading automobile	32	-	-	-	-	-	32
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	823,873	-	-	-	-	147,410	971,283
Total Assets	7,271,102	180,321	2,498,202	24,687	5,685	158,739	10,138,736

MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group
2011

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers
Deposits and placements of banks and other financial institutions
Subordinated Murabahah Tawarruq
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 RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
3,943,202	196,342	411,457	150	9,282	157,421	4,717,854
2,219,113	-	873,239	42,220	-	-	3,134,572
-	-	373,589	-	-	-	373,589
442,180	-	-	-	-	-	442,180
6,604,495	196,342	1,658,285	42,370	9,282	157,421	8,668,195
1,470,541	-	-	-	-	-	1,470,541
8,075,036	196,342	1,658,285	42,370	9,282	157,421	10,138,736
(803,934)	(16,021)	839,917	(17,683)	(3,597)	1,318	-
786,555	-	(815,934)	-	-	-	(29,379)
(17,379)	(16,021)	23,983	(17,683)	(3,597)	1,318	(29,379)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 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	2,391,405	44,141	209,856	-	-	6,293	2,651,695
Deposits and placements with banks and other financial institutions	78,531	196,561	-	-	-	-	275,092
Securities held-for-trading	-	-	110,083	-	-	-	110,083
Securities available-for-sale	394,564	-	634,340	24,602	-	-	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	664,037	-	-	-	-	28,489	692,526
Total Assets	8,367,981	255,448	2,182,465	24,602	-	77,386	10,907,882
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,031,844	259,317	239,362	-	-	29,514	4,560,037
Deposits and placements of banks and other financial institutions	2,582,110	-	817,820	40,472	-	38,287	3,478,689
Subordinated Murabahah Tawarruq	-	-	350,797	-	-	-	350,797
Murabahah bank financing	-	-	23,233	-	-	-	23,233
Other liabilities	441,531	-	-	-	-	-	441,531
Total Liabilities	7,055,485	259,317	1,431,212	40,472	-	67,801	8,854,287
Shareholder's equity	2,053,595	-	-	-	-	-	2,053,595
Total Liabilities and Shareholder's equity	9,109,080	259,317	1,431,212	40,472	-	67,801	10,907,882
On-balance sheet open position	(741,099)	(3,869)	751,253	(15,870)	-	9,585	-
Off-balance sheet open position	791,635	11	(768,679)	-	-	-	22,967
Net open position	50,536	(3,858)	(17,426)	(15,870)	-	9,585	22,967

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2011	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	1,570,941	120,764	343,173	24,395	5,685	11,329	2,076,287
Deposits and placements with banks and other financial institutions	249,378	48,743	436,852	-	-	-	734,973
Securities held-for-trading	-	-	83,776	-	-	-	83,776
Securities available-for-sale	307,854	-	669,401	-	-	-	977,255
Securities held-to-maturity	15,268	-	31,857	-	-	-	47,125
Financing, advances and receivables	4,314,655	10,814	894,388	-	-	-	5,219,857
Murabahah trading automobile	32	-	-	-	-	-	32
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	849,706	-	-	-	-	147,410	997,116
Total Assets	7,313,732	180,321	2,459,447	24,395	5,685	158,739	10,142,319
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,944,933	196,342	411,457	150	9,283	157,421	4,719,586
Deposits and placements of banks and other financial institutions	2,225,494	-	884,328	42,220	-	-	3,152,042
Subordinated Murabahah Tawarruq	-	-	373,589	-	-	-	373,589
Other liabilities	440,983	-	-	-	-	-	440,983
Total Liabilities	6,611,410	196,342	1,669,374	42,370	9,283	157,421	8,686,200
Shareholder's equity	1,456,119	-	-	-	-	-	1,456,119
Total Liabilities and Shareholder's equity	8,067,529	196,342	1,669,374	42,370	9,283	157,421	10,142,319
On-balance sheet open position	(753,796)	(16,021)	790,073	(17,975)	(3,598)	1,318	-
Off-balance sheet open position	786,555	-	(815,934)	-	-	-	(29,379)
Net open position	32,759	(16,021)	(25,861)	(17,975)	(3,598)	1,318	(29,379)

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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	2,389,628	44,141	283,937	20,437	-	6,293	2,744,436
Deposits and placements with banks and other financial institutions	78,531	196,561	-	-	-	-	275,092
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	675,442	-	-	-	-	28,489	703,931
Total Assets	8,377,609	255,448	2,153,575	20,437	-	77,386	10,884,455
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,033,417	259,317	239,362	-	-	29,514	4,561,610
Deposits and placements of banks and other financial institutions	2,590,063	-	817,820	40,472	-	38,287	3,486,642
Subordinated Murabahah Tawarruq	-	-	350,797	-	-	-	350,797
Murabahah bank financing	-	-	23,233	-	-	-	23,233
Other liabilities	440,462	-	-	-	-	-	440,462
Total Liabilities	7,063,942	259,317	1,431,212	40,472	-	67,801	8,862,744
Shareholder's equity	2,021,711	-	-	-	-	-	2,021,711
Total Liabilities and Shareholder's equity	9,085,653	259,317	1,431,212	40,472	-	67,801	10,884,455
On-balance sheet open position	(708,044)	(3,869)	722,363	(20,035)	-	9,585	-
Off-balance sheet open position	791,635	11	(768,679)	-	-	-	22,967
Net open position	83,591	(3,858)	(46,316)	(20,035)	-	9,585	22,967

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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 2011. 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

2011 Group

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Rate sensitive assets	6,226	404	42	2,046	1,421	10,138
Rate sensitive liabilities	5,815	560	836	5	1,452	8,668
Monthly mismatch	411	(157)	(794)	2,042	(204)	
Cumulative mismatch	380	1,296	(339)	1,502	1,470	
Bank						
Rate sensitive assets	6,326	549	102	1,777	1,388	10,142
Rate sensitive liabilities	5,833	560	836	5	1,452	8,686
Monthly mismatch	493	(12)	(733)	1,772	(238)	
Cumulative mismatch	538	1,832	1,390	1,520	1,456	

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

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Exposures to profit rate risk (Cont'd.)

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	996	10,908
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	2,054	
Bank						
Rate sensitive assets	8,273	314	3	1,204	1,090	10,884
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.

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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 (%)

2011

Group

	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	0.85	0.46	0.26	(0.28)	(0.56)	(1.13)
Change in Economic Value of Equity	14.84	6.89	3.32	(3.10)	(6.00)	(11.25)
Bank						
Change in Net Revenue	0.93	0.50	0.28	(0.30)	(0.61)	(1.21)
Change in Economic Value of Equity	14.10	6.53	3.15	(2.93)	(5.66)	(10.58)

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)

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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:

2011

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						
Public sector entities (applicable for entities risk-weighted based on their external ratings as corporates)		-	-	-	-	112,778
Insurance companies, securities firms and fund managers		-	-	-	-	-
Corporates		56,374	15,268	-	-	5,412,692
		56,374	15,268	-	-	5,525,470

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2011

Exposure class	Rating of Corporates by approved ECAls					
	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					
On and Off-Balance Sheet Exposures		AAA to AA- RM '000	A+ to A- RM '000	BBB+ to BB- RM '000	B+ to D RM '000	Unrated RM '000
Credit exposures (using corporate risk-weights)						
Bank						
Public sector entities (applicable for entities risk-weighted based on their external ratings as corporates)		-	-	-	-	112,778
Corporates		56,374	15,268	-	-	5,414,279
		56,374	15,268	-	-	5,527,057

2010

Exposure class	Rating of Corporates by approved ECAls					
	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					
On and Off-Balance Sheet Exposures		AAA to AA- RM '000	A+ to A- RM '000	BBB+ to BB- RM '000	B+ to D RM '000	Unrated 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
Corporates		129,068	101,658	13,523	-	6,992,463
		129,068	101,658	13,523	-	7,088,167

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2011

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	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		-	102,757	-	-	-	1,232,542
Bank Sovereigns/Central Banks		-	89,495	-	-	-	1,232,542

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	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		-	94,744	163,660	-	-	1,992,951
Bank Banks, MDBs and FDIs		-	94,744	157,074	-	-	2,067,574

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2010

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	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						
On and Off-Balance Sheet Exposures		AAA to AA- RM '000	A+ to A- RM '000	BBB+ to BBB- RM '000	BB+ to B- RM '000	CCC+ to C RM '000	Unrated 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 ECAs						
	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						
On and Off-Balance Sheet Exposures		AAA to AA- RM '000	A+ to A- RM '000	BBB+ to BBB- RM '000	BB+ to B- RM '000	CCC+ to C RM '000	Unrated 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

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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:-

2011

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,335,299	-	-
Public Sector Entities	110,204	110,204	-
Banks, Development Financial Institutions & MDBs	2,185,042	-	-
Corporates	3,497,139	91,293	62,521
Regulatory Retail	883,177	-	50
Residential Mortgages	68,365	-	-
Higher Risk Assets ¹	261,827	-	-
Other Assets	557,205	-	-
Defaulted Exposures ²	997,832	-	42,966
Total On Balance Sheet Exposures	9,896,090	201,497	105,537
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	79,818	-	-
Off-balance sheet exposures other than OTC derivatives ²	1,175,981	450,000	6,475
Defaulted Exposures ²	5,840	-	500
Total Off-Balance Sheet Exposures	1,261,639	450,000	6,975
Total On and Off-Balance Sheet Exposures	11,157,729	651,497	112,512

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2010

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	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

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2011

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,322,037	-	-
Public Sector Entities	110,204	110,204	-
Banks, Development Financial Institutions & MDBs	2,253,080	-	-
Corporates	3,498,726	91,293	62,521
Regulatory Retail	883,177	-	50
Residential Mortgages	68,365	-	-
Higher Risk Assets ¹	261,795	-	-
Other Assets	480,031	-	-
Defaulted Exposures ²	997,832	-	42,966
Total On-Balance Sheet Exposures	9,875,247	201,497	105,537
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	79,818	-	-
Off-balance sheet exposures other than OTC derivatives ²	1,175,981	450,000	6,475
Defaulted Exposures ²	5,840	-	500
Total Off Balance Sheet Exposures	1,261,639	450,000	6,975
Total On and Off-Balance Sheet Exposures	11,136,886	651,497	112,512

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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
	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 "unlikelihood 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.

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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
2011				
Direct credit substitutes	637,113		637,113	411,525
Transaction related contingent Items	108,859		54,430	38,878
Short-term self liquidating trade related contingencies	28,683		5,737	4,990
Foreign exchange related contracts				
- One year or less	917,884	719	11,669	6,218
- Over one year to five years	197,286	8,199	14,611	8,833
- Over five years	101,773	7,723	11,031	3,714
Profit rate related contracts				
- Over five years	319,829	24,141	43,331	35,655
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	809,077		404,538	437,907
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	395,901		79,180	77,513
	3,516,404	40,782	1,261,638	1,025,233
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

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions)

2011

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

(b) Associate

Reetaj City Centre Sdn Bhd

(c) Musyarakah Capital Investment

Amount	Unrealised Gain/(Loss)	Risk-Weighted Assets
RM'000	RM'000	RM'000
46,193	(14,000)	Capital Deduction
10,200	-	Capital Deduction
-	-	Capital Deduction
20,000	-	Capital Deduction
15,993	-	Capital Deduction
19,000	-	28,500
5,898	-	8,847

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

Amount	Unrealised Gain/(Loss)	Risk-Weighted Assets
RM'000	RM'000	RM'000
67,897	(35,414)	Capital Deduction
10,200	-	Capital Deduction
-	-	Capital Deduction
20,000	-	Capital Deduction
21,704	-	Capital Deduction
15,993	-	Capital Deduction
19,000	-	28,500
5,898	-	8,847