KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2012

Registered Office:
Level 26, Menara Prestige
No.1, Jalan Pinang
P.O.Box 10103
50450 Kuala Lumpur

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1 PERFORMANCE OVERVIEW

The Group and the Bank registered a profit before tax of RM90.4 million and RM93.3 million respectively for the financial year ended 31 December 2012. The Group operating revenue increased by 7.6% in 2012 to RM494.4 million.

The Group's Risk Weighted Capital Ratio and Core Capital Ratio as 31 December 2012 stood at a commendable 19.45% and 15.44% respectively.

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.

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 eight (8) members, comprising four (4) independent non-executive directors, four (4) non-independent non-executive directors.

Directors' Profile

Dr. Nabeel A E A Al-Mannae
Chairman
Independent non-executive director

(53 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

(45 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 was redesignated as the Deputy Chairman of the Bank since 5 September 2011 to be in like with the requirements of BNM GPI-T.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Dato' Sri Abdul Hamidy Abdul Hafiz
Member
Independent non-executive director

(57 years of age - Malaysian) Bachelor's Degree in Business Administration and Master of Business Administration from Ohio University, USA.

Dato' Sri Hamidy has an extensive 30 years of experience in the Banking Industry. Dato' Sri Hamidy was previously the Chief Executive Officer of Affin Bank Berhad. Currently, Dato' Sri Hamidy is the Chairman of Credit Guarantee Corporation. Dato' Sri Hamidy has also served on the Boards of several public listed companies in financial services and advisory panels.

Dato' Sri Hamidy was appointed as Director of the Bank on 11 June 2012.

Khalid Sufat
Member
Independent non-executive director

(57 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 Bina Puri Holdings Bhd, Tradewinds (M) Bhd, UMW Holdings Berhad and Chemical Company of Malaysia Berhad.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Gopala Krishnan A/L K Sundaram
Member
Independent non-executive director

(58 years of age - Malaysian) Bachelor of Law L.L.B. (Hons.) (Mal) from Universiti Malaya, Kuala Lumpur.

Mr Gopala has served Bank Negara Malaysia for 30 years as a Project Advisor and Assistant Governor as well as held various senior positions in the Central Bank's Legal Department. During his tenure with BNM, he was extensively involved with legislative drafting, financial crises management, resolution of ailing financial institution and international technical assistance, among others.

He was appointed as Director of the Bank on 11 June 2012.

Dr Paul Quigley
Member
Non-independent non-executive director

(55 years of age - Irish) PhD. in Finance from University of Birmingham, United Kingdom.

Dr Quigley joined Kuwait Finance House, Kuwait as Chief Risk Officer in July 2011. Prior to that, he was the Chief Executive Officer of the Institute of Bankers in Ireland. He had also served as the General Manager, Risk Management and Architecture at AIB Group.

He was appointed as Director of the Bank on 13 December 2012.

Mohamed Zaheer Mohamed Azreen
Member
Non-independent non-executive director

(43 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.

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

(49 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 2012, eighteen (18) Board meetings were held and attended by the directors. In the said Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals and other matters were tabled for deliberation, approval, endorsement and reviewed by members of the Board.

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

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

Board Committees

The Board is assisted by seven (7) Board Committees with specific terms of reference and functions, as follows:

Board Audit Committee

The Board Audit Committee ("BAC") consists of three (3) independent non-executive directors and two (2) non-independent non-executive director twelve (12) BAC meetings were held during the financial year. The members are as follows:

Khalid Sufat - Chairman
Mohamed Zaheer Mohamed Azreen
Shaheen H A KH SH Alghanem - Member (Appointed on 25 July 2012)
Dato' Sri Abdul Hamidy Abdul Hafiz - Member (Appointed on 25 July 2012)
Gopala Krishnan A/L K Sundaram - Member (Appointed on 25 July 2012)
Professor Mohamed Ismail Mohamed Shariff - (Resigned on 11 June 2012)
Haji Ismail Ibrahim - (Resigned on 1 April 2012)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Audit Committee (Cont'd.)

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.

Board Risk Management Committee

The Board Risk Management Committee (BRMC) consists of three (3) independent non-executive directors and one (1) non-independent non-executive director, seven (7) BRMC meetings and were held during the financial year. The members are as follows:

Dato' Sri Abdul Hamidy Abdul Hafiz - Chairman (Appointed on 25 July 2012)
Khalid Sufat - Member
Mohamed Zaheer Mohamed Azreen - Member
Gopala Krishnan A/L K Sundaram - Member (Appointed on 25 July 2012)
Shaheen H A KH SH Alghanem - (Resigned on 25 July 2012)
Haji Ismail Ibrahim - (Resigned on 1 April 2012)

The roles and responsibilities of the BRMC are to oversee the senior management officers' activities in managing credit, market, operational and other risks and to ensure that the risk management framework and process are robust and functions effectively. 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. The Risk Management function is overseen by the Chief Risk Officer, who reports to the BRMC.

In addition, the BRMC assists 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 approved policies and business directions.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Nominating Committee

The Nominating Committee ("NC") consists of three (3) independent non-executive directors and two (2) non-independent non-executive directors. Six (6) NC meetings were held during the financial year. The members are as follows:

Dr. Nabeel A E A Al-Mannae - Chairman
Shaheen H A KH SH Alghanem - Member
Abdul Wahab I.A.A. AlRushood - Member
Khalid Sufat - Member
Dato' Sri Abdul Hamidy Abdul Hafiz - Member (Appointed on 25 July 2012)
Mohamed Zaheer Mohamed Azreen - (Appointed on 17 May 2012 and Resigned on 25 July 2012)
Professor Mohamed Ismail Mohamed Shariff - (Resigned on 11 June 2012)
Haji Ismail Ibrahim - (Resigned on 1 April 2012)

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.

Board Transformation Sub-Committee

The Board Transformation Sub-Committee ("BTSC") consists of one (1) non-independent non executive director and two (2) independent non-executive directors. Eight (8) BTSC meetings were held during the financial year. The BTSC was established on 22 March 2012 and its members are as follows:

Mohamed Zaheer Mohamed Azreen - Chairman
Khalid Sufat - Member
Gopala Krishnan A/L K Sundaram - Member (Appointed on 25 July 2012)

The roles and responsibilities of the BTSC are to provide independent oversight for the implementation of the Bank's transformation plan as a whole.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Remuneration Committee

The Remuneration Committee ("RC") consists of two (2) independent non-executive directors and two (2) non-independent non-executive directors. Six (6) RC meetings were held during the financial year. The members are as follows:

Dr. Nabeel A E A Al-Mannae - Chairman (Appointed on 25 July 2012)
Abdul Wahab I.A.A. AlRushood - Member
Mohamed Zaheer Mohamed Azreen- Member
Gopala Krishnan A/L K Sundaram - Member (Appointed on 25 July 2012)
Professor Mohamed Ismail Mohamed Shariff - (Resigned on 11 June 2012)
Khalid Sufat - Member (Resigned on on 25 July 2012)

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.

Board Credit & Investment Committee

The Board Credit & Investment Committee ("BCIC") consists of three (3) non-independent non-executive directors and one (1) independent non-executive director. Seventeen (17) 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
Mohamed Zaheer Mohamed Azreen - Member
Dato' Sri Abdul Hamidy Abdul Hafiz - Member (Appointed on 25 July 2012)
Haji Ismail Ibrahim - Member (Resigned on 1 April 2012)

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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Recovery Committee

The Board Recovery Committee ("BRC") consists of one (1) non-independent non executive director and two (2) independent non-executive directors. Five (5) BRC meetings were held during the financial year. The BRC was established on 13 September 2012 and its members are as follows:

Dato' Sri Abdul Hamidy Abdul Hafiz - Chairman
Gopala Krishnan A/L K Sundaram - Member
Mohamed Zaheer Mohamed Azreen - Member

The main objectives of the BRC are to optimize collections and recovery actions with a view to maximize returns to the Bank, to protect the Bank's interest and reputation and to provide guidance and direction to the Special Asset Management team.

(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.

Internal controls

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

The Internal Audit Division 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, prioritised based on risks associated with key business processes is reviewed and approved by the BAC.

The Internal Audit Division is also responsible for the identification of internal control and corporate governance issues, in addition to the findings by the external auditors, regulatory authorities and management as well as evaluating the adequacy and effectiveness of the Bank's risk management and internal control systems. The Internal Audit Division is monitored by the BAC with particular emphasis on the scope of audits, quality of internal audits, audit implementation and independence of the Internal Audit Division of the Bank.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Internal controls (Cont'd.)

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 effectiveness of the Bank's daily operations is monitored and reviewed by the Board Risk Management Committee ("BRMC") so that the Bank's operations are in accordance with the corporate objectives, strategies, annual budget as well as approved policies and business directions.

An on-going process of identifying, evaluating and managing the significant risks faced by the Bank is monitored by the BRMC, which includes updating the system of internal controls when there are changes to the business environment or regulatory guidelines. The process is also 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.

Management reports

Management reports are presented to and reviewed by the Board on a regular basis. In addition to the financial statements, other reports tabled before the Board at periodical meetings include the reports on monitoring of compliance with banking laws and other Bank Negara Malaysia's guidelines on financing, capital adequacy and other regulatory requirements, as well as monthly progress reports on business operations.

The annual business plan and 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, proper policies and guidelines are in place within the Bank in relation to 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

Risk management disclosures provided in line with the requirements of the Financial Reporting Standard ("MFRS") 7 *Financial Instruments: Disclosures,* and disclosures on capital management as required by MFRS 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.

<u>Highlights of major achievements</u>

The Bank has been taking proactive measures to manage various risks posed by the rapidly changing business environment. These risks, which include credit risk, market risk, liquidity risk, reputational risk, business risk, strategic risk and operational risk are systematically managed within the Bank's risk governance, infrastructure and tools.

During the year under review, the Bank has successfully implemented and/or developed few major initiatives to address the above risks. The major achievements of the Bank include:

- The Bank has implemented a robust Integrated Risk Management Solution (IRMS) system to calculate Pillar 2 and stress testing capital requirements for future events that could have impact on the organisation, particularly in a volatile environment.

- The Bank has formally established risk appetite statements and embedded it in the strategic business plan and annual budget formulation process.

- The Bank had formulated a liquidity crisis framework and a robust Contingency Funding Liquidity Blueprint, in addition to the existing Contingency Funding Plan, by outlining more detail action plans to address any potential liquidity crisis.

- The Bank commenced the calculation of Basel III liquidity ratios i.e. liquidity coverage ratio, net stable funding requirement and leverage ratio from June 2012.

- The Bank adopted PV01, a measurement tool for profit rate risk for trading of sukuk and Net Open Position limit to mitigate potential loss arising from market risk.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Highlights of major achievements (Cont'd.)

- The Bank employed a sophisticated business intelligence tool to produce more granular portfolio reports for management and decision making process.
- The Bank continued to pro-actively review its credit policies and guidelines to effectively address various risks inherent in the Bank's business activities.
- The Bank strengthened the ability of collating more operational risk data with implementation of an enhanced Operational Risk Management System.
- The Bank further refined the ERASE anti-money laundering system with better efficiency in detecting and capturing potential money laundering activities.

Moving on FY2013

As part of the long term Transformation Program initiatives, the Bank has embarked on long term risk management enhancement initiatives with the objective to build for the Bank a robust risk management infrastructure with capabilities that commensurate with the business sophistication and later for new business areas.

Risk Management Framework

The Board has delegated the responsibility of reviewing the effectiveness of risk management to the Board Risk Management Committee ("BRMC"). The BRMC assists the Board to review and oversee the effectiveness of the risk management of the Bank whilst the Risk Management Department would facilitate to institutionalise the continuous monitoring and evaluating of the bank's risk management practices. Any policy and framework formulated to identify, measure, and monitor various risk components would be reviewed and recommended by the BRMC to the Board for approval.

The BRMC also reviews and assesses the adequacy of these risks management policies and ensures sufficient infrastructure, resources and systems are in place for risk management. The risk management principles, policies, procedures and practices are updated regularly to ensure relevance and compliance with current/ applicable laws, regulations, and changes in business environment and are made available to all employees.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Three Lines of Defence Concept

The Bank adopts the concept of three (3) lines of defence i.e. risk taking units, risk control units and internal audit. The risk taking units responsible for the day-to-day management of risks assumed by them in their business activities while the risk control units are responsible for provision of specialised resources for setting the risk management framework and developing appropriate risk management tools and methodologies. Additionally, internal audit complements the concept by providing independent assurance of the effectiveness of the risk management process and approaches implemented by the Bank.

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 2012, the corporate and commercial financing segment continues to contribute major share of the Bank's financing and investment assets. In addition, the retail and consumer financing segment has also grown from 19% of the Bank's total financing assets in 2011 to 25% of the Bank's total financing assets in 2012 as a result of the business initiatives and strategies that were implemented to grow the retail and consumer banking segment.

Credit risk is restricted by exposure limits set at individual customers, customer group levels and at portfolio level. The financing and investment limit structure provides the approval matrix for all types of financing and investment transacted by the Bank which are monitored by Credit Risk Management and by the Management Credit and Investment Committee.

The Credit Management team, consisting of independent full time credit personnel, plays a central role in analyzing, 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 practice.

The Bank's credit risk policies and guidelines set 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 in the formulation of supplementary credit policies and practices specific to business units.

The Credit Risk Management team has made progress in ensuring that more relevant and granular reports are presented to the Management by using the latest business intelligence tools. The team has also made the business intelligence tools available to the Retail and Consumer Banking Department and the Retail Credit Management Department. This will allow the users to physically make changes and customize different forms of analysis right at their fingertip, which will be extremely useful for performance monitoring and identification of business credit risks and opportunities.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Market Risk Management

The objective of market risk management is to ensure that all activities which expose the Bank to market risks are properly controlled, managed and monitored.

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:

- Financial instruments (including hedging financial instruments);
- Foreign exchange including gold;
- Inventories; and
- Commodities.

Liquidity Risk Management

Liquidity risk is defined as inability of the Bank 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 adopts the BNM's New Liquidity Framework as a foundation in managing its liquidity. The objective of liquidity risk management is to ensure that cash needs can always be met at reasonable cost, either by:

- Maturity or sale of assets; or

- Acquisition of deposits or additional funding from the Islamic money markets.

The Bank has also adopted 3-days Liquidity Coverage Ratio as a liquidity risk management tool to ensure the next 3 days cashflow obligations is sufficient.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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 chaired by Chief Executive Officer with members comprising the senior management representing major business units, Finance Division and Risk Management Department.

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:

• The total of non rate sensitive financing over the Bank's total financing; and

• The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

Operational Risk Management ("ORM")

The Bank emphasises high importance of having sufficient and effective processes and procedures to regularly identify, assess, monitor and control the operational risk inherent in the Bank's daily business and operational activities. The ORM Policy has been established aiming at managing the operational risk throughout the Bank and is aligned with the Bank's business strategy. Operational risk is defined as the risk of losses resulting from either 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.

Various operational risk tools have been implemented by the Bank namely Risk Event/ Incident Reporting, Risk Assessment Scorecard and Risk Control Self Assessment. The infrastructure of collecting and monitoring operational risk data is further strengthened with the implementation of Operational Risk Management System. The system enables the Bank to capture and monitor all operational risk information in a single platform.

Additionally, as the function of Shariah risk management also resides within the ORM function, the ORM is also responsible to systematically identify, measure, monitor and control the Shariah non-compliance risks with an objective to mitigate the recurrence of shariah non-compliance incidence. This function is performed with the cooperation of Shariah Division to ensure it is properly managed.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Operational Risk Management (ORM) (Cont'd.)

All operational risk related issues are escalated to Operational Risk Management and Compliance Committee ("ORMCC"). ORMCC deliberates and provides directions on the appropriate actions to be implemented in order to mitigate the recurrence of such risks.

Effective from Q4 2012, in order to promote the high standards of the overall corporate governance practices within the Bank, the governance related function of maintaining and reviewing the terms of reference of the Bank's committees and delegated discretionary powers have been centralised under the ORM.

In addition, new and variation of existing products and services are subjected to risk review by ORM and sign-off by the Chief Risk Officer. This is to ensure that all the inherent risks arising from the Bank's products and services are properly identified and effective control measures are implemented.

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

Under the Bank's Compliance Policy, the line management plays an important role in cultivating a compliance culture within the organisation. The Bank has appointed Business Unit Compliance Officers ("BUCOs") at divisional/ departmental level who are responsible to identify applicable regulatory requirements at their respective divisions/ departments 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 actions.

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 for the money laundering or terrorist financing activities.

The Bank has demonstrated its full commitment of compliance with the Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") requirements by establishing a 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 risks include:

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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

- Establishing Know Your Customer ("KYC") policy and procedures to address the establishment of new business relationship with customers.

- Implementing the ERASE anti-money laundering system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System ("MIS") for prompt detection and reporting of suspicious transactions.

- Record keeping procedures in accordance with the statutory requirements.

- Conducting regular AML/CFT training sessions to ensure high level of staff awareness. In 2012, the Bank has conducted 35 training sessions for the staff inclusive of 2 training sessions for the Senior Management personnel and 1 training session for the Board of Directors.

- Updating the Management and BRMC on AMLCFT 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 that the Bank including KFH Group has shown strong commitment in ensuring compliance to the relevant AML legislations.

Capital Adequacy Framework Initiatives

The Bank views with great importance having in place sound practices in managing the range of risks facing the Bank and its potential impacts on the Bank's capital. Hence, the Capital Planning Unit has continued to complement the risk management practices that is carried out in the Bank. The Unit is also tasked to ensure the successful adoption of Pillar 1, 2 and 3 under BNM Capital Adequacy Framework for Islamic Bank ("CAFIB").

Pillar 1

Under BNM CAFIB which specifies the risk measurement methodologies to calculate minimum capital requirements to be held by Islamic banks, the Bank has adopted the following approaches:

- Credit Risk Charge – Standardised Approach

- Market Risk Charge – Standardised Approach

- Operational Risk Charge – Basic Indicator Approach

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

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)

The Bank is currently undergoing an ICAAP implementation process as per BNM CAFIB – Internal Capital Adequacy Assessment Process (Pillar 2), as part of its effort to ensure adequate capital is available to support its activities and operations at all times which is 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 Guideline. The Bank's ICAAP framework is very much aligned to KFH Group's ICAAP implementation inclusive of these rationalised efforts:

- Adoption of KFH Group Risk Appetite Framework;
- Implementation of KFH Group IRMS which provides standardised risk assessment system for the Group; and
- Participation in and support of KFH Group's 5-year Capital Plan.

The Bank will use ICAAP in assessing the overall capital adequacy in relation to its risk profile and take necessary steps to strengthen the risk and capital management capability. To achieve that, a comprehensive Capital Plan is being developed under the ICAAP framework for submission to BNM by Q1 2013.

Pillar 3

The Bank is also in compliance with the BNM CAFIB – Disclosure Requirements (Pillar 3) which specifies the disclosure requirements for credit, market and operational risks.

Stress Test

The stress test and scenario analysis serves as an important tool to assess the financial risks and management capability of the Bank, to continue operating effectively under stressed scenarios. The stress test and scenario analysis assists the BRMC and the Bank's senior management in:

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

Stress Test (Cont'd.)

- Evaluating the optimal capitalisation level for the Bank to weather extreme banking scenarios;
- Understanding the nature and key risk profiles of the Bank;
- Developing adequate contingency plans and strategies; and
- Assessing the effectiveness of established risk mitigants.

The first results of Pillar 2 and stress test based on data as at Q1 2012 has been approved by the Board and submitted to BNM together with the IRMS methodology used in preparing the report. The IRMS report consists of Pillar 2 calculation and stress test results and is based on a predefined scenarios which are as follows:

- Economic Recession Scenario;
- Generalised Credit Quality Deterioration and Asset Price Devaluation Scenario; and
- Severe Liquidity Stress and Run on the Bank.

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 2012.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the 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 profit for the year	60,494	63,490

There were no material transfers to or from reserves or provisions during the financial year other than those as disclosed in Notes 9, 30, 31 and the statements of changes in equity of the financial statements.

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the first-time adoption of Malaysian Financial Reporting Standards ("MFRS") Framework and changes in accounting policies as disclosed in Note 3.2 to the financial statements.

The MFRS Framework as issued by the Malaysian Accounting Standards Board ("MASB") is fully compliant with International Financial Reporting Standards ("IFRS") that comprises standards as issued by the International Accounting Standards Board ("IASB") that are effective on 1 January 2012.

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

Dr. Nabeel A E A Al-Mannae (Chairman)
Shaheen H A KH SH Alghanem (Deputy Chairman)
Abdul Wahab I.A.A. AlRushood
Khalid Sufat
Mohamed Zaheer Mohamed Azreen
Dato' Sri Abdul Hamidy Abdul Hafiz (Appointed on 11 June 2012)
Gopala Krishnan A/L K Sundaram (Appointed on 11 June 2012)
Dr Paul Quigley (Appointed on 13 December 2012)
Professor Mohamed Ismail Mohamed Shariff (Resigned on 11 June 2012)
Haji Ismail Ibrahim (Resigned on 1 April 2012)

DIRECTORS' BENEFITS

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

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

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 2012.

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.

(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.

OTHER STATUTORY INFORMATION (Cont'd.)

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year 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 2013

Initiating the implementation of the Bank's Strategic Business Plan, the Bank commenced its transformation agenda in second quarter of 2012 and continues to propel the implementation of the business plan in 2013 with a number of initiatives that will be implemented for the next two years until 2015. The Bank expects to achieve the same objective in 2013 by continuing to focus on four strategic thrusts namely balance sheet realignment, building internal capability, business growth and cost optimisation.

For 2013, the Bank will further build and strengthen its internal capability by introducing new business lines, enhancing existing IT infrastructure, core processes and human resource practices. The enhancement of existing IT infrastructure will be done through initiatives that are in line with the Bank's new IT Strategic Plan to support the business. The key initiatives include upgrading the core banking system through enhancement or implementing new system. The Bank expects to benefit from the implementation of new credit process which will be implemented in the first quarter of 2013. Human Resource Transformation Plan is set to continue to strengthen the human resource of the Bank.

With these focused initiatives the Bank believes the customers will be better served and further heightened the competitiveness of the Bank. The Bank expects better performance in 2013.

OUTLOOK FOR 2013

The Malaysian economy is forecasted to grow between 4.5% to 5.5% y-o-y in 2013, from a forecast of 4.5% to 5.0% in 2012, supported by improving exports and strong domestic demand on the assumption that global growth will pick up, especially in the second half of 2013.

Consumer price inflation is expected to average about 2.2% in 2013, compared with an averaged 1.6% in 2012. The strenghtening of the ringgit agaianst US dollar, together with moderating in global food and fuel prices will help to contain inflationary pressure in 2013. It is expected that the central bank, Bank Negara Malaysia (BNM) will keep its main policy overnight policy rate ("OPR") unchanged at 3% in 2013. On the exchange rate, it is expected that the ringgit will stabilise in 2013 and stronger macroeconomic fundamentals expected in the second half of the year will push up the value against US dollar.

However, as it stands, Malaysia's economy remains vulnerable to external shocks. The global economy is still struggling to grapple with lingering concerns over the problems in the Eurozone and the recovery in the US economy as well as China. It is expected that the successful implementation of government initiatives will be crucial in sustaining the country's economic growth.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	27 November 2012	AA+ / MARC-1	Stable

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Eight (8) Shariah Committee meetings were held and twenty five (25) Notes were issued 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. Mohammad Abdul Razaq 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)

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

   (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

Kuwait Finance House K.S.C who is the shareholder of Kuwait Finance House (Malaysia) Berhad paid zakat on behalf of the Bank. 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 21 February 2013.

KHALID BIN SUFAT
Director

MOHAMED ZAHEER MOHAMED AZREEN
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

We, Khalid bin Sufat and Mohamed Zaheer Mohamed Azreen, 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 34 to 249 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2012 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 21 February 2013.

KHALID BIN SUFAT
Director

MOHAMED ZAHEER MOHAMED AZREEN
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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 34 to 249, 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 21 February 2013

BEFORE ME:

Commissioner for Oaths

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

We have reviewed 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 year ended 31 December 2012. 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 shareholder, 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 2012 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.

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: 21 February 2013

Sheikh Dr. Anwar Shuaib Abdulsalam
Member
Signature:

Date: 21 February 2013

Sheikh Dr. Adnan Ali Ibrahim Al-Mulla
Member
Signature:

Date: 21 February 2013

Sheikh Isa Abdulla Yusuf Dowaishan
Member
Signature:

Date: 21 February 2013

Sheikh Dr. Engku Muhammad Tajuddin Engku Ali
Member
Signature:

Date: 21 February 2013

Kuala Lumpur, Malaysia

672174-T

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

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise statements of financial position as at 31 December 2012 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 information, as set out on pages 34 to 249.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is 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 about whether the financial statements are free from material misstatement.

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

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

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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 give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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 are indicated in Note 14 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 auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of the subsidiaries incorporated in Malaysia, 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 members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young	Chan Hooi Lam
AF: 0039	No. 2844/02/14(J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
21 February 2013

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION

		Group		
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**01.01.2011 RM'000**
ASSETS				
Cash and short-term funds	4	1,400,684	1,973,012	2,651,695
Deposits and placements with banks and other financial institutions	5	244,147	734,973	275,092
Securities held-for-trading	6	79,493	90,216	110,083
Hedging financial instruments	11	21,470	43,688	80,632
Securities available-for-sale	7	955,830	1,096,340	1,053,506
Securities held-to-maturity	8	81,493	47,125	46,266
Financing, advances and other receivables	9	5,288,745	5,197,764	5,931,615
Other assets	10	481,381	411,762	385,714
Statutory deposits with Bank Negara Malaysia	12	191,717	180,200	44,854
Musyarakah capital investment	13	5,898	5,898	5,898
Investment in jointly controlled entity	15	-	-	932
Property and equipment	16	37,352	23,855	27,340
Intangible assets	17	21,840	23,422	27,529
Deferred tax assets	18	286,641	293,911	125,557
TOTAL ASSETS		**9,096,691**	**10,122,166**	**10,766,713**
LIABILITIES				
Deposits from customers	19	5,370,265	4,717,854	4,560,037
Deposits and placements of banks and other financial institutions	20	1,324,476	3,134,572	3,478,689
Hedging financial instruments	11	16,754	72,655	39,789
Murabahah bank financing	23	-	-	23,233
Subordinated Murabahah Tawarruq	24	374,054	373,589	350,797
Other liabilities	21	491,847	365,785	398,002
Provision for zakat	22	-	3,740	3,740
TOTAL LIABILITIES		**7,577,396**	**8,668,195**	**8,854,287**
SHAREHOLDER'S EQUITY				
Share capital	25	2,266,125	2,266,125	2,266,125
Reserves	26	(746,830)	(812,154)	(353,699)
TOTAL SHAREHOLDER'S EQUITY		**1,519,295**	**1,453,971**	**1,912,426**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**9,096,691**	**10,122,166**	**10,766,713**

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION (CONT'D.)

		Group		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
COMMITMENTS AND CONTINGENCIES	41	2,120,234	3,516,405	4,052,245
CAPITAL ADEQUACY				
Core capital ratio	43	15.44%	13.82%	18.46%
Risk-weighted capital ratio	43	19.45%	18.47%	24.32%
NET ASSETS PER SHARE (RM)		0.67	0.64	0.84

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION

		Bank		
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**01.01.2011 RM'000**
ASSETS				
Cash and short-term funds	4	1,370,167	2,076,287	2,744,436
Deposits and placements with banks and other financial institutions	5	228,838	734,973	275,092
Securities held-for-trading	6	79,493	83,776	110,083
Hedging financial instruments	11	21,470	43,688	80,632
Securities available-for-sale	7	846,614	977,255	925,933
Securities held-to-maturity	8	81,493	47,125	46,266
Financing, advances and other receivables	9	5,288,745	5,197,764	5,931,615
Other assets	10	481,255	406,980	366,482
Statutory deposits with Bank Negara Malaysia	12	191,717	180,200	44,854
Musyarakah capital investment	13	5,898	5,898	5,898
Investment in subsidiaries	14	30,952	30,952	32,397
Property and equipment	16	36,491	23,624	26,915
Intangible assets	17	21,169	23,403	27,508
Deferred tax assets	18	286,538	293,824	125,175
TOTAL ASSETS		**8,970,840**	**10,125,749**	**10,743,286**
LIABILITIES				
Deposits from customers	19	5,377,039	4,719,586	4,561,610
Deposits and placements of banks and other financial institutions	20	1,204,490	3,152,042	3,486,642
Hedging financial instruments	11	16,754	72,655	39,789
Murabahah bank financing	23	-	-	23,233
Subordinated Murabahah Tawarruq	24	374,054	373,589	350,797
Other liabilities	21	491,004	364,588	396,933
Provision for zakat	22	-	3,740	3,740
TOTAL LIABILITIES		**7,463,341**	**8,686,200**	**8,862,744**
SHAREHOLDER'S EQUITY				
Share capital	25	2,266,125	2,266,125	2,266,125
Reserves	26	(758,626)	(826,576)	(385,583)
TOTAL SHAREHOLDER'S EQUITY		**1,507,499**	**1,439,549**	**1,880,542**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**8,970,840**	**10,125,749**	**10,743,286**

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION (CONT'D.)

		Bank		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
COMMITMENTS AND CONTINGENCIES	41	2,120,234	3,516,405	4,052,245
CAPITAL ADEQUACY				
Core capital ratio	43	15.41%	13.71%	18.36%
Risk-weighted capital ratio	43	18.89%	17.86%	23.59%
NET ASSETS PER SHARE (RM)		0.67	0.64	0.83

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INCOME STATEMENTS

	Note	Group		Bank	
		31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
Operating revenue	27	494,405	459,788	485,695	450,331
Income derived from investment of depositors' funds and others	28	383,841	342,673	377,207	343,833
Income derived from investment of shareholder's equity	29	110,564	117,115	108,488	106,498
Total gross income		494,405	459,788	485,695	450,331
Impairment write back/ (allowances) on financing, advances and other receivables	30	14,464	(676,921)	14,464	(676,921)
Impairment loss and allowances on investments	31	(4,949)	(20,000)	(1,507)	(2,833)
Total distributable income/ (loss)		503,920	(237,133)	498,652	(229,423)
Income attributable to the depositors	32	(193,596)	(208,486)	(193,409)	(208,686)
Total net income/ (loss)		310,324	(445,619)	305,243	(438,109)
Personnel expenses	33	(101,352)	(94,843)	(97,753)	(87,892)
Other overheads and expenditures	34	(105,027)	(91,032)	(100,598)	(87,145)
Finance cost	35	(13,551)	(12,949)	(13,551)	(12,949)
Profit/ (Loss) before zakat and taxation		90,394	(644,443)	93,341	(626,095)
Taxation	37	(29,900)	172,834	(29,851)	173,258
Net profit/ (loss) for the year		60,494	(471,609)	63,490	(452,837)
Attributable to:					
- Equity holder of the Bank		60,494	(471,609)	63,490	(452,837)
Earning/ (loss) per share (sen)					
- Basic/Diluted	38	2.67	(20.81)		

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	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Net profit/ (loss) for the year	60,494	(471,609)	63,490	(452,837)
Other comprehensive income/ (loss):				
Securities available-for-sale:				
Net gain taken to equity	4,890	18,327	3,469	18,386
Exchange differences on translation of foreign operations:				
Net (loss)/ gain taken to equity	(1,051)	1,306	-	-
Income tax relating to components of other comprehensive income / (loss) (Note 18)	991	(6,479)	991	(6,542)
Other comprehensive income for the year, net of tax	4,830	13,154	4,460	11,844
Total comprehensive income/ (loss) for the year	65,324	(458,455)	67,950	(440,993)
Total comprehensive income/ (loss) for the year attributable to equity holder of the Bank	65,324	(458,455)	67,950	(440,993)

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

		Non-distributable			Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available-For-Sale Reserve RM'000	Accumulated Losses RM'000	Total RM'000
<u>Group</u>						
At 1 January 2012						
- as previously stated	2,266,125	34,952	(6,061)	(3,307)	(821,168)	1,470,541
- effects of MFRS adoption	-	-	-	-	(16,570)	(16,570)
At 1 January 2012, as restated	2,266,125	34,952	(6,061)	(3,307)	(837,738)	1,453,971
Total comprehensive (loss) / income	-	-	(1,051)	5,881	60,494	65,324
Transfer to statutory reserve	-	31,745	-	-	(31,745)	-
At 31 December 2012	2,266,125	66,697	(7,112)	2,574	(808,989)	1,519,295
At 1 January 2011						
- as previously stated	2,266,125	34,952	(7,367)	(15,155)	(224,960)	2,053,595
- effects of MFRS adoption	-	-	-	-	(141,169)	(141,169)
At 1 January 2011, as restated	2,266,125	34,952	(7,367)	(15,155)	(366,129)	1,912,426
Total comprehensive income / (loss)	-	-	1,306	11,848	(471,609)	(458,455)
At 31 December 2011	2,266,125	34,952	(6,061)	(3,307)	(837,738)	1,453,971
<u>Bank</u>						
At 1 January 2012						
- as previously stated	2,266,125	34,952	-	(4,105)	(840,853)	1,456,119
- effects of MFRS adoption	-	-	-	-	(16,570)	(16,570)
At 1 January 2012, as restated	2,266,125	34,952	-	(4,105)	(857,423)	1,439,549
Total comprehensive income	-	-	-	4,460	63,490	67,950
Transfer to statutory reserve	-	31,745	-	-	(31,745)	-
At 31 December 2012	2,266,125	66,697	-	355	(825,678)	1,507,499
At 1 January 2011						
- as previously stated	2,266,125	34,952	-	(15,949)	(263,417)	2,021,711
- effects of MFRS adoption	-	-	-	-	(141,169)	(141,169)
At 1 January 2011, as restated	2,266,125	34,952	-	(15,949)	(404,586)	1,880,542
Total comprehensive income / (loss)	-	-	-	11,844	(452,837)	(440,993)
At 31 December 2011	2,266,125	34,952	-	(4,105)	(857,423)	1,439,549

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	31.12.2012	**31.12.2011**	**31.12.2012**	**31.12.2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/ (Loss) before zakat and taxation	90,394	(644,443)	93,341	(626,095)
Adjustments for:				
Impairment (write back)/ allowances on financing, advances and other receivables (Note 30)	(4,307)	677,187	(4,307)	677,187
Amortisation of premium less accretion of discounts (Notes 28 and 29)	5,065	1,081	5,066	1,081
Finance cost (Note 35)	13,551	12,949	13,551	12,949
Depreciation of property and equipment (Note 34)	12,084	11,631	11,902	11,422
Amortisation of intangible assets (Note 34)	8,672	8,192	8,516	8,185
Loss on disposal of property and equipment (Note 29)	-	14	-	-
Write-offs of property and equipment (Note 16)	-	45	-	45
Net gains on sale of securities available-for-sale (Notes 28 and 29)	(20,309)	(914)	(19,915)	(914)
Net gains on sale of securities held-for-trading (Notes 28 and 29)	(3,485)	(847)	(3,508)	(777)
Short-term accumulated compensated absences	-	61	-	61
Impairment allowance on securities available-for-sale (Note 31)	4,949	19,150	1,507	1,368
Impairment on jointly controlled entity (Note 31)	-	850	-	-
Impairment on subsidiaries (Note 31)	-	-	-	1,465
Unrealised loss/ (gain) on foreign translations	19,404	(17,456)	19,409	(16,997)
Unrealised (gain)/ loss on securities held-for-trading, and hedging financial instruments	(33,902)	70,550	(33,902)	70,653
Operating profit before working capital changes	92,116	138,050	91,660	139,633
Decrease/ (Increase) in operating assets				
Deposits and placements with banks and other financial institutions	490,826	(459,880)	506,135	(459,880)
Financing, advances and other receivables	(86,674)	56,664	(86,674)	56,664
Other assets	(124,613)	(2,936)	(137,542)	(24,936)
Statutory deposits with Bank Negara Malaysia	(11,517)	(135,346)	(11,517)	(135,346)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
Increase/ (decrease) in operating liabilities				
Deposits from customers	652,410	157,818	657,451	157,977
Deposits and placements of banks and other financial institutions	(1,810,096)	(344,117)	(1,947,551)	(334,602)
Other liabilities	127,054	(38,819)	127,407	(38,947)
Cash used in operations	(670,494)	(628,566)	(800,631)	(639,437)
Tax refunded	8,163	15,784	8,215	15,855
Zakat paid	(3,740)	-	(3,740)	-
Net cash used in operating activities	**(666,071)**	**(612,782)**	**(796,156)**	**(623,582)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from sales and purchases of securities	133,525	(24,633)	121,087	(9,078)
Repayment of advances jointly controlled entity	-	307	-	-
Proceeds from disposal of property and equipment	-	20	-	-
Purchase of property and equipment (Note 16)	(30,224)	(11,030)	(29,413)	(10,989)
Purchase of intangible assets (Note 17)	(2,446)	(1,271)	(1,638)	(1,267)
Net cash generated from/ (used in) investing activities	**100,855**	**(36,607)**	**90,036**	**(21,334)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Murabahah bank financing	-	(23,233)	-	(23,233)
Net cash used in financing activities	**-**	**(23,233)**	**-**	**(23,233)**
Net decrease in cash and cash equivalents	**(565,216)**	**(672,622)**	**(706,120)**	**(668,149)**
Cash and cash equivalents at beginning of year	1,973,012	2,651,695	2,076,287	2,744,436
Exchange differences on translation of opening balances	(7,112)	(6,061)	-	-
Cash and cash equivalents at end of year (Note 4)	**1,400,684**	**1,973,012**	**1,370,167**	**2,076,287**

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

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 14. 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 26, Menara Prestige, No. 1, Jalan Pinang, P.O.Box 10103, 50450 Kuala Lumpur, Malaysia.

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 21 February 2013.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

For all periods up to and including the previous year ended 31 December 2011, the Group and the Bank prepared their financial statements in accordance with Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines. The financial statements for the year ended 31 December 2012 are the first the Group and the Bank have prepared in accordance with MFRS. The effects of the first-time adoption of MFRS Framework are disclosed in Notes 3.2 and 40.

The financial statements of the Group and of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies as disclosed in Note 3.1.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd.)

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery of settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50.

Certain qualitative disclosures under MFRS 7 *Financial Instruments: Disclosures* about the nature and extent of risks and capital management disclosures under MFRS 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Subsidiaries and Basis of Consolidation (Cont'd.)

(ii) Basis of Consolidation

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.

Non-controlling interests ("NCI") represent the portion of profit or loss and net assets in subsidiaries not owned, directly or indirectly by the Bank. NCI are presented separately in the consolidated income statements and statements of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Total comprehensive income is allocated against the interest of NCI, even if this results in a deficit balance. Acquisition of NCI are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

All of the above will be accounted for from the date when control is lost.

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 profit and loss.

Profit from securities held-for-trading calculated using the effective yield rate method, is recognised in the profit and loss.

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).

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

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.

(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;

(iii) where repayments are scheduled on intervals of 3 months or longer, the financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness; and

(iv) 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 minimum 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.

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 (Cont'd.)

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.

As allowed by MFRS 139, the collective assessment for impairment for the Group and the Bank are estimated with reference to publically available peer group experience for comparable segments for each financing portfolio. The peer group historical loss experience used by the Group and the Bank are Probability of Default ("PD") and Loss Given Default ("LGD") estimates. These estimates are mapped and calibrated to the Group's and the Bank's financing portfolios using equivalent and comparable credit ratings as references.

(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 profit and loss 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 profit and loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets (Cont'd.)

(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 profit and loss.

Profit from securities available-for-sale, calculated using the effective yield rate method, is recognised in the profit and loss while dividends on equity instruments available-for-sale and property funds are recognised in the profit and loss 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 profit and loss 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 profit and loss.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial assets (Cont'd.)

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

(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 profit and loss 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.

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 profit and loss 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, as follows:

Renovation	5 years
Furniture and fittings	5 years
Office equipment	5 years
Computer equipment hardware	5 years
Motor vehicles	5 years

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(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.

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

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(k) Income Tax (Cont'd.)

(ii) Deferred tax (Cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(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. Due to the short term nature of financial guarantees issued by the Group and the Bank, 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(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.

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 profit and loss. 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 profit and loss.

(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 profit and loss unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(o) Hedging financial instruments (Cont'd.)

(ii) Profit Rate, Foreign Currency and Ijarah Rental Swaps (Cont'd.)

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 profit and loss. 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 profit and loss.

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 profit and loss. The deferred gains and losses are released to the income statement in the periods when the hedged item affects the income statement.

(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").

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat would be paid by Kuwait Finance House K.S.C who is the main shareholder of Kuwait Finance House (Malaysia) Berhad.

(r) Profit Equalisation Reserves ("PER")

PER is the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors in conformity with BNM's "The Framework of the Rate of Return" (BNM/GP2-i). PER is appropriated from and written back to the total gross income in deriving the net distributable gross income. This amount appropriated is shared by the depositors and the Group. The PER is deducted at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. PER is maintained up to the maximum of 30% of total capital fund.

The Bank does not maintain PER as the Bank has 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(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.

(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 First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

The adoption of the MFRS Framework as issued by the Malaysian Accounting Standards Board ("MASB") as at 1 January 2012 by the Group and the Bank requires the Group and Bank's financial statements to also be fully compliant with IFRS Framework. The financial statements of the Group and the Bank for the year ended 31 December 2012 are the first set of financial statements prepared in accordance with MFRS including the application of MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1").

For periods up to and including the previous year ended 31 December 2011, the Group and the Bank have prepared the financial statements in accordance with FRS in Malaysia as modified by BNM Guidelines.

Accordingly, the Group and the Bank have prepared financial statements which comply with MFRS applicable for periods ending on or after 31 December 2012, together with the comparative period information as at and for the period ended 31 December 2011, as described in the summary of significant accounting policies.

In preparing these financial statements, the Group's and the Bank's opening statements of financial position was prepared as at 1 January 2011, being the Group's and the Bank's date of transition to MFRS. This note explains the principal adjustments made by the Group and the Bank in restating its statements of financial position as at 1 January 2011 and its previously published financial statements as at and for the year ended 31 December 2011, both of which was prepared in accordance with FRS in Malaysia as modified by BNM Guidelines.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 First-time adoption of Malaysian Financial Reporting Standards ("MFRS") (Cont'd.)

An explanation of how the transition from FRS in Malaysia as modified by BNM Guidelines to MFRS has affected the Group and the Bank's financial position, financial performance and cash flows is set out in Note 40. This note includes reconciliation of statements of financial position and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS in Malaysia as modified by BNM Guidelines to those reported for those periods and at the date of transition under MFRS.

The transition from FRS in Malaysia as modified by BNM Guidelines to MFRS did not have a material impact on the statements of cash flows.

(i) Optional exemption adopted

MFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under MFRS. The Group and the Bank have applied the following exemptions:

(a) Business combination

MFRS 1 allows a first-time adopter not to apply MFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to MFRS.

The Group and the Bank have elected not to restate business combinations that took place prior to the 1 January 2011. In respect of acquisitions prior to the date of transition:

- The classification of business combinations that occurred before 1 January 2011 is maintained;
- No re-measurement exercise was undertaken in relation to the original fair values as previously determined at the time of business combination (date of acquisition); and
- The carrying amount of goodwill recognised under FRS in Malaysia as modified by BNM Guidelines was not adjusted.

(b) Investments in subsidiaries, jointly controlled entities and associates

MFRS 1 allows a first-time adopter that subsequently measures its investment in subsidiaries, jointly controlled entities and associates at cost, to measure such investments at cost (as determined in accordance with MFRS 127 *Consolidated and Separate Financial Statements*) or deemed cost (at fair value or carrying amount stated in accordance with FRS in Malaysia as modified by BNM Guidelines) in its separate opening MFRS statement of financial position.

The Bank has elected to measure all of its investment in subsidiaries and associates at deemed cost based on their carrying amounts stated in accordance with FRS in Malaysia as modified by BNM Guidelines in its separate opening MFRS statement of financial position.

Other optional exemptions available under MFRS 1, which are not discussed here, are not applicable to the Group and the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 First-time adoption of Malaysian Financial Reporting Standards ("MFRS") (Cont'd.)

(ii) Significant change in accounting policy following the adoption of MFRS Framework

Prior to the transition to MFRS 139, the Bank had maintained collective assessment allowance at 1.5% of total outstanding financing, advances and other receivable, net of individual assessment allowance, in parallel with BNM's transitional provisions under its Guidelines on Classification and Impairment Provisions for Loan/Financing. Upon the transition to MFRS 139 on 1 January 2012, these transitional provisions, which were allowed under the previous FRS framework, were removed and the Bank has applied the requirements of MFRS 139 in the determination of collective assessment allowance.

Under MFRS 139, collective assessment is performed on financing, advances and other receivable which are not individually significant based on the incurred loss approach. Financing, advances and other receivable which are individually assessed and where there is no objective evidence of impairment are also included in the group of financing, advances and other receivable for collective assessment. These financing, advances and other receivable are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of the historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing, advances and other receivable.

As allowed by MFRS 139, the collective assessment for impairment for the Group and the Bank are estimated with reference to publically available peer group experience for comparable segments for each financing portfolio. The peer group historical loss experience used by the Group and the Bank are Probability of Default ("PD") and Loss Given Default ("LGD") estimates. These estimates are mapped and calibrated to the Group's and the Bank's financing portfolios using equivalent and comparable credit ratings as references.

(iii) Estimates

The estimates at 1 January 2011 and at 31 December 2011 are consistent with those made for the same dates in accordance with FRS in Malaysia as modified by BNM Guidelines. The estimates used by the Group and the Bank to present these amounts in accordance with MFRS reflect conditions at 1 Janury 2011, the date transition to MFRS and as of 31 December 2011.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

MFRSs, Amendments to MFRSs and Interpretations	**Effective for financial period beginning on or after**
MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)	1 July 2012
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits	1 January 2013
MFRS 127 Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)	1 January 2013
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans	1 January 2013
Amendments to MFRS 116: Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132: Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
MFRS 9 Financial Instruments	1 January 2015

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective (Cont'd.)

The Group and the Bank plan to apply the abovementioned standards when they become effective:

MFRS 10 Consolidated Financial Statements

MFRS 10 replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities.

Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

MFRS 10 includes detailed guidance to explain when an investor has control over the investee. MFRS 10 requires the investor to take into account all relevant facts and circumstances. The Group and the Bank are currently assessing the impact of adopting MFRS 10. The impact of the new standard will be affected by the financial position and performance of the entity to be consolidated until the effective date of the new standard and by any possible change in the standard until such date.

MFRS 11 Joint Arrangements

MFRS 11 replaces MFRS 131 Interests in Joint Ventures and IC Interpretation 113 Jointly-Controlled Entities – Non-monetary Contributions by Venturers.

The classification of joint arrangements under MFRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form, the contractual terms agreed by the parties to the arrangement and when relevant, other facts and circumstances. Under MFRS 11, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

MFRS 11 removes the option to account for jointly controlled entities ("JCE") using proportionate consolidation. Instead, JCE that meet the definition of a joint venture must be accounted for using the equity method.

The adoption of MFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Group and the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective (Cont'd.)

The Group and the Bank plan to apply the abovementioned standards when they become effective (cont'd.):

MFRS 12 Disclosures of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

The Group and the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or has sponsored. However, the standard will not have any significant impact on the financial position or performance of the Group and the Bank.

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group and the Bank.

MFRS 119 Employee Benefits

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" as permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to MFRS 119 require retrospective application with certain exceptions. The directors anticipate that the application is not expected to have any significant impact on the financial position or performance of the Group and the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective (Cont'd.)

The Group and the Bank plan to apply the abovementioned standards when they become effective (cont'd.):

MFRS 127 Separate Financial Statements

As a consequence of the new MFRS 10 and MFRS 12, MFRS 127 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

MFRS 128 Investments in Associates and Joint Ventures

As a consequence of the new MFRS 11 and MFRS 12, MFRS 128 is renamed as MFRS 128 Investments in Associates and Joint Ventures. This new standard describes the application of the equity method to investments in joint ventures in addition to associates.

MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004) and MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)

An entity shall apply these earlier versions of MFRS 3 and MFRS 127 only if the entity has elected to do so as allowed in MFRS 10 Consolidated Financial Statements. The adoptions of these standards are not expected to have any significant impact to the Group and the Bank.

Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's and the Bank's financial position and performance.

Amendments to MFRS 132 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group and the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective (Cont'd.)

The Group and the Bank plan to apply the abovementioned standards when they become effective (cont'd.):

Amendments to MFRS 132 Offsetting Financial Assets and Financial Liabilities (Cont'd.)

The amendments also clarify the application of the MFRS 132 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group and the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.

MFRS 9 Financial Instruments: Classification and Measurement

MFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of MFRS 139 and applies to classification and measurement of financial assets and liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9 Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address impairment and hedge accounting. The Group and the Bank will quantify the effect of the adoption of the first phase of MFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

3.4 Significant Accounting Estimates and Judgments

The preparation of the financial statements involved making certain estimates, assumptions and s 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 s used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgments (Cont'd.)

(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 intially 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.

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
4 CASH AND SHORT-TERM FUNDS						
Cash and balances with banks and other financial institutions	84,852	71,835	280,855	84,037	70,851	279,078
Money at call and interbank placements with remaining maturity less than one month	1,315,832	1,901,177	2,370,840	1,286,130	2,005,436	2,465,358
	1,400,684	1,973,012	2,651,695	1,370,167	2,076,287	2,744,436
5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS						
Licensed Islamic banks	65,365	267,453	78,531	50,056	267,453	78,531
Other financial institutions	178,782	467,520	196,561	178,782	467,520	196,561
	244,147	734,973	275,092	228,838	734,973	275,092
6 SECURITIES HELD-FOR-TRADING						
At fair value						
Unquoted Islamic private debt securities/ sukuk	79,493	90,216	110,083	79,493	83,776	110,083
7 SECURITIES AVAILABLE-FOR-SALE						
At fair value						
Bank Negara Malaysia Ijarah sukuk	-	-	121,106	-	-	121,106
Unquoted securities	896,623	1,076,569	913,400	787,407	957,484	785,827
Islamic private debt securities/ sukuks	425,320	898,677	749,752	365,264	850,522	721,731
Malaysian Government sukuk	435,181	123,466	77,341	422,143	106,962	64,096
Property funds	36,122	54,426	86,307	-	-	-
	896,623	1,076,569	1,034,506	787,407	957,484	906,933
At cost						
Unquoted shares in Malaysia	59,207	19,771	19,000	59,207	19,771	19,000
	955,830	1,096,340	1,053,506	846,614	977,255	925,933

8 SECURITIES HELD-TO-MATURITY

	Group and Bank		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**01.01.2011 RM'000**
<u>At amortised cost</u>			
Unquoted securities:			
Islamic private debt securities/ sukuk	81,493	47,125	46,266

9 FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group and Bank		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**01.01.2011 RM'000**
(i) At amortised cost			
Term financing			
- House financing	52,221	209,006	166,513
- Personal financing	1,205,805	951,632	3,771
- Leasing financing	105,228	140,194	197,611
- Syndicated financing	320,841	320,522	479,286
- Hire purchase receivables	125,107	47,635	47,600
- Other term financing	4,155,913	4,749,394	5,694,104
Staff financing	9,054	10,125	14,387
	5,974,169	6,428,508	6,603,272
Less: Impairment allowances on financing			
- Collective assessment	(138,600)	(140,866)	(259,942)
- Individual assessment	(546,824)	(1,089,878)	(411,715)
Net financing, advances and other receivables	5,288,745	5,197,764	5,931,615
(ii) By contract			
Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'/ (lease ended with ownership)	1,696,868	1,908,174	2,055,618
Murabahah (cost-plus)	3,804,411	4,022,022	3,927,781
Mudharabah (profit sharing)	80,814	85,770	117,887
Musyarakah (profit and loss sharing)	385,158	394,289	451,858
Qard (benevolent financing)	899	1,030	32,530
Istisna'	6,019	10,455	17,598
Wakalah	-	6,768	-
	5,974,169	6,428,508	6,603,272

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

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
(iii) By type of customer			
Domestic business enterprises			
- Small medium enterprises	767,997	756,610	1,135,776
- Others	3,002,869	3,274,786	3,849,198
Individuals	1,679,217	1,324,218	204,778
Other domestic entities	121,897	107,058	86,446
Foreign entities	294,242	856,713	1,238,677
Domestic non-bank financial institutions	107,947	109,123	88,397
	5,974,169	6,428,508	6,603,272
(iv) By residual contractual maturity			
Maturity within one year	3,679,744	4,024,086	4,960,303
More than one year to three years	231,391	399,950	541,515
More than three years to five years	93,142	318,089	415,985
More than five years	1,969,892	1,686,383	685,469
	5,974,169	6,428,508	6,603,272
(v) By geographical distribution			
Malaysia	5,832,956	6,014,971	5,750,012
Middle East	19,287	116,278	367,086
Other countries	121,926	297,259	486,174
	5,974,169	6,428,508	6,603,272
(vi) By profit rate sensitivity			
Fixed rate			
- House financing	12,547	27,952	99,053
- Hire purchase receivables	84,466	52,878	6,902
- Syndicated financing	320,841	320,522	479,286
- Term financing	3,527,758	2,231,079	1,626,858
Variable			
- House financing	282,899	201,385	128,594
- Term financing	1,745,658	3,594,692	4,262,579
	5,974,169	6,428,508	6,603,272

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

	Group and Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
(vii) By sector			
Construction	211,000	250,153	500,568
Electricity, gas and water	126,300	151,341	273,136
Finance, insurance and business services	263,398	473,949	696,682
Household	1,698,953	1,348,749	232,440
Manufacturing	959,776	829,907	1,063,816
Mining and quarrying	308,149	416,667	443,073
Agriculture, hunting, forestry & fishing	69,674	122,684	203,019
Real Estate	1,237,321	1,412,501	1,599,608
Transports, storage and communication	260,489	630,003	721,796
Wholesale & retail trade and restaurants & hotels	358,710	558,581	575,865
Others	480,399	233,973	293,269
	5,974,169	6,428,508	6,603,272
(viii) By economic purpose			
Purchase of securities	180,234	160,894	201,250
Purchase of transport vehicles	287,156	284,366	274,650
Purchase of landed properties			
- residential	398,497	488,957	393,797
- non-residential	318,278	364,322	627,279
Purchase of fixed assets	474,134	662,781	739,596
Working capital	2,176,891	2,566,387	3,154,599
Construction	469,266	351,066	594,854
Personal use	1,198,725	946,348	2,519
Other purposes	470,988	603,387	614,728
	5,974,169	6,428,508	6,603,272

	Group and Bank	
	31.12.2012 RM'000	31.12.2011 RM'000
(ix) Movements in impaired financing, advances and other receivables		
At 1 January	1,493,648	793,987
- Impaired during the year	241,451	1,082,316
- Reclassified to performing during the year	(34,483)	(140,414)
- Amount recovered	(213,608)	(131,514)
- Amount written off	(553,454)	(110,727)
At 31 December	933,554	1,493,648

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

	Group and Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**
(ix) Movements in impaired financing, advances and other receivables (Cont'd.)		
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment allowance	7.13%	7.56%
(x) Movements in impairment allowances on financing, advances and other receivables		
Collective assessment		
At 1 January		
- As previously stated	140,866	118,773
- MFRS 139 as at 1 January	-	141,169
At 1 January	140,866	259,942
Allowance reversed during the year (Note 30)	(2,266)	(119,076)
At 31 December	138,600	140,866
As % of total gross financing, advances and other receivables less individual impairment allowance	2.55%	2.64%
Individual assessment		
At 1 January	1,089,878	411,715
Allowance made during the year (Note 30)	3,554	796,263
Allowance charged during the period	*134,599*	*950,387*
Allowance written-back during the period	*(131,045)*	*(154,124)*
Amount written off	(546,608)	(110,727)
Exchange difference	-	(7,373)
At 31 December	546,824	1,089,878

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

	Group and Bank		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**01.01.2011 RM'000**
(xi) Impaired financing by sector			
Agriculture, hunting, forestry and fishing	39,764	94,885	78,094
Construction	31,525	15,947	57,835
Electricity, gas and water	18,646	84,271	-
Finance, insurance and business services	38,576	110,381	76,663
Household	12,445	4,142	135
Manufacturing	306,950	435,188	55,436
Mining and quarrying	119,246	123,153	137,424
Real Estate	69,919	316,439	170,249
Transport, storage and communication	56,719	174,350	175,430
Wholesale & retail trade and restaurants & hotels	129,471	134,892	9,326
Others	110,293	-	33,395
	933,554	1,493,648	793,987

10 OTHER ASSETS

		Group			Bank		
	Note	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**01.01.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**	**01.01.2011 RM'000**
Deposits and prepayments		17,672	27,083	7,298	17,391	26,696	6,594
Amount due from holding company	(i)	294	288	674	294	288	674
Amount due from subsidiaries	(i)	-	-	-	425	17	9,628
Amount due from other related parties	(i)	1,617	1,615	1,620	1,615	1,615	1,620
Fee receivable		2,575	270	-	2,575	270	-
Sundry debtors		12,408	4,665	35,034	12,127	240	6,846
Murabahah trading automobile		32	32	32	32	32	32
Commodity assets		272,499	195,604	260,003	272,499	195,604	260,003
Tax recoverable		5,005	34,794	52,564	5,018	34,807	52,596
Gold depository		169,279	147,411	28,489	169,279	147,411	28,489
		481,381	411,762	385,714	481,255	406,980	366,482

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

11 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
31.12.2012			
Ijarah rental swap related contracts	278,339	21,470	16,754
Total	278,339	21,470	16,754
31.12.2011			
Forward foreign exchange related contracts	917,884	719	34,338
Ijarah rental swap related contracts	618,888	42,969	38,317
Total	1,536,772	43,688	72,655
01.01.2011			
Forward foreign exchange related contracts	1,128,680	38,760	5,023
Ijarah rental swap related contracts	690,229	41,872	34,766
Total	1,818,909	80,632	39,789

12 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.

13 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.

14 INVESTMENT IN SUBSIDIARIES

	Bank 31.12.2012 RM'000	Bank 31.12.2011 RM'000	Bank 01.01.2011 RM'000
Unquoted shares, at cost			
- in Malaysia	30,200	30,200	30,200
- outside Malaysia	15,993	15,993	37,697
	46,193	46,193	67,897
Impairment on investment in subsidiaries	(15,241)	(15,241)	(35,500)
	30,952	30,952	32,397

14 INVESTMENT IN SUBSIDIARIES (Cont'd.)

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)		
			31.12.2012	31.12.2011	01.01.2011
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100	100
Kuwait Finance House (Singapore) Pte. Ltd. *	Fund management	Singapore	-	-	100
Kuwait Finance House (Australia) Pty Ltd ^	Fund management	Australia	100	100	100
KFH Asset Management Sdn. Bhd.	Asset management	Malaysia	100	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

15 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Unquoted shares, at cost	-	84	84
Advances	-	542	848
	-	626	932
Less: Accumulated impairment losses	-	(626)	-
	-	-	932

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

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

	Country of Incorporation	Effective Interest 31.12.2012 %	Effective Interest 31.12.2011 %	Effective Interest 01.01.2011 %	Principal Activity
Name of Company					
Global Shipping Investment Management Limited	Cayman Island	-	50	50	Fund Management

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

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 01.01.2011 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

16 PROPERTY AND EQUIPMENT

Group **31.12.2012**	**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**
Cost							
At 1 January	18,714	11,097	12,614	24,048	1,321	1,487	69,281
Additions	1,500	975	1,928	2,464	-	23,357	30,224
Write-offs	(575)	-	-	-	-	-	(575)
Transfers	10,125	5,290	1,693	1,273	-	(23,025)	(4,644)
Exchange difference	(2)	(1)	-	(2)	-	-	(5)
At 31 December	29,762	17,361	16,235	27,783	1,321	1,819	94,281
Accumulated depreciation							
At 1 January	13,690	7,856	8,560	14,584	736	-	45,426
Charge for the year (Note 34)	3,622	2,138	1,959	4,140	225	-	12,084
Write-off	(575)	-	-	-	-	-	(575)
Exchange difference	(2)	(2)	-	(2)	-	-	(6)
At 31 December	16,735	9,992	10,519	18,722	961	-	56,929
Net book value							
At 31 December	13,027	7,369	5,716	9,061	360	1,819	37,352
Bank							
31.12.2012							
Cost							
At 1 January	18,338	11,049	12,569	23,779	1,321	1,487	68,543
Additions	1,209	834	1,897	2,377	-	23,096	29,413
Write-offs	(538)	-	-	-	-	-	(538)
Transfers	10,125	5,290	1,693	1,273	-	(23,025)	(4,644)
At 31 December	29,134	17,173	16,159	27,429	1,321	1,558	92,774
Accumulated depreciation							
At 1 January	13,419	7,800	8,533	14,431	736	-	44,919
Charge for the year (Note 34)	3,535	2,101	1,948	4,093	225	-	11,902
Write-offs	(538)	-	-	-	-	-	(538)
At 31 December	16,416	9,901	10,481	18,524	961	-	56,283
Net book value							
At 31 December	12,718	7,272	5,678	8,905	360	1,558	36,491

The additions for the year in respect of renovation include accrued restoration cost for the Group of RM70,200 (2011: RM553,691; 2010: RM372,138) and the Bank of RM Nil (2011: RM520,000; 2010: RM246,437).

16 PROPERTY AND EQUIPMENT (Cont'd.)

Group 31.12.2011	**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**
Cost							
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
Accumulated depreciation							
At 1 January	10,015	5,692	6,800	10,862	495	-	33,864
Charge for the year (Note 34)	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
Net book value							
At 1 January 2011	6,979	3,687	3,831	10,486	826	1,531	27,340
At 31 December 2011	5,024	3,241	4,054	9,464	585	1,487	23,855
Bank							
31.12.2011							
Cost							
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
Accumulated depreciation							
At 1 January	9,870	5,668	6,781	10,747	495	-	33,561
Charge for the year (Note 34)	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
Net book value							
At 1 January 2011	6,787	3,665	3,805	10,301	826	1,531	26,915
At 31 December 2011	4,919	3,249	4,036	9,348	585	1,487	23,624

17 INTANGIBLE ASSETS

	Group		Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
Computer software				
Cost				
At 1 January	50,542	46,457	50,496	46,416
Additions	2,446	1,271	1,638	1,267
Transfers from property and equipments	4,644	2,813	4,644	2,813
Exchange difference	-	1	-	-
At 31 December	57,632	50,542	56,778	50,496
Accumulated amortisation				
At 1 January	27,120	18,928	27,093	18,908
Amortisation for the year (Note 34)	8,672	8,192	8,516	8,185
Exchange difference	-	-	-	-
At 31 December	35,792	27,120	35,609	27,093
Carrying amount				
At 31 December	21,840	23,422	21,169	23,403

18 DEFERRED TAXATION

	Group		Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
At 1 January	293,911	125,557	293,824	125,175
Recognised in other comprehensive income	991	(6,479)	991	(6,542)
Recognised in profit and loss (Note 37)	(8,261)	174,833	(8,277)	175,191
At 31 December	286,641	293,911	286,538	293,824
Presented after appropriate offsetting as follows:				
Deferred tax assets	293,306	301,176	293,203	301,089
Deferred tax liabilities	(6,665)	(7,265)	(6,665)	(7,265)
Deferred tax assets (net)	286,641	293,911	286,538	293,824

18 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group:	Impairment and allowance on financing RM'000	Unrealised (loss)/ gain on securities available-for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
31.12.2012					
At 1 January	26,285	(1,225)	260,909	15,207	301,176
Recognised in profit and loss	(26,285)	-	27,525	(10,101)	(8,861)
Recognised in other comprehensive income	-	991	-	-	991
At 31 December	-	(234)	288,434	5,106	293,306
31.12.2011					
At 1 January	84,291	5,317	29,639	14,632	133,879
Recognised in profit and loss	(58,006)	-	231,270	512	173,776
Recognised in other comprehensive income	-	(6,542)	-	63	(6,479)
At 31 December	26,285	(1,225)	260,909	15,207	301,176

Deferred tax assets of the Bank:	Impairment and allowance on financing RM'000	Unrealised (loss)/ gain on securities available-for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
31.12.2012					
At 1 January	26,285	(1,225)	260,909	15,120	301,089
Recognised in profit and loss	(26,285)	-	27,512	(10,104)	(8,877)
Recognised in other comprehensive income	-	991	-	-	991
At 31 December	-	(234)	288,421	5,016	293,203
31.12.2011					
At 1 January	84,291	5,317	29,639	14,250	133,497
Recognised in profit and loss	(58,006)	-	231,270	870	174,134
Recognised in other comprehensive income	-	(6,542)	-	-	(6,542)
At 31 December	26,285	(1,225)	260,909	15,120	301,089

18 DEFERRED TAXATION (Cont'd.)

The components and movements of deferred tax assets and liabilities during the financial year are as follows: (Cont'd.)

Deferred tax liabilities of the Group and Bank:	Accelerated capital allowances RM'000	Total RM'000
31.12.2012		
At 1 January,	7,265	7,265
Recognised in profit and loss	(600)	(600)
At 31 December	6,665	6,665
31.12.2011		
At 1 January,	8,322	8,322
Recognised in profit and loss	(1,057)	(1,057)
At 31 December	7,265	7,265

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:

	Group and Bank		
	31.12.2012 RM'000	**31.12.2011 RM'000**	**01.01.2011 RM'000**
Unutilised tax losses	1,153,682	1,043,637	352,018
Unabsorbed capital allowances	-	44,901	44,901
	1,153,682	1,088,538	396,919

The deferred tax assets have been recognised as at 31 December 2012 as the directors are of the view that it is probable for the Bank to realise the deferred tax asset.

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.

18 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:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Unutilised tax losses	23,022	177,120	150,526
Unabsorbed capital allowances	254	13,120	2,734
	23,276	190,240	153,260

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Unutilised tax losses	-	156,538	133,600
Unabsorbed capital allowances	-	12,957	2,588
	-	169,495	136,188

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

The availability of unutilised tax losses and unabsorbed capital allowances of the Group for offsetting against future taxable profits of the companies in which the losses arose, for which no deferred tax assets is recognised due to uncertainty in its recoverbility, are subject to no substantial changes in shareholding of these subsidiaries under the Income Tax Act 1967 and other guidelines issued by the tax authority.

19 DEPOSITS FROM CUSTOMERS

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
(i) By type of deposit						
Non Mudharabah						
- Demand deposits	633,640	465,933	374,023	640,414	467,665	375,596
- Gold deposits	165,051	149,578	29,493	165,051	149,578	29,493
- Wakalah deposits	834,589	531,609	11,870	834,589	531,609	11,870
Mudharabah						
- Savings deposits	47,267	37,368	27,178	47,267	37,368	27,178
- General investment deposits	234,199	277,602	343,191	234,199	277,602	343,191
- Negotiable Instrument Deposit	717,284	601,716	-	717,284	601,716	-
Murabahah	2,738,235	2,654,048	3,774,282	2,738,235	2,654,048	3,774,282
	5,370,265	4,717,854	4,560,037	5,377,039	4,719,586	4,561,610

19 DEPOSITS FROM CUSTOMERS (Cont'd.)

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
(ii) By type of customer						
Business enterprises	2,000,432	2,367,190	2,290,527	1,995,175	2,365,171	2,290,222
Individuals	830,156	210,708	175,805	830,156	210,708	175,805
Subsidiaries	-	-	-	12,117	3,749	1,878
Government and statutory bodies	1,549,745	1,344,183	1,399,716	1,549,745	1,344,183	1,399,716
Others	989,932	795,773	693,989	989,846	795,775	693,989
	5,370,265	4,717,854	4,560,037	5,377,039	4,719,586	4,561,610
(iii) By contractual maturity						
Due within six months	4,105,097	3,174,921	3,483,463	4,111,871	3,176,653	3,790,627
More than six months to one year	1,172,362	1,366,721	963,559	1,172,362	1,366,721	657,968
More than one year to three years	92,806	176,212	113,015	92,806	176,212	113,015
	5,370,265	4,717,854	4,560,037	5,377,039	4,719,586	4,561,610

20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Murabahah						
Licensed Islamic banks	76,452	404,534	263,740	76,452	404,277	263,740
Bank Negara Malaysia	-	339,083	246,951	-	339,084	246,951
Licensed investment banks	-	-	30,765	-	-	30,765
Other financial institutions	527,874	1,453,162	2,937,233	535,485	1,470,888	2,945,186
Wakalah						
Licensed Commercial banks	30,609	-	-	-	-	-
Licensed Islamic banks	104,277	-	-	30,109	-	-
Licensed investment banks	30,590	-	-	30,590	-	-
Other financial institutions	554,674	937,793	-	531,854	937,793	-
	1,324,476	3,134,572	3,478,689	1,204,490	3,152,042	3,486,642

21 OTHER LIABILITIES

		Group			Bank		
		31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
	Note						
Sundry creditors	(i)	192,968	138,105	102,233	192,923	138,096	102,231
Project clearing account	(ii)	-	1,595	4,605	-	1,595	4,605
Amount due to agent from the purchase of commodity assets		272,499	195,604	260,003	272,499	195,604	260,003
Accrued restoration cost		3,496	3,808	3,266	3,313	3,698	3,200
Provision for tax (Note 18)		13	-	-	-	-	-
Other provisions and accruals		22,871	26,673	27,895	22,269	25,595	26,894
		491,847	365,785	398,002	491,004	364,588	396,933

(i) Included in sundry creditors relates to amount payable to holding company of RM142.8 million (2011: RM77.9 million; 2010: RM60.5 million) arising from revenue streams of Specific Profit Sharing Investment Accounts (SPSIA).

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

22 PROVISION FOR ZAKAT

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Zakat	-	3,740	3,740	-	3,740	3,740

In 2012, Zakat is calculated based on net working capital of Kuwait Finance House (Malaysia) and paid by Kuwait Finance House K.S.C who is the main shareholder of the Bank.

23 MURABAHAH BANK FINANCING

The principal of Murabahah bank financing in 2010 of USD7,530,224 or equivalent RM23,233,000 was an unsecured financing facility obtained in 2008 with a tenure of two years and was fully paid in 2011. The Murabahah price was determined based on effective cost of funds.

24 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 and profit amount of USD122,319,817 or equivalent RM374,054,000 (2011: USD117,925,821 or equivalent RM373,589,000, 2010: USD113,699,478 or equivalent RM350,797,000) is unsecured with a tenure of five years and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

25 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each			Amount		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Authorised:						
At 1 January/ At 31 December	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid:						
At 1 January/ At 31 December	2,266,125	2,266,125	2,266,125	2,266,125	2,266,125	2,266,125

26 RESERVES

		Group			Bank		
	Note	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Non-distributable							
Statutory reserve	(i)	66,697	34,952	34,952	66,697	34,952	34,952
Exchange fluctuation reserve	(ii)	(7,112)	(6,061)	(7,367)	-	-	-
Available-for-sale reserve	(iii)	2,574	(3,307)	(15,155)	355	(4,105)	(15,949)
		62,159	25,584	12,430	67,052	30,847	19,003
Distributable							
Accumulated losses		(808,989)	(837,738)	(366,129)	(825,678)	(857,423)	(404,586)
		(746,830)	(812,154)	(353,699)	(758,626)	(826,576)	(385,583)

26 RESERVES (Cont'd.)

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

(iii) Available-for-sale reserve

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 available-for-sale reserve are as follows:

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
At 1 January	(3,307)	(15,155)	(4,105)	(15,949)
Unrealised gain on securities available-for-sale	5,881	11,848	4,460	11,844
At 31 December	2,574	(3,307)	355	(4,105)

27 OPERATING REVENUE

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

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

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Income derived from investment of :				
(i) General investment deposits	13,718	13,595	14,563	13,548
(ii) Other deposits	370,123	329,078	362,644	330,285
	383,841	342,673	377,207	343,833
(i) Income derived from investment of general investment deposits				
Finance income from financing, advances and other receivables	9,730	9,051	10,439	9,026
Finance income from impaired financing	540	515	574	505
Securities				
- Held-for-trading	80	63	84	84
- Available-for-sale	1,099	840	1,078	781
- Held-to-maturity	61	49	65	49
Money-at-call and deposits with financial institutions	1,270	2,427	1,314	2,456
	12,780	12,945	13,554	12,901
Amortisation of premium less accretion of discount	(146)	(33)	(154)	(33)
Total finance income and hibah	12,634	12,912	13,400	12,868
Gain arising from sale of securities				
- Held-for-trading	108	26	121	25
- Available-for-sale	601	30	641	28
Foreign exchange gain - realised	335	542	358	542
Gain on Ijarah rental swap obligations	40	85	43	85
	13,718	13,595	14,563	13,548

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

	Group		Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
(ii) Income derived from investment of other deposits				
Finance income from financing, advances and other receivables	261,532	218,965	257,364	219,747
Finance income from impaired financing	13,699	12,153	13,494	12,266
Securities				
- Held-for-trading	2,119	2,008	2,090	2,015
- Available-for-sale	30,639	20,477	28,323	19,158
- Held-to-maturity	1,534	1,197	1,507	1,197
Money-at-call and deposits with financial institutions	35,384	59,400	35,438	60,450
	344,907	314,200	338,216	314,833
Amortisation of premium less accretion of discount	(4,123)	(833)	(4,080)	(833)
Total finance income and hibah	340,784	313,367	334,136	314,000
Gain arising from sale of securities				
- Held-for-trading	2,788	652	2,730	600
- Available-for-sale	16,406	694	15,783	706
Foreign exchange gain - realised	9,053	13,013	8,920	13,054
Gain on Ijarah rental swap obligations	1,092	1,919	1,075	1,925
	370,123	329,645	362,644	330,285

29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Finance income from financing, advances and other receivables	53,053	58,200	56,513	57,442
Finance income from impaired financing	2,986	3,286	3,157	3,184
Securities				
- Held-for-trading	434	539	458	532
- Available-for-sale	5,977	5,419	5,813	4,989
- Held-to-maturity	334	316	356	313
Money-at-call and deposits with financial institutions	6,867	15,687	7,058	15,712
	69,651	83,447	73,355	82,172
Amortisation of premium less accretion of discount	(796)	(215)	(832)	(215)
Total finance income and hibah	68,855	83,232	72,523	81,957
Fee income				
- Commissions	2,877	4,754	2,882	4,756
- Fund management fee	3,349	7,772	-	-
- Other fee income	18,288	6,018	18,282	7,634
Gain arising from sale of securities				
- Held-for-trading	589	169	657	153
- Available-for-sale	3,302	190	3,491	180
Unrealised gain/ (loss) on revaluation of securities held-for-trading and Ijarah rental swap (net)	33,902	(70,550)	33,902	(70,653)
Foreign exchange (loss)/ gain				
- Realised	(2,824)	65,698	(2,713)	65,657
- Unrealised	(19,404)	17,456	(19,409)	16,997
Gain on Ijarah rental swap obligations	220	531	235	525
Gross dividend from property funds (securities available-for-sale)	1,178	1,271	-	-
Loss on disposal of property and equipment	-	(14)	-	-
Other income	232	-	-	-
Management fee	-	-	(1,362)	(708)
	110,564	116,527	108,488	106,498

30 IMPAIRMENT (WRITE BACK)/ ALLOWANCES ON FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Allowances for (Note 9(x)):				
- Collective assessment	(2,266)	(119,076)	(2,266)	(119,076)
- Individual assessment:	(2,041)	796,263	(2,041)	796,263
Allowances charged during the period	134,599	950,387	134,599	950,387
Allowances written-back during the period	(131,045)	(154,124)	(131,045)	(154,124)
Reversal of allowances on previously written off financing	(5,595)	-	(5,595)	-
Bad debt recovered on financing	(10,157)	(266)	(10,157)	(266)
	(14,464)	676,921	(14,464)	676,921

31 IMPAIRMENT LOSS AND ALLOWANCES ON INVESTMENTS

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Securities available-for-sale	4,949	19,150	1,507	1,368
Investment in jointly control entity and subsidiaries	-	850	-	1,465
	4,949	20,000	1,507	2,833

32 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Deposits from customers				
- Mudharabah	9,540	10,125	9,540	10,125
- Non Mudharabah	79,587	114,846	79,587	114,846
- Wakalah	11,311	-	11,311	-
- Negotiable Instrument Deposit	23,229	-	23,229	-
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	69,666	83,515	69,479	83,715
- Others	263	-	263	-
	193,596	208,486	193,409	208,686

33 PERSONNEL EXPENSES

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Salaries and wages	62,242	58,061	59,170	53,327
Social security costs	414	369	407	358
Pension costs - defined contribution plan	12,172	11,524	11,738	10,675
Other staff related costs	26,524	24,889	26,438	23,532
	101,352	94,843	97,753	87,892

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 RM2,743,022 (2011: RM2,552,000)

34 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Promotion				
Advertisement and publicity	9,687	10,924	9,661	10,911
Establishment				
Rental	17,070	11,930	16,297	11,190
Depreciation of property and equipment (Note 16)	12,084	11,631	11,902	11,422
Amortisation of intangible assets (Note 17)	8,672	8,192	8,516	8,185
IT expenses	7,528	7,181	7,512	7,171
Hire of equipment	1,144	1,060	1,067	959

34. OTHER OVERHEADS AND EXPENDITURES (Cont'd.)

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
General expenses				
Auditors remuneration				
- Statutory audit:	392	307	260	193
- Ernst & Young Malaysia	296	227	260	193
- Other member firms of Ernst & Young Global	96	81	-	-
- Non-audit services:	195	255	195	255
- Review engagements and regulatory-related services	150	90	150	90
- Other services	45	165	45	165
Professional fees	6,479	8,767	6,080	7,648
Non executive directors' remuneration (Note 36)	2,375	2,134	2,018	1,782
Shariah Committee's remuneration (Note 36)	741	479	741	479
Murabahah agent fees	809	2,165	809	2,165
Subscription fees	5,270	5,022	5,166	4,857
Communication expenses	3,956	3,947	3,851	3,885
Other fees	11,885	2,829	11,885	2,829
Others	16,741	14,209	14,639	13,214
	105,027	91,032	100,598	87,145

35 FINANCE COST

Subordinated Murabahah Tawarruq	13,551	12,914	13,551	12,914
Murabahah bank financing	-	35	-	35
	13,551	12,949	13,551	12,949

36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

Non-Executive Directors				
Directors of the Bank				
Fees	1,354	1,260	1,354	1,260
Other remuneration	664	522	664	522
	2,018	1,782	2,018	1,782

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

	Group		Bank	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Directors of subsidiary company				
Fees	336	328	-	-
Other remuneration	21	24	-	-
	357	352	-	-
Total Non-Executive Directors	2,375	2,134	2,018	1,782
Shariah Committee				
Fees	504	312	504	312
Other remuneration	237	167	237	167
	741	479	741	479

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

	Bank	
	Number of directors	
	31.12.2012	31.12.2011
Non-Executive Directors		
RM1,000 - RM100,000	2	2
RM100,001 - RM150,000	1	1
RM150,001 - RM200,000	2	1
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	2	3
RM300,001 - RM400,000	3	1
Total	10	9

37 TAXATION

	Group		Bank	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
Malaysian income tax				
- Current year	65	66	-	-
- Under provision of income tax in prior year	21,574	1,933	21,574	1,933
Deferred tax (Note 18):				
- Relating to origination and reversal of temporary differences	24,567	(150,498)	24,568	(150,475)
- Recognition of deferred tax not recognised in prior years	(16,306)	(24,335)	(16,291)	(24,716)
	29,900	(172,834)	29,851	(173,258)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2012 have reflected these changes.

Taxation for other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

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	
	31.12.2012 RM'000	**31.12.2011 RM'000**	**31.12.2012 RM'000**	**31.12.2011 RM'000**
Profit before taxation	90,394	(644,443)	93,341	(626,095)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	22,599	(161,111)	23,335	(156,524)
Losses not subject to tax	-	63	-	-
Expenses not deductible for tax purposes	1,439	6,329	1,233	2,909
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	595	4,287	-	3,140
Recognition of deferred tax not recognised in prior years	(16,306)	(24,335)	(16,291)	(24,716)
Under provision of tax expense in prior year	21,574	1,933	21,574	1,933
Tax expense for the year	29,900	(172,834)	29,851	(173,258)

38 EARNINGS PER SHARE

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

	Group	
	31.12.2012	**31.12.2011**
Net profit/ (loss) for the year (RM'000)	60,494	(471,609)
Weighted average number of ordinary shares in issues ('000)	2,266,125	2,266,125
Basic/ diluted earning/ (loss) per share (sen)	2.67	(20.81)

39 RELATED PARTY TRANSACTIONS

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

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

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

Holding Company
Details of holding company are disclosed in Note 48.

Subsidiaries
Details of subsidiaries are disclosed in Note 14.

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.

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

31.12.2012	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
(i) Income						
- Management fees	-	780	-	-	-	-
- Profit income on placements	2	396	6,129	-	-	-
- Profit income on financing	-	-	-	59	33,720	-
	2	1,176	6,129	59	33,720	-
(ii) Expenditure						
- Profit expense on deposits	24,897	382	3,759	5	3,692	5
- Other fees	-	2,142	2,950	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	13,396	-	-	-	-	-
	38,293	2,524	6,709	5	3,692	5

39. RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

31.12.2012 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	374,054	-	-	-	-	-
- Deposits from customers	-	12,117	25	5,830	-	1,197
- Deposits and placements of banks and other FIs	9,250	86,178	195,712	-	-	-
- Sundry creditors (Note 21)	142,771	-	-	-	-	-
	526,075	98,295	195,737	5,830	-	1,197
(iv) Amount due from related parties						
- Securities	-	-	15,290	-	-	-
- Financing	-	-	-	2,622	515,295	-
- Deposits and placements with banks and other FIs	-	-	152,900	-	-	-
- Other assets	294	425	1,615	-	-	-
	294	425	169,805	2,622	515,295	-
(v) Others						
- Purchases of intangible assets	-	-	3,395	-	-	-
	-	-	3,395	-	-	-

39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
31.12.2011						
(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

39. RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
31.12.2011 (Cont'd.)						
(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 21)	77,873	-	-	-	-	-
	807,757	21,463	13,205	1,486	25,332	1,016
(iv) Amount due from related parties						
- Securities	-	-	110,679	-	-	-
- 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	561,102	997	512,306	-
(v) Others						
- Purchases of intangible assets	-	-	2,764	-	-	-
	-	-	2,764	-	-	-

39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
01.01.2011						
(i) Income						
- Management fees	-	545	-	-	-	-
- Profit income on placements	81	1,379	1,058	-	-	-
- Profit income on financing	-	-	-	39	17,510	-
	81	1,924	1,058	39	17,510	-
(ii) Expenditure						
- Profit expense on deposits	10,440	306	29	10	37	4
- Other fees	-	-	2,275	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	13,116	-	-	-	-	-
	23,556	306	2,304	10	37	4

39. RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
01.01.2011 (Cont'd.)						
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	350,797	-	-	-	-	-
- Deposits from customers	-	1,878	491	771	1,022	4,630
- Deposits and placements of banks and other FIs	234,556	7,900	1,132	-	-	-
- Sundry creditors (Note 21)	60,549	-	-	-	-	-
	644,760	9,778	1,623	771	1,022	4,630
(iv) Amount due from related parties						
- Financing	-	-	-	1,174	340,838	-
- Deposits and placements with banks and other FIs	-	94,463	61,705	-	-	-
- Other assets	674	9,628	1,620	-	-	-
	674	104,091	63,325	1,174	340,838	-
(v) Others						
- Purchases of intangible assets	-	-	1,247	-	-	-
	-	-	1,247	-	-	-

39 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Short-term employee benefits						
- Salary and other remuneration	11,017	10,460	11,654	10,170	8,739	10,084
- Benefits-in-kind	-	-	127	-	-	127
	11,017	10,460	11,781	10,170	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 36.

(c) Credit transactions and exposures with connected parties

	31.12.2012			
	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)	516,410	6	513,221	-
Equities and Islamic Private Debt Securities held	15,290	1	15,290	-
Off-balance sheet exposures	-	2	1,258	-
	531,700	9	529,769	-
Total exposure to connected parties as % capital base			35.4%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			7.1%	0.0%

39. RELATED PARTY TRANSACTIONS (Cont'd.)

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

	31.12.2011			
	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)	555,011	9	571,892	21,128
Equities and Islamic Private Debt Securities held	117,216	3	122,100	-
Off-balance sheet exposures	35	1	1,000	-
	672,262	13	694,992	21,128
Total exposure to connected parties as % capital base			46.4%	1.4%
Total exposure to connected parties as % of total outstanding credit exposures			10.0%	0.3%

	01.01.2011			
	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)	389,999	11	595,032	20,579
Equities and Islamic Private Debt Securities held	87,600	3	87,600	-
Off-balance sheet exposures	170	1	1,000	-
	477,769	15	683,632	20,579
Total exposure to connected parties as % capital base			29.6%	0.9%
Total exposure to connected parties as % of total outstanding credit exposures			9.3%	0.3%

* Included total outstanding and unutilised limit.

39. RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

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

(i) Directors of the Bank and their close relatives;

(ii) Controlling shareholder and his close relatives;

(iii) Executive officer, being a member of management having authority and responsibility of planning, directing and/or controlling the activities of the Bank, and his close relatives;

(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and 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.

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES

(a) Reconciliation of statements of financial position as at 1 January 2011 and 31 December 2011

The reconciliations of statements of financial position at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

Group ASSETS	Note	FRS as at 01.01.2011 RM'000	Adjustments RM'000	MFRS as at 01.01.2011 RM'000	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Cash and short-term funds		2,651,695	-	2,651,695	1,973,012	-	1,973,012
Deposits and placements with banks and other financial institutions		275,092	-	275,092	734,973	-	734,973
Securities held-for-trading		110,083	-	110,083	90,216	-	90,216
Hedging financial instruments		80,632	-	80,632	43,688	-	43,688
Securities available-for-sale		1,053,506	-	1,053,506	1,096,340	-	1,096,340
Securities held-to-maturity		46,266	-	46,266	47,125	-	47,125
Financing, advances and other receivables	3.2(ii)	6,072,784	(141,169)	5,931,615	5,219,857	(22,093)	5,197,764
Murabahah trading automobile		32	-	32	32	-	32
Other assets		385,682	-	385,682	411,730	-	411,730
Statutory deposits with Bank Negara Malaysia		44,854	-	44,854	180,200	-	180,200
Musyarakah capital investment		5,898	-	5,898	5,898	-	5,898
Investment in subsidiaries		932	-	932	-	-	-
Property and equipment		27,340	-	27,340	23,855	-	23,855
Intangible assets		27,529	-	27,529	23,422	-	23,422
Deferred tax assets	3.2(ii)	125,557	-	125,557	288,388	5,523	293,911
		10,907,882	**(141,169)**	**10,766,713**	**10,138,736**	**(16,570)**	**10,122,166**

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(a) Reconciliation of statements of financial position as at 1 January 2011 and 31 December 2011 (Cont'd.)

The reconciliations of statements of financial position at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below (Cont'd.):

Group LIABILITIES	Note	FRS as at 01.01.2011 RM'000	Adjustments RM'000	MFRS as at 01.01.2011 RM'000	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Deposits from customers		4,560,037	-	4,560,037	4,717,854	-	4,717,854
Deposits and placements of banks and other financial institutions		3,478,689	-	3,478,689	3,134,572	-	3,134,572
Hedging financial instruments		39,789	-	39,789	72,655	-	72,655
Murabahah bank financing		23,233	-	23,233	-	-	-
Subordinated Murabahah Tawarruq		350,797	-	350,797	373,589	-	373,589
Other liabilities		398,002	-	398,002	365,785	-	365,785
Provision for zakat		3,740	-	3,740	3,740	-	3,740
		8,854,287	**-**	**8,854,287**	**8,668,195**	**-**	**8,668,195**
SHAREHOLDER'S EQUITY							
Share capital		2,266,125	-	2,266,125	2,266,125	-	2,266,125
Reserves	3.2(ii)	(212,530)	(141,169)	(353,699)	(795,584)	(16,570)	(812,154)
		2,053,595	**(141,169)**	**1,912,426**	**1,470,541**	**(16,570)**	**1,453,971**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**10,907,882**	**(141,169)**	**10,766,713**	**10,138,736**	**(16,570)**	**10,122,166**

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(a) Reconciliation of statements of financial position as at 1 January 2011 and 31 December 2011 (Cont'd.)

The reconciliations of statements of financial position at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below (Cont'd.):

Bank	Note	FRS as at 01.01.2011 RM'000	Adjustments RM'000	MFRS as at 01.01.2011 RM'000	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
ASSETS							
Cash and short-term funds		2,744,436	-	2,744,436	2,076,287	-	2,076,287
Deposits and placements with banks and other financial institutions		275,092	-	275,092	734,973	-	734,973
Securities held-for-trading		110,083	-	110,083	83,776	-	83,776
Hedging financial instruments		80,632	-	80,632	43,688	-	43,688
Securities available-for-sale		925,933	-	925,933	977,255	-	977,255
Securities held-to-maturity		46,266	-	46,266	47,125	-	47,125
Financing, advances and other receivables	3.2(ii)	6,072,784	(141,169)	5,931,615	5,219,857	(22,093)	5,197,764
Murabahah trading automobile		32	-	32	32	-	32
Other assets		366,450	-	366,450	406,948	-	406,948
Statutory deposits with Bank Negara Malaysia		44,854	-	44,854	180,200	-	180,200
Musyarakah capital investment		5,898	-	5,898	5,898	-	5,898
Investment in subsidiaries		32,397	-	32,397	30,952	-	30,952
Property and equipment		26,915	-	26,915	23,624	-	23,624
Intangible assets		27,508	-	27,508	23,403	-	23,403
Deferred tax assets	3.2(ii)	125,175	-	125,175	288,301	5,523	293,824
		10,884,455	**(141,169)**	**10,743,286**	**10,142,319**	**(16,570)**	**10,125,749**

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(a) Reconciliation of statements of financial position as at 1 January 2011 and 31 December 2011 (Cont'd.)

The reconciliations of statements of financial position at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below (Cont'd.):

Bank LIABILITIES	Note	FRS as at 01.01.2011 RM'000	Adjustments RM'000	MFRS as at 01.01.2011 RM'000	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Deposits from customers		4,561,610	-	4,561,610	4,719,586	-	4,719,586
Deposits and placements of banks and other financial institutions		3,486,642	-	3,486,642	3,152,042	-	3,152,042
Hedging financial instruments		39,789	-	39,789	72,655	-	72,655
Murabahah bank financing		23,233	-	23,233	-	-	-
Subordinated Murabahah Tawarruq		350,797	-	350,797	373,589	-	373,589
Other liabilities		396,933	-	396,933	364,588	-	364,588
Provision for zakat		3,740	-	3,740	3,740	-	3,740
		8,862,744	**-**	**8,862,744**	**8,686,200**	**-**	**8,686,200**
SHAREHOLDER'S EQUITY							
Share capital		2,266,125	-	2,266,125	2,266,125	-	2,266,125
Reserves	3.2(ii)	(244,414)	(141,169)	(385,583)	(810,006)	(16,570)	(826,576)
		2,021,711	**(141,169)**	**1,880,542**	**1,456,119**	**(16,570)**	**1,439,549**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**10,884,455**	**(141,169)**	**10,743,286**	**10,142,319**	**(16,570)**	**10,125,749**

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(b) Reconciliation of total comprehensive income for the period ended 31 December 2011

The reconciliations of total comprehensive income for comparative periods reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

Group	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Continuing operations			
Operating revenue	**459,788**	**-**	**459,788**
Income derived from investment of depositors' funds and others	342,673	-	342,673
Income derived from investment of shareholder's equity	117,115	-	117,115
Total gross income	459,788	-	459,788
Impairment (charge)/ write-back on securities	(20,000)	-	(20,000)
Impairment loss on financing	(795,997)	119,076	(676,921)
Total distributable income	(356,209)	119,076	(237,133)
Income attributable to the depositors	(208,486)	-	(208,486)
Total net income	(564,695)	119,076	(445,619)
Personnel expenses	(94,843)	-	(94,843)
Other overheads and expenditures	(91,032)	-	(91,032)
Finance cost	(12,949)	-	(12,949)
(Loss)/ Profit before zakat and taxation	(763,519)	119,076	(644,443)
Taxation	167,311	5,523	172,834
Net (loss)/ profit for the period	(596,208)	124,599	(471,609)

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(b) Reconciliation of total comprehensive income for the period ended 31 December 2011 (Cont'd.)

The reconciliations of total comprehensive income for comparative periods reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below: (Cont'd.)

Group (Cont'd.)	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Other comprehensive income/ (loss):			
Net gain taken to equity on securities available-for-sale	18,327	-	18,327
Exchange differences on translation of foreign operations	1,306	-	1,306
Income tax relating to components of other comprehensive income	(6,479)	-	(6,479)
Other comprehensive income for the period, net of tax	13,154	-	13,154
Total comprehensive (loss)/ income for the period	(583,054)	124,599	(458,455)
Total comprehensive (loss)/ income for the period attributable to equity holders of the parent	**(583,054)**	**124,599**	**(458,455)**

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(b) Reconciliation of total comprehensive income for the period ended 31 December 2011 (Cont'd.)

The reconciliations of total comprehensive income for comparative periods reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below (Cont'd.):

Bank	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Continuing operations			
Operating revenue	**450,331**	**-**	**450,331**
Income derived from investment of depositors' funds and others	343,833	-	343,833
Income derived from investment of shareholder's equity	106,498	-	106,498
Total gross income	450,331	-	450,331
Impairment (charge)/ write-back on securities	(2,833)	-	(2,833)
Impairment loss on financing	(795,997)	119,076	(676,921)
Total distributable income	(348,499)	119,076	(229,423)
Income attributable to the depositors	(208,686)	-	(208,686)
Total net income	(557,185)	119,076	(438,109)
Personnel expenses	(87,892)	-	(87,892)
Other overheads and expenditures	(87,145)	-	(87,145)
Finance cost	(12,949)	-	(12,949)
(Loss)/ Profit before zakat and taxation	(745,171)	119,076	(626,095)
Taxation	167,735	5,523	173,258
Net (loss)/ profit for the period	(577,436)	124,599	(452,837)

40 FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS FRAMEWORK AND CHANGES IN ACCOUNTING POLICIES (Cont'd.)

(b) Reconciliation of total comprehensive income for the period ended 31 December 2011 (Cont'd.)

The reconciliations of total comprehensive income for comparative periods reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below (Cont'd.):

Bank (Cont'd.)	FRS as at 31.12.2011 RM'000	Adjustments RM'000	MFRS as at 31.12.2011 RM'000
Other comprehensive income/ (loss):			
Net gain taken to equity on securities available-for-sale	18,386	-	18,386
Income tax relating to components of other comprehensive income	(6,542)	-	(6,542)
Other comprehensive income for the period, net of tax	11,844	-	11,844
Total comprehensive (loss)/ income for the period	(565,592)	124,599	(440,993)
Total comprehensive (loss)/ income for the period attributable to equity holders of the parent	**(565,592)**	**124,599**	**(440,993)**

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.

	31.12.2012			31.12.2011			01.01.2011		
	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	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Group and Bank									
Direct credit substitutes	448,398	448,398	297,589	637,113	637,113	411,526	644,403	644,403	424,463
Transaction related contingencies	130,067	65,032	46,302	108,859	54,429	38,877	268,240	134,120	127,233
Trade related contingencies	28,653	5,731	5,687	28,683	5,737	4,990	77,691	15,538	13,542
Irrevocable commitments to extend credit									
- maturity less than one year	372,828	74,566	70,448	395,901	79,180	77,513	360,049	72,010	71,291
- maturity more than one year	861,949	430,975	416,934	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	278,339	35,216	29,649	319,830	43,331	35,655	340,261	43,520	33,993
	2,120,234	1,059,918	866,609	3,516,405	1,261,638	1,025,232	4,052,245	1,441,181	1,196,271
		Note 43 (d)	Note 43 (d)		Note 43 (d)	Note 43 (d)		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.

41 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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 2012, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM21,469,808 (2011: 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.

42 CAPITAL COMMITMENTS

	Group			Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Capital expenditure :						
Authorised and contracted for						
- purchase of equipment	13	298	8,254	13	298	8,249
- computer hardware	2,873	1,791	-	2,873	1,791	-
- computer software	1,594	5,445	-	1,594	5,445	-
- capital renovation	5,008	1,458	2,701	5,008	1,458	2,701
Authorised but not contracted for						
- computer hardware	541	1,082	-	541	1,082	-
- computer software	-	110	-	-	110	-
	10,029	10,184	10,955	10,029	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:

	Group			Bank		
	31.12.2012	31.12.2011	01.01.2011	31.12.2012	31.12.2011	01.01.2011
Core capital ratio						
Credit risk	16.76%	14.91%	20.05%	16.72%	14.77%	19.91%
Credit, market, operational and large exposure risks	15.44%	13.82%	18.46%	15.41%	13.71%	18.36%
Risk-weighted capital ratio						
Credit risk	21.12%	19.93%	26.43%	20.49%	19.24%	25.58%
Credit, market, operational and large exposure risks	19.45%	18.47%	24.32%	18.89%	17.86%	23.59%

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		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Tier I capital						
Paid-up share capital	2,266,125	2,266,125	2,266,125	2,266,125	2,266,125	2,266,125
Statutory reserve	66,697	34,952	34,952	66,697	34,952	34,952
Other reserves	(808,989)	(837,738)	(388,652)	(825,678)	(857,423)	(420,536)
	1,523,833	1,463,339	1,912,425	1,507,144	1,443,654	1,880,541
Less: Deferred tax assets (net)	(286,641)	(293,911)	(125,557)	(286,538)	(293,824)	(125,175)
Total Tier-I capital	1,237,192	1,169,428	1,786,868	1,220,606	1,149,830	1,755,366
Tier II capital						
Subordinated Murabahah Tawarruq	183,480	253,440	308,530	183,480	253,440	308,530
Collective impairment on financing	137,944	140,378	259,548	137,944	140,378	259,548
Total Tier-II capital	321,424	393,818	568,078	321,424	393,818	568,078
Less: Investment in subsidiaries	-	-	-	(46,193)	(46,193)	(67,897)
Capital base	1,558,616	1,563,246	2,354,946	1,495,837	1,497,455	2,255,547

43. CAPITAL ADEQUACY (Cont'd.)

(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		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Computation of Total Risk-Weighted Assets ("RWA")						
Total credit RWA	7,381,070	7,845,359	8,911,615	7,298,865	7,783,184	8,817,375
Total market RWA	136,716	102,799	180,981	136,716	102,799	180,981
Total operational RWA	482,289	504,470	577,513	468,619	487,523	551,074
Large exposure risk RWA for equity holdings	14,790	11,948	11,948	14,790	11,948	11,948
Total Risk-Weighted Assets	8,014,865	8,464,576	9,682,057	7,918,990	8,385,454	9,561,378
Computation of Capital Ratios						
Core capital	1,237,192	1,169,428	1,786,868	1,220,606	1,149,830	1,755,366
Capital base	1,558,616	1,563,246	2,354,946	1,495,837	1,497,455	2,255,547
Core capital ratio	**15.44%**	**13.82%**	**18.46%**	**15.41%**	**13.71%**	**18.36%**
Risk-weighted capital ratio	**19.45%**	**18.47%**	**24.32%**	**18.89%**	**17.86%**	**23.59%**

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**
31.12.2012	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,264,875	1,264,875	1,473	1,473	119
Banks, Development Financial Institutions & MDBs	1,182,527	1,182,527	331,083	331,083	26,487
Corporates	2,338,820	2,338,820	2,145,452	2,145,452	171,635
Regulatory Retail	1,553,064	1,553,064	1,164,798	1,164,798	93,184
Residential Mortgages	161,339	161,339	58,904	58,904	4,712
Higher Risk Assets[1]	346,112	346,112	519,169	519,169	41,533
Other Assets	624,019	624,019	428,548	428,548	34,284
Defaulted Exposures[2]	1,376,898	1,376,898	1,865,034	1,865,034	149,203
	8,847,654	8,847,654	6,514,461	6,514,461	521,157
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments[3]	35,216	35,216	29,649	29,649	2,372
Off-balance sheet exposures other than OTC hedging financial instruments[4]	1,024,702	1,024,702	836,960	836,960	66,957
	1,059,918	1,059,918	866,609	866,609	69,329
Total On and Off-Balance Sheet Exposures	**9,907,572**	**9,907,572**	**7,381,070**	**7,381,070**	**590,486**

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	Long Position	Gross Exposures / Short Position	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
31.12.2012 (Cont'd.)		RM'000	RM'000	RM'000	RM'000	RM'000
(ii) Large Exposures Risk Requirement		**30,898**	**30,898**	**14,790**	**14,790**	**1,183**
	Long Position	**Short Position**				
(iii) Market Risk						
Benchmark Rate Risk	378,189	294,988	83,201	65,391	65,391	5,231
Foreign Currency Risk[5]	71,059	70,907	152	71,264	71,264	5,701
Equity Risk	-	-	-	-	-	-
Inventory Risk	32	-	32	61	61	5
			83,385	**136,716**	**136,716**	**10,937**
(iv) Operational Risk				**482,289**	**482,289**	**38,583**
(v) Total RWA and Capital Requirements				**8,014,865**	**8,014,865**	**641,189**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation*

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

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

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

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

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

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 (Cont'd):

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
31.12.2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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**

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 (Cont'd):

Group		Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
31.12.2011 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(ii) Large Exposures Risk Requirement		**24,898**	**24,898**	**11,948**	**11,948**	**956**
	Long Position	**Short Position**				
(iii) Market Risk						
Benchmark Rate Risk	679,480	(645,623)	33,857	20,812	20,812	1,665
Foreign Currency Risk[5]	78,952	(27,198)	51,754	81,926	81,926	6,554
Inventory Risk	32	-	32	61	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**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation*

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

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

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

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

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

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 (Cont'd):

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
01.01.2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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**

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 (Cont'd):

Group			**Gross Exposures**	**Net Exposures ****	**Risk-Weighted Assets**	**Total Risk-Weighted Assets After Effects of PSIA**	**Capital Requirement**
01.01.2011 (Cont'd.)			**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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	31,350	2,508
Foreign Currency Risk[5]	148,190	(22,733)		125,457	149,570	149,570	11,966
Inventory Risk	32	-		32	61	61	5
				240,743	**180,981**	**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 contracts.*

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

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

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

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

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 31.12.2012	Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,251,837	1,251,837	1,265	1,265	101
Banks, Development Financial Institutions & MDBs	1,108,585	1,108,585	318,808	318,808	25,505
Corporates	2,327,727	2,327,727	2,134,359	2,134,359	170,749
Regulatory Retail	1,553,065	1,553,065	1,164,798	1,164,798	93,184
Residential Mortgages	161,339	161,339	58,904	58,904	4,712
Higher Risk Assets[1]	346,113	346,113	519,169	519,169	41,533
Other Assets	565,391	565,391	369,920	369,920	29,593
Defaulted Exposures[2]	1,376,897	1,376,897	1,865,033	1,865,033	149,203
	8,690,954	8,690,954	6,432,256	6,432,256	514,580
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments[3]	35,216	35,216	29,649	29,649	2,372
Off-balance sheet exposures other than OTC hedging financial instruments[4]	1,024,702	1,024,702	836,960	836,960	66,957
	1,059,918	1,059,918	866,609	866,609	69,329
Total On and Off-Balance Sheet Exposures	**9,750,872**	**9,750,872**	**7,298,865**	**7,298,865**	**583,909**

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**
31.12.2012 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(ii) Large Exposures Risk Requirement		**30,898**	**30,898**	**14,790**	**14,790**	**1,183**
	Long Position	**Short Position**				
(iii) Market Risk						
Benchmark Rate Risk	378,189	294,988	83,201	65,391	65,391	5,231
Foreign Currency Risk[5]	71,059	70,907	152	71,264	71,264	5,701
Inventory Risk	32	-	32	61	61	5
			83,385	**136,716**	**136,716**	**10,937**
(iv) Operational Risk				**468,619**	**468,619**	**37,490**
(v) Total RWA and Capital Requirements				**7,918,990**	**7,918,990**	**633,519**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation*

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

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

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

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

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

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**
31.12.2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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**

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: (Cont'd.)

Bank	Long Position	Short Position	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
31.12.2011 (Cont'd.)			**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(ii) Large Exposures Risk Requirement			**24,898**	**24,898**	**11,948**	**11,948**	**956**
(iii) Market Risk							
Benchmark Rate Risk	673,041	(645,623)		27,418	20,812	20,812	1,665
Foreign Currency Risk[5]	78,952	(27,198)		51,754	81,926	81,926	6,554
Inventory Risk	32	-		32	61	61	5
				79,204	**102,799**	**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**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation*

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

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

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

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

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

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
01.01.2011	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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**

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
01.01.2011 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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	31,350	2,508
Foreign Currency Risk[5]	148,190	(22,733)	125,457	149,570	149,570	11,966
Inventory Risk	32	-	32	61	61	5
			240,743	**180,981**	**180,981**	**14,479**
(iv) Operational Risk				**551,074**	**551,074**	**44,086**
(v) Total RWA and Capital Requirements				**9,561,378**	**9,561,378**	**764,910**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation*

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

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

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

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

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

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:

31.12.2012	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%	1,257,509	-	52,903	134,208	-	-	-	195,470	1,640,090	-
20%	7,366	-	786,054	95,175	-	-	-	-	888,595	177,719
35%	-	-	-	-	-	145,101	-	-	145,101	50,785
50%	-	-	376,597	560,746	16	17,034	-	-	954,393	477,197
75%	-	-	-	-	1,565,627	-	-	-	1,565,627	1,174,220
100%	-	-	-	2,704,004	419	6,030	-	428,548	3,139,001	3,139,001
150%	-	-	5,254	1,041,240	1,494	-	526,777	-	1,574,765	2,362,148
	1,264,875	**-**	**1,220,808**	**4,535,373**	**1,567,556**	**168,165**	**526,777**	**624,018**	**9,907,572**	**7,381,070**

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: (Cont'd.)

31.12.2012 (Cont'd.)	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
Bank										
Risk-Weights										
0%	1,245,515	-	40,339	134,208	-	-	-	195,470	1,615,532	-
20%	6,323	-	724,676	95,175	-	-	-	-	826,174	165,235
35%	-	-	-	-	-	145,101	-	-	145,101	50,785
50%	-	-	376,597	560,746	16	17,034	-	-	954,393	477,197
75%	-	-	-	-	1,565,627	-	-	-	1,565,627	1,174,220
100%	-	-	-	2,692,910	419	6,030	-	369,921	3,069,280	3,069,280
150%	-	-	5,254	1,041,240	1,494	-	526,777	-	1,574,765	2,362,148
	1,251,838	**-**	**1,146,866**	**4,524,279**	**1,567,556**	**168,165**	**526,777**	**565,391**	**9,750,872**	**7,298,865**

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:

31.12.2011	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**

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:

31.12.2011 (Cont'd.)	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
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**

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:

01.01.2011	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	Higher Risk Assets	Other Assets	Equity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group									
Risk-Weights									
0%	2,181,781	91,076	55,648	438,627	1,778	44,020	-	2,812,930	-
20%	13,245	4,628	932,713	129,068	-	-	-	1,079,654	215,931
50%	-	-	454,079	627,264	-	-	-	1,081,343	540,672
100%	-	-	-	4,729,281	-	415,714	86,307	5,231,302	5,231,302
150%	-	-	68,636	1,306,816	573,688	-	-	1,949,140	2,923,710
	2,195,026	**95,704**	**1,511,076**	**7,231,056**	**575,466**	**459,734**	**86,307**	**12,154,369**	**8,911,615**
Bank									
Risk-Weights									
0%	2,181,781	91,076	43,453	438,627	1,778	44,018	-	2,800,733	-
20%	-	4,628	1,009,630	129,068	-	-	-	1,143,326	228,665
50%	-	-	454,079	627,264	-	-	-	1,081,343	540,672
100%	-	-	-	4,729,281	-	395,218	-	5,124,499	5,124,499
150%	-	-	68,636	1,306,816	573,574	-	-	1,949,026	2,923,539
	2,181,781	**95,704**	**1,575,798**	**7,231,056**	**575,352**	**439,236**	**-**	**12,098,927**	**8,817,375**

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
31.12.2012				
0%	1,640,090	-	1,615,532	-
20%	888,595	177,719	826,174	165,235
35%	145,101	50,785	145,101	50,785
50%	954,393	477,197	954,393	477,197
75%	1,565,627	1,174,220	1,565,627	1,174,220
100%	3,139,001	3,139,001	3,069,280	3,069,280
150%	1,574,765	2,362,148	1,574,765	2,362,148
Risk-weighted assets for credit risk	9,907,572	7,381,070	9,750,872	7,298,865
Risk-weighted assets for market risk		136,716		136,716
Risk-weighted assets for operational risk		482,289		468,619
Large exposure risk-weighted assets for equity holdings		14,790		14,790
Total risk-weighted assets		8,014,865		7,918,990
31.12.2011				
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	896,082
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

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
01.01.2011				
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

43 CAPITAL ADEQUACY (Cont'd.)

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

	31.12.2012		31.12.2011		01.01.2011	
Group and Bank	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**
Benchmark Rate Risk	65,391	5,231	20,812	1,665	31,350	2,508
Foreign Exchange Risk	71,264	5,701	81,926	6,554	149,570	11,966
Inventory Risk	61	5	61	5	61	5
Total	136,716	10,937	102,799	8,224	180,981	14,479

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 Ijarah rental swap.

(ii) Corporate and Investment Banking

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

(iii) Commercial Banking

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

44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 31.12.2012	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	120,080	172,408	79,441	122,476	-	494,405
Revenue from other segments	134,792	3,257	6,124	63,411	(207,584)	-
Total Revenue	254,872	175,665	85,565	185,887	(207,584)	494,405
Segment results	24,791	96,846	2,741	59,238	-	183,616
Unallocated expenses						(93,222)
Income from operations						90,394
Taxation						(29,900)
Net profit for the year						60,494
Other information						
Segment assets	2,675,515	3,045,370	705,573	2,241,305	(129,613)	8,538,150
Unallocated corporate assets						558,541
Total assets						9,096,691
Segment liabilities	3,813,677	126,147	192,623	2,965,287	(98,661)	6,999,073
Unallocated corporate liabilities						578,323
Total liabilities						7,577,396
Other segment items						
Purchase of property and equipment	-	-	-	30,224	-	30,224
Purchase of intangible assets	-	-	-	2,446	-	2,446
Depreciation of property and equipment	-	-	-	12,084	-	12,084
Amortisation of intangible assets	-	-	-	8,672	-	8,672
Other non-cash expense other than depreciation	(4,210)	39,366	(22,704)	(5,203)	-	7,249

(b) Secondary Segment - By Geographical Locations

Group 31.12.2012	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	491,860	90,379	9,095,454
Outside Malaysia	2,545	15	1,237
	494,405	90,394	9,096,691

The Group has fund management operations in Australia.

44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 31.12.2011	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)	164,647	1,240	(551,100)
Unallocated expenses						(93,343)
Loss from operations						(644,443)
Taxation						172,834
Net loss for the year						(471,609)
Other information						
Segment assets	3,938,990	2,696,717	1,131,946	1,962,715	-	9,730,368
Unallocated corporate assets						391,798
Total assets						10,122,166
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 31.12.2011	Operating Revenue RM'000	(Loss)/ Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	458,185	(644,755)	10,121,731
Outside Malaysia	1,603	312	435
	459,788	(644,443)	10,122,166

The Group has fund management operations in Australia and Singapore.

44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group **01.01.2011**	**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	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						(226,759)
Loss from operations						(259,028)
Zakat						(1,565)
Taxation						43,787
Net loss for the year						(216,806)
Other information						
Segment assets	4,150,329	2,916,183	2,923,126	426,202	-	10,415,840
Unallocated corporate assets						350,873
Total assets						10,766,713
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	165,578	-	331,531

(b) Secondary Segment - By Geographical Locations

Group **01.01.2011**	**Operating Revenue** **RM'000**	**Loss Before Zakat and Taxation** **RM'000**	**Total Assets** **RM'000**
Malaysia	447,962	(249,647)	10,801,818
Outside Malaysia	27	(9,381)	(35,105)
	447,989	(259,028)	10,766,713

The Group has fund management operations in Australia and Singapore.

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.

	Level 2	Total
Group	**RM'000**	**RM'000**
31.12.2012		
Financial assets		
Securities held-for-trading	79,493	79,493
Securities available-for-sale	955,830	955,830
Hedging financial instruments	21,470	21,470
Total	1,056,793	1,056,793
Financial liability		
Hedging financial instruments	16,754	16,754
31.12.2011		
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

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

Determination of fair value and fair value hierarchy (Cont'd.)

	Level 2 RM'000	Total RM'000
Group (Cont'd.)		
01.01.2011		
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
Bank		
31.12.2012		
Financial assets		
Securities held-for-trading	79,493	79,493
Securities available-for-sale	846,614	846,614
Hedging financial instruments	21,470	21,470
Total	947,577	947,577
Financial liability		
Hedging financial instruments	16,754	16,754
31.12.2011		
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
01.01.2011		
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

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

Determination of fair value and fair value hierarchy (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.

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

(d) Financing, Advances and Other Receivables

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

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

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

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		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Within one year	19,521	21,170	9,812
Between one and five years	23,044	31,599	6,662
	42,565	52,769	16,474

	Bank		
	31.12.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Within one year	18,622	20,288	9,019
Between one and five years	22,229	31,171	5,754
	40,851	51,459	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.

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
Group	**RM'000**	**RM'000**	**RM'000**
31.12.2012			
Assets			
Cash and short-term funds	1,400,684	-	1,400,684
Deposits and placements with banks and other financial institutions	244,147	-	244,147
Securities held-for-trading	-	79,493	79,493
Securities available-for-sale	242,952	712,878	955,830
Securities held-to-maturity	-	81,493	81,493
Financing, advances and receivables	3,849,903	1,438,842	5,288,745
Musyarakah capital investment	-	5,898	5,898
Other assets	-	1,040,401	1,040,401
Total Assets	5,737,686	3,359,005	9,096,691
Liabilities			
Deposits from customers	4,465,788	904,477	5,370,265
Deposits and placements of banks and other financial institutions	1,324,476	-	1,324,476
Subordinated Murabahah Tawarruq	374,054	-	374,054
Other liabilities	-	508,601	508,601
Total Liabilities	6,164,318	1,413,078	7,577,396
Net	(426,632)	1,945,927	1,519,295

49. MATURITY ANALYSIS (Cont'd.)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled: (Cont'd.)

Group (Cont'd.)	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
31.12.2011			
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	2,343,159	5,197,764
Musyarakah capital investment	-	5,898	5,898
Other assets	-	976,838	976,838
Total Assets	8,408,630	2,507,574	10,122,166
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	1,177,011	1,070,998	1,453,971
Group			
01.01.2011			
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	416,567	636,939	1,053,506
Securities held-to-maturity	-	46,266	46,266
Financing, advances and receivables	2,639,804	3,291,811	5,931,615
Musyarakah capital investment	5,898	-	5,898
Other assets	692,558	-	692,558
Total Assets	6,674,112	4,092,601	10,766,713

49. MATURITY ANALYSIS (Cont'd.)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled: (Cont'd.)

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
Group (Cont'd.)			
01.01.2011 (Cont'd.)			
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	7,600,362	1,253,925	8,854,287
Net	(926,250)	2,838,676	1,912,426
Bank			
31.12.2012			
Assets			
Cash and short-term funds	1,370,167	-	1,370,167
Deposits and placements with banks and other financial institutions	228,838	-	228,838
Securities held-for-trading	-	79,493	79,493
Securities available-for-sale	227,317	619,297	846,614
Securities held-to-maturity	-	81,493	81,493
Financing, advances and receivables	3,849,903	1,438,842	5,288,745
Musyarakah capital investment	-	5,898	5,898
Other assets	-	1,069,592	1,069,592
Total Assets	5,676,225	3,294,615	8,970,840
Liabilities			
Deposits from customers	4,472,561	904,478	5,377,039
Deposits and placements of banks and other financial institutions	1,204,490	-	1,204,490
Subordinated Murabahah Tawarruq	374,054	-	374,054
Other liabilities	-	507,758	507,758
Total Liabilities	6,051,105	1,412,236	7,463,341
Net	(374,880)	1,882,379	1,507,499

49. MATURITY ANALYSIS (Cont'd.)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (Cont'd.):

Bank 31.12.2011	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
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	2,343,159	5,197,764
Musyarakah capital investment	-	5,898	5,898
Other assets	-	1,002,671	1,002,671
Total Assets	6,055,290	4,070,459	10,125,749
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)	2,636,329	1,439,549

49. MATURITY ANALYSIS (Cont'd.)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (Cont'd.):

Bank (Cont'd.) 01.01.2011	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
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	330,260	595,673	925,933
Securities held-to-maturity	-	46,266	46,266
Financing, advances and receivables	2,639,804	3,291,811	5,931,615
Musyarakah capital investment	5,898	-	5,898
Other assets	703,963	-	703,963
Total Assets	6,691,951	4,051,335	10,743,286
Liabilities			
Deposits from customers	4,561,610	-	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	8,455,439	407,305	8,862,744
Net	(1,763,488)	3,644,030	1,880,542

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.

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.

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.)

	Total gross maximum exposure	
	Group	**Bank**
31.12.2012	**RM'000**	**RM'000**
Cash and short-term funds	1,400,684	1,370,167
Deposits and placements with banks and other financial institutions	244,147	228,838
Securities held-for-trading	79,493	79,493
Securities available-for-sale	896,623	787,407
Securities held-to-maturity	81,493	81,493
Financing, advances and other receivables	5,974,169	5,974,169
Other assets	481,381	481,255
Statutory deposits with Bank Negara Malaysia ("BNM")	191,717	191,717
Hedging financial instruments		
- Ijarah rental swap	21,470	21,470
Total On-Balance Sheet	9,371,177	9,216,009
Financial guarantees	448,398	448,398
Contingent liabilities	158,720	158,720
Commitments	1,234,777	1,234,777
Total Off-Balance Sheet	1,841,895	1,841,895
Total On and Off-Balance Sheet	11,213,072	11,057,904

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.)

	Total gross maximum exposure	
	Group	**Bank**
31.12.2011	**RM'000**	**RM'000**
Cash and short-term funds	1,973,012	2,076,287
Deposits and placements with banks and other financial institutions	734,973	734,973
Securities held-for-trading	90,216	83,776
Securities available-for-sale	1,076,569	957,484
Securities held-to-maturity	47,125	47,125
Financing, advances and other receivables	6,428,508	6,428,508
Other assets	411,762	406,980
Statutory deposits with Bank Negara Malaysia ("BNM")	180,200	180,200
Hedging financial instruments		
- Ijarah rental swap	24,334	24,334
- Cross-currency Ijarah rental swap	18,635	18,635
- Promissory foreign exchange contract	719	719
Total On-Balance Sheet	10,986,053	10,959,021
Financial guarantees	637,113	637,113
Contingent liabilities	137,542	137,542
Commitments	1,204,978	1,204,978
Total Off-Balance Sheet	1,979,633	1,979,633
Total On and Off-Balance Sheet	12,965,686	12,938,654

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.)

	Total gross maximum exposure	
	Group	**Bank**
01.01.2011	**RM'000**	**RM'000**
Cash and short-term funds	2,651,695	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	1,034,506	906,933
Securities held-to-maturity	46,266	46,266
Financing, advances and other receivables	6,603,272	6,603,272
Other assets	385,714	366,482
Statutory deposits with Bank Negara Malaysia ("BNM")	44,854	44,854
Hedging financial instruments		
- Ijarah rental swap	19,862	19,862
- Cross-currency Ijarah rental swap	24,846	24,846
- Promissory foreign exchange contract	35,924	35,924
Total On-Balance Sheet	11,232,114	11,178,050
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	13,465,450	13,411,386

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.)

By geographical segment:

	Geographic region			Total gross maximum
31.12.2012	**Malaysia**	**Middle East**	**Others**	**exposure**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	1,277,244	15,307	108,133	1,400,684
Deposits and placements with banks and other financial institutions	65,365	-	178,782	244,147
Securities held-for-trading				
- Unquoted	38,281	41,212	-	79,493
Securities available-for-sale				
- Unquoted	507,592	335,852	53,179	896,623
Securities held-to-maturity				
- Unquoted	30,371	-	51,122	81,493
Financing, advances and other receivables	5,832,956	19,287	121,926	5,974,169
Other assets	481,087	294	-	481,381
Statutory deposits with BNM	191,717	-	-	191,717
Hedging financial instruments				
- Ijarah rental swap	21,470	-	-	21,470
Total On-Balance Sheet	8,446,083	411,952	513,142	9,371,177
Financial guarantees	448,306	92	-	448,398
Contingent liabilities	135,020	23,700	-	158,720
Commitments	1,213,101	6,386	15,290	1,234,777
Total Off-Balance Sheet	1,796,427	30,178	15,290	1,841,895
Total On and Off-Balance Sheet	10,242,510	442,130	528,432	11,213,072

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.)

By geographical segment: (Cont'd.)

	Geographic region			Total gross maximum exposure
31.12.2011	**Malaysia**	**Middle East**	**Others**	
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	1,771,115	40,076	161,821	1,973,012
Deposits and placements with banks and other financial institutions	267,453	411,840	55,680	734,973
Securities held-for-trading				
- Unquoted	13,259	9,611	67,346	90,216
Securities available-for-sale				
- Unquoted	445,099	538,173	93,297	1,076,569
Securities held-to-maturity				
- Unquoted	15,268	31,857	-	47,125
Financing, advances and other receivables	6,014,971	116,278	297,259	6,428,508
Other assets	411,474	288	-	411,762
Statutory deposits with BNM	180,200	-	-	180,200
Hedging financial instruments				
- Ijarah rental swap	24,334	-	-	24,334
- Cross-currency Ijarah rental swap	18,635	-	-	18,635
- Promissory foreign exchange contract	485	-	234	719
Total On-Balance Sheet	9,162,292	1,148,124	675,637	10,986,053
Financial guarantees	487,078	35	150,000	637,113
Contingent liabilities	91,975	-	45,567	137,542
Commitments	1,198,274	6,704	-	1,204,978
Total Off-Balance Sheet	1,777,327	6,739	195,567	1,979,633
Total On and Off-Balance Sheet	10,939,619	1,154,863	871,204	12,965,686

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.)

By geographical segment: (Cont'd.)

	Geographic region			Total gross maximum exposure
01.01.2011	**Malaysia**	**Middle East**	**Others**	
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	2,372,940	154,074	124,681	2,651,695
Deposits and placements with banks and other financial institutions	78,531	-	196,561	275,092
Securities held-for-trading				
- Unquoted	3,197	-	106,886	110,083
Securities available-for-sale				
- Unquoted	526,722	495,588	12,196	1,034,506
Securities held-to-maturity				
- Unquoted	15,250	31,016	-	46,266
Financing, advances and other receivables	5,750,012	367,086	486,174	6,603,272
Other assets	359,618	26,096	-	385,714
Statutory deposits with BNM	44,854	-	-	44,854
Hedging financial instruments				
- Ijarah rental swap	19,862	-	-	19,862
- Cross-currency Ijarah rental swap	24,846	-	-	24,846
- Promissory foreign exchange contract	35,615	-	309	35,924
Total On-Balance Sheet	9,231,447	1,073,860	926,807	11,232,114
Financial guarantees	494,233	170	150,000	644,403
Contingent liabilities	265,053	80,878	-	345,931
Commitments	1,236,616	928	5,458	1,243,002
Total Off-Balance Sheet	1,995,902	81,976	155,458	2,233,336
Total On and Off-Balance Sheet	11,227,349	1,155,836	1,082,265	13,465,450

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.)

By geographical segment: (Cont'd.)

31.12.2012 Bank	**Geographic region Malaysia RM'000**	** Middle East RM'000**	** Others RM'000**	**Total gross maximum exposure RM'000**
Cash and short-term funds	1,276,430	-	93,737	1,370,167
Deposits and placements with banks and other financial institutions	50,056	-	178,782	228,838
Securities held-for-trading				
- Unquoted	38,281	41,212	-	79,493
Securities available-for-sale				
- Unquoted	494,555	292,852	-	787,407
Securities held-to-maturity				
- Unquoted	30,371	-	51,122	81,493
Financing, advances and other receivables	5,832,956	19,287	121,926	5,974,169
Other assets	480,956	294	5	481,255
Statutory deposits with BNM	191,717	-	-	191,717
Hedging financial instruments				
- Ijarah rental swap	21,470	-	-	21,470
Total On-Balance Sheet	8,416,792	353,645	445,572	9,216,009
Financial guarantees	448,306	92	-	448,398
Contingent liabilities	135,020	23,700	-	158,720
Commitments	1,213,101	6,386	15,290	1,234,777
Total Off-Balance Sheet	1,796,427	30,178	15,290	1,841,895
Total On and Off-Balance Sheet	10,213,219	383,823	460,862	11,057,904

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.)

By geographical segment: (Cont'd.)

	Geographic region			Total gross maximum exposure
31.12.2011	**Malaysia**	**Middle East**	**Others**	
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	1,874,390	40,076	161,821	2,076,287
Deposits and placements with banks and other financial institutions	267,453	411,840	55,680	734,973
Securities held-for-trading				
- Unquoted	13,259	9,611	60,906	83,776
Securities available-for-sale				
- Unquoted	431,837	460,014	65,633	957,484
Securities held-to-maturity				
- Unquoted	15,268	31,857	-	47,125
Financing, advances and other receivables	6,014,971	116,278	297,259	6,428,508
Other assets	406,679	288	13	406,980
Statutory deposits with BNM	180,200	-	-	180,200
Hedging financial instruments				
- Ijarah rental swap	24,334	-	-	24,334
- Cross-currency Ijarah rental swap	18,635	-	-	18,635
- Promissory foreign exchange contract	485	-	234	719
Total On-Balance Sheet	9,247,509	1,069,965	641,547	10,959,021
Financial guarantees	487,078	35	150,000	637,113
Contingent liabilities	91,975	-	45,567	137,542
Commitments	1,198,274	6,704	-	1,204,978
Total Off-Balance Sheet	1,777,327	6,739	195,567	1,979,633
Total On and Off-Balance Sheet	11,024,836	1,076,704	837,114	12,938,654

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.)

By geographical segment: (Cont'd.)

	Geographic region			Total gross maximum exposure
01.01.2011	**Malaysia**	**Middle East**	**Others**	
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	2,465,671	154,074	124,691	2,744,436
Deposits and placements with banks and other financial institutions	78,531	-	196,561	275,092
Securities held-for-trading				
- Unquoted	3,197	-	106,886	110,083
Securities available-for-sale				
- Unquoted	427,170	479,763	-	906,933
Securities held-to-maturity				
- Unquoted	15,250	31,016	-	46,266
Financing, advances and other receivables	5,750,012	367,086	486,174	6,603,272
Other assets	340,240	26,095	147	366,482
Statutory deposits with BNM	44,854	-	-	44,854
Hedging financial instruments				
- Ijarah rental swap	19,861	-	-	19,861
- Cross-currency Ijarah rental swap	24,847	-	-	24,847
- Promissory foreign exchange contract	35,615	-	309	35,924
Total On-Balance Sheet	9,205,248	1,058,033	914,768	11,178,050
Financial guarantees	494,233	170	150,000	644,403
Contingent liabilities	265,053	80,878	-	345,931
Commitments	1,236,616	928	5,458	1,243,002
Total Off-Balance Sheet	1,995,902	81,976	155,458	2,233,336
Total On and Off-Balance Sheet	11,201,150	1,140,009	1,070,226	13,411,386

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.)

By industry sector:

	Industry						
31.12.2012 Group	**Trading and manufacturing RM'000**	**Banks and financial institutions RM'000**	**Construction and real estate RM'000**	**Transportation, storage and communication RM'000**	**Government RM'000**	**Others RM'000**	**Total gross maximum exposure RM'000**
Cash and short-term funds	-	1,400,684	-	-	-	-	1,400,684
Deposits and placements with banks and other financial institutions	-	244,147	-	-	-	-	244,147
Securities held-for-trading	-	-	-	10,541	42,262	26,690	79,493
Securities available-for-sale	-	209,945	30,329	20,554	472,422	163,373	896,623
Securities held-to-maturity	-	56,172	-	5,064	-	20,257	81,493
Financing, advances and other receivables	1,318,485	360,993	1,448,319	432,149	-	2,414,223	5,974,169
Other assets	-	-	-	-	-	481,381	481,381
Statutory deposits with BNM	-	-	-	-	191,717	-	191,717
Hedging financial instruments	-	-	-	21,470	-	-	21,470
Total On-Balance Sheet	1,318,485	2,271,941	1,478,648	489,778	706,401	3,105,924	9,371,177
Financial guarantees	-	92	9,321	420,735	-	18,250	448,398
Contingent liabilities	30,095	51,954	25,145	10,161	-	41,365	158,720
Commitments	264,754	-	401,643	69,378	-	499,002	1,234,777
Total Off-Balance Sheet	294,849	52,046	436,109	500,274	-	558,617	1,841,895
Total On and Off-Balance Sheet	1,613,334	2,323,987	1,914,757	990,052	706,401	3,664,541	11,213,072

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.)

By industry sector: (Cont'd.)

	Industry						
31.12.2011	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Total gross maximum exposure**
Group	**RM'000**	**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	-	-	-	-	-	411,762	411,762
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	3,190,399	10,986,053
Financial guarantees	439,468	21,373	15,621	1,137	-	159,513	637,112
Contingent liabilities	31,914	66,976	28,246	9,958	-	449	137,543
Commitments	279,128	126,564	411,948	71,903	-	315,435	1,204,978
Total Off-Balance Sheet	750,510	214,913	455,815	82,998	-	475,397	1,979,633
Total On and Off-Balance Sheet	2,139,372	3,800,888	2,247,275	808,693	303,663	3,665,796	12,965,686

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.)

By industry sector: (Cont'd.)

	Industry						
01.01.2011	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Total gross maximum exposure**
Group	**RM'000**	**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	1,639,681	696,682	2,100,177	721,796	-	1,444,936	6,603,272
Other assets	-	-	-	-	-	385,714	385,714
Statutory deposits with BNM	-	-	-	-	44,854	-	44,854
Hedging financial instruments	10	60,770	-	19,852	-	-	80,632
Total On-Balance Sheet	1,639,691	4,051,096	2,248,369	798,522	270,281	2,224,155	11,232,114
Financial guarantees	34,130	21,273	160,830	421,550	-	6,620	644,403
Contingent liabilities	93,663	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	293,817	223,401	985,280	493,267	-	237,571	2,233,336
Total On and Off-Balance Sheet	1,933,508	4,274,497	3,233,649	1,291,789	270,281	2,461,726	13,465,450

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.)

By industry sector: (Cont'd.)

	Industry						
31.12.2012 Bank	**Trading and manufacturing RM'000**	**Banks and financial institutions RM'000**	**Construction and real estate RM'000**	**Transportation, storage and communication RM'000**	**Government RM'000**	**Others RM'000**	**Total gross maximum exposure RM'000**
Cash and short-term funds	-	1,370,167	-	-	-	-	1,370,167
Deposits and placements with banks and other financial institutions	-	228,838	-	-	-	-	228,838
Securities held-for-trading	-	-	-	10,541	42,262	26,690	79,493
Securities available-for-sale	-	181,746	30,329	20,553	443,938	110,841	787,407
Securities held-to-maturity	-	56,172	-	5,064	-	20,257	81,493
Financing, advances and other receivables	1,318,485	360,993	1,448,319	432,149	-	2,414,223	5,974,169
Other assets	-	-	-	-	-	481,255	481,255
Statutory deposits with BNM	-	-	-	-	191,717	-	191,717
Hedging financial instruments	-	-	-	21,470	-	-	21,470
Total On-Balance Sheet	1,318,485	2,197,916	1,478,648	489,777	677,917	3,053,266	9,216,009
Financial guarantees	-	92	9,321	420,735	-	18,250	448,398
Contingent liabilities	30,095	51,954	25,145	10,161	-	41,365	158,720
Commitments	264,754	-	401,643	69,378	-	499,002	1,234,777
Total Off-Balance Sheet	294,849	52,046	436,109	500,274	-	558,617	1,841,895
Total On and Off-Balance Sheet	1,613,334	2,249,962	1,914,757	990,051	677,917	3,611,883	11,057,904

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.)

By industry sector: (Cont'd.)

	Industry						
31.12.2011	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Total gross maximum exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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	-	-	-	-	-	406,980	406,980
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	3,060,093	10,959,021
Financial guarantees	439,469	21,374	15,621	1,137	-	159,513	637,113
Contingent liabilities	31,914	66,976	28,246	9,958	-	448	137,542
Commitments	279,128	126,564	411,948	71,903	-	315,435	1,204,978
Total Off-Balance Sheet	750,510	214,913	455,815	82,998	-	475,396	1,979,633
Total On and Off-Balance Sheet	2,139,372	3,904,163	2,247,275	808,693	303,662	3,535,489	12,938,654

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.)

By industry sector: (Cont'd.)

	Industry						
01.01.2011	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Total gross maximum exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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	-	-	-	3,197	110,083
Securities available-for-sale	-	231,950	117,177	56,874	212,181	288,751	906,933
Securities held-to-maturity	-	-	31,016	-	-	15,250	46,266
Financing, advances and other receivables	1,639,681	696,682	2,100,177	721,796	-	1,444,936	6,603,272
Other assets	-	-	-	-	-	366,482	366,482
Statutory deposits with BNM	-	-	-	-	44,854	-	44,854
Hedging financial instruments	10	60,770	-	19,852	-	-	80,632
Total On-Balance Sheet	1,639,691	4,115,816	2,248,370	798,522	257,035	2,118,616	11,178,050
Financial guarantees	34,130	21,273	160,830	421,550	-	6,620	644,403
Contingent liabilities	93,663	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	293,817	223,401	985,280	493,267	-	237,571	2,233,336
Total On and Off-Balance Sheet	1,933,508	4,339,217	3,233,650	1,291,789	257,035	2,356,187	13,411,386

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:

By residual maturity:

	Residual Maturity				Not on demand	Total gross
31.12.2012	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**and no maturity date**	**maximum exposure**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	1,315,832	-	-	-	84,852	1,400,684
Deposits and placements with banks and other financial institutions	151,741	92,406	-	-	-	244,147
Securities held-for-trading	-	-	9,778	69,715	-	79,493
Securities available-for-sale	20,238	232,758	286,292	321,213	36,122	896,623
Securities held-to-maturity	-	-	56,172	25,321	-	81,493
Financing, advances and other receivables	3,342,481	335,670	327,863	1,878,586	89,569	5,974,169
Other assets	-	-	-	-	481,381	481,381
Statutory deposits with BNM	-	-	-	-	191,717	191,717
Hedging financial instruments	-	-	-	21,470	-	21,470
Total On-Balance Sheet	4,830,292	660,834	680,105	2,316,305	883,641	9,371,177
Financial guarantees	423,087	13,032	12,279	-	-	448,398
Contingent liabilities	58,337	55,435	40,699	4,551	(302)	158,720
Commitments	736,925	14,447	243,232	208,073	32,100	1,234,777
Total Off-Balance Sheet	1,218,349	82,914	296,210	212,624	31,798	1,841,895
Total On and Off-Balance Sheet	6,048,641	743,748	976,315	2,528,929	915,439	11,213,072

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: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand	Total gross
31.12.2011	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**and no maturity date**	**maximum exposure**
Group	**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	-	-	-	-	411,762	411,762
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	366,594	1,338,845	1,758,426	728,709	10,986,053
Financial guarantees	41,851	10,686	14,576	-	570,000	637,113
Contingent liabilities	91,332	7,287	34,372	4,551	-	137,542
Commitments	522,020	103,269	356,485	196,104	27,100	1,204,978
Total Off-Balance Sheet	655,203	121,242	405,433	200,655	597,100	1,979,633
Total On and Off-Balance Sheet	7,448,682	487,836	1,744,278	1,959,081	1,325,809	12,965,686

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: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand	Total gross
01.01.2011	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**and no maturity date**	**maximum exposure**
Group	**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	127,572	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	35,293	6,603,272
Other assets	-	-	-	-	385,714	385,714
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	593,433	11,232,114
Financial guarantees	32,475	828	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	925,332	126,506	526,895	57,503	597,100	2,233,336
Total On and Off-Balance Sheet	8,612,358	630,467	2,043,795	988,297	1,190,533	13,465,450

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: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand	Total gross
31.12.2012	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**and no maturity date**	**maximum exposure**
Bank	**RM’000**	**RM’000**	**RM’000**	**RM'000**	**RM'000**	**RM’000**
Cash and short-term funds	1,370,167	-	-	-	-	1,370,167
Deposits and placements with banks and other financial institutions	137,098	91,740	-	-	-	228,838
Securities held-for-trading	-	-	9,778	69,715	-	79,493
Securities available-for-sale	20,238	217,124	260,690	289,355	-	787,407
Securities held-to-maturity	-	-	56,172	25,321	-	81,493
Financing, advances and other receivables	3,342,481	335,670	327,863	1,878,586	89,569	5,974,169
Other assets	-	-	-	-	481,255	481,255
Statutory deposits with BNM	-	-	-	-	191,717	191,717
Hedging financial instruments	-	-	-	21,470	-	21,470
Total On-Balance Sheet	4,869,984	644,534	654,503	2,284,447	762,541	9,216,009
Financial guarantees	423,087	13,032	12,279	-	-	448,398
Contingent liabilities	58,337	55,435	40,699	4,551	(302)	158,720
Commitments	736,925	14,447	243,232	208,073	32,100	1,234,777
Total Off-Balance Sheet	1,218,349	82,914	296,210	212,624	31,798	1,841,895
Total On and Off-Balance Sheet	6,088,333	727,448	950,713	2,497,071	794,339	11,057,904

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: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand	Total gross
31.12.2011	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**and no maturity date**	**maximum exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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	103,550	-	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	-	-	-	-	406,980	406,980
Statutory deposits with BNM	-	-	-	-	180,200	180,200
Hedging financial instruments	3,625	15,922	-	24,141	-	43,688
Total On-Balance Sheet	6,883,493	366,593	1,303,642	1,735,792	669,501	10,959,021
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	522,020	103,269	356,485	196,104	27,100	1,204,978
Total Off-Balance Sheet	655,202	121,242	405,433	200,655	597,100	1,979,632
Total On and Off-Balance Sheet	7,538,695	487,835	1,709,075	1,936,447	1,266,601	12,938,653

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: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand	Total gross
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	and no maturity date	maximum exposure
01.01.2011 Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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	121,105	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	-	-	-	-	366,482	366,482
Statutory deposits with BNM	-	-	-	-	44,854	44,854
Hedging financial instruments	38,760	-	22,170	19,702	-	80,632
Total On-Balance Sheet	7,779,766	503,961	1,516,900	930,795	446,628	11,178,050
Financial guarantees	32,475	828	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	925,332	126,506	526,895	57,503	597,100	2,233,336
Total On and Off-Balance Sheet	8,705,098	630,467	2,043,795	988,298	1,043,728	13,411,386

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.

31.12.2012 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	79,493	-	-	-	-	79,493
Securities available-for-sale	850,457	-	-	-	46,166	896,623
Securities held-to-maturity	81,493	-	-	-	-	81,493
Financing, advances and other receivables	2,003,777	918,913	1,171,842	946,083	933,554	5,974,169
Other assets	2,575	-	-	-	-	2,575
Hedging financial instruments	21,470	-	-	-	-	21,470
Total On-Balance Sheet	3,039,265	918,913	1,171,842	946,083	979,720	7,055,823
Financial guarantees	448,398	-	-	-	-	448,398
Contingent liabilities	158,720	-	-	-	-	158,720
Commitments	1,234,777	-	-	-	-	1,234,777
Total Off-Balance Sheet	1,841,895	-	-	-	-	1,841,895
Total On and Off-Balance Sheet	4,881,160	918,913	1,171,842	946,083	979,720	8,897,718

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets (Cont'd.)

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. (Cont'd.)

31.12.2011	**Performing**	**Unrated**	**Past due but not impaired**	**Restructured & rescheduled**	**Impaired**	**Total**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Securities held-for-trading	90,216	-	-	-	-	90,216
Securities available-for-sale	991,370	21,090	-	-	64,109	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	3,914,381	1,209,454	555,173	449,611	1,557,757	7,686,376
Financial guarantees	637,113	-	-	-	-	637,113
Contingent liabilities	137,542	-	-	-	-	137,542
Commitments	1,204,978	-	-	-	-	1,204,978
Total Off-Balance Sheet	1,979,633	-	-	-	-	1,979,633
Total On and Off-Balance Sheet	5,894,014	1,209,454	555,173	449,611	1,557,757	9,666,009

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets (Cont'd.)

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. (Cont'd.)

01.01.2011	**Performing**	**Unrated**	**Past due but not impaired**	**Restructured & rescheduled**	**Impaired**	**Total**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**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	5,310,220	-	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	7,543,556	-	886,415	884,137	793,987	10,108,095

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets (Cont'd.)

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. (Cont'd.)

31.12.2012	**Performing**	**Unrated**	**Past due but not impaired**	**Restructured & rescheduled**	**Impaired**	**Total**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Bank						
Securities held-for-trading	79,493	-	-	-	-	79,493
Securities available-for-sale	777,363	-	-	-	10,044	787,407
Securities held-to-maturity	81,493	-	-	-	-	81,493
Financing, advances and other receivables	2,003,777	918,913	1,171,842	946,083	933,554	5,974,169
Other assets	2,575	-	-	-	-	2,575
Hedging financial instruments	21,470	-	-	-	-	21,470
Total On-Balance Sheet	2,966,171	918,913	1,171,842	946,083	943,598	6,946,607
Financial guarantees	448,398	-	-	-	-	448,398
Contingent liabilities	158,720	-	-	-	-	158,720
Commitments	1,234,777	-	-	-	-	1,234,777
Total Off-Balance Sheet	1,841,895	-	-	-	-	1,841,895
Total On and Off-Balance Sheet	4,808,066	918,913	1,171,842	946,083	943,598	8,788,502

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets (Cont'd.)

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. (Cont'd.)

31.12.2011 Bank	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	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	1,204,978	-	-	-	-	1,204,978
Total Off-Balance Sheet	1,979,633	-	-	-	-	1,979,633
Total On and Off-Balance Sheet	5,844,005	1,188,364	555,173	449,611	1,503,331	9,540,484

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets (Cont'd.)

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. (Cont'd.)

01.01.2011 Bank	**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	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	7,415,983	-	886,415	884,137	793,987	9,980,522

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.

31.12.2012 Group and Bank	**Total RM'000**	
Corporate, Commercial and Retail		
Excellent	76,315	
Strong	806,036	
Minimum	717,132	
Pass with condition	1,124,902	
Early care	315,943	
Impaired	932,829	
New/ SPV	121,072	
Unrated	1,855,307	* Unrated segment includes retail credit exposures
Total Corporate, Commercial and Retail	5,949,536	

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.)

31.12.2012 (Cont'd.) Group and Bank	**Total RM'000**
SME	
Good	2,462
Very High Satisfactory	8,083
High Satisfactory	3,447
Upper Medium Satisfactory	250
Lower Medium Satisfactory	1,371
Low Satisfactory	2,084
Very Low Satisfactory	2,561
Marginal/ Watchlist	3,650
Default - Impaired	725
Total SME	24,633
Total	5,974,169

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.)

31.12.2011 **Group and Bank**	**Total** **RM'000**
Corporate, Commercial and Retail	
Excellent	68,096
Strong	649,006
Minimum	1,029,966
Pass with condition	1,104,802
Early care	468,849
Impaired	1,493,648
New/ SPV	63,126
Unrated	1,526,934
Total Corporate, Commercial and Retail	6,404,427
SME	
Strong	2,422
Good	1,760
Very High Satisfactory	2,286
Upper Medium Satisfactory	4,060
Very Low Satisfactory	9,739
Marginal/ Watchlist	3,814
Total SME	24,081
Total	6,428,508

* Unrated segment includes retail credit exposures

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.)

01.01.2011 Group and Bank	**Total RM'000**
Corporate, Commercial and Retail	
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
Total Corporate, Commercial and Retail	6,582,222
SME	
Strong	5,158
Minimum	5,254
Weak/pass with condition	10,638
Total SME	21,050
Total	6,603,272

* Unrated segment includes retail credit exposures

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.)

31.12.2012
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**		**Government**	**Total**
MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**	**-guaranteed**	**RM'000**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group							
Securities held-for-trading	25,063	54,430	-	-	-	-	79,493
Securities available-for-sale	130,830	264,540	111,978	-	46,166	343,109	896,623
Securities held-to-maturity	81,493	-	-	-	-	-	81,493
Bank							
Securities held-for-trading	25,063	54,430	-	-	-	-	79,493
Securities available-for-sale	118,266	251,502	64,487	-	10,044	343,108	787,407
Securities held-to-maturity	81,493	-	-	-	-	-	81,493

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.)

31.12.2011
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		Government	Total
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	-guaranteed	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

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.)

01.01.2011
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**		**Government**	**Total**
MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**	**-guaranteed**	**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	-	123,898	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

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

31.12.2012 Group and Bank	Less than 30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	Total RM'000
Financing and advances to customers				
Corporate financing	100,030	-	-	100,030
Commercial financing	119,911	13,425	2,856	136,192
Retail & Consumer financing	256,821	669,746	9,053	935,620
	476,762	683,171	11,909	1,171,842

Impaired and past due financing by geographical regions

31.12.2012 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Malaysia	866,307	1,167,753	546,821		407,885
Middle East	5,258	1,203	3		138,723
Others	61,989	2,886	-		-
Total	933,554	1,171,842	546,824	138,600	546,608

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 (Cont'd.)

Impaired and past due financing by industry sector

31.12.2012 **Group and Bank**	**Impaired** RM'000	**Past due but not impaired** RM'000	**Individual impairment** RM'000	**Collective impairment** RM'000	**Write-off** RM'000
Trading and manufacturing	436,422	177,928	336,316		96,328
Banks and financial institutions	38,575	47,864	3,495		66,370
Construction and real estate	101,444	12,629	18,845		184,346
Transportation, storage and	56,719	10,599	3,639		112,265
Others	300,394	922,822	184,529		87,299
Total	933,554	1,171,842	546,824	138,600	546,608

31.12.2011 **Group and Bank**	**Less than 30 days** RM'000	**31 to 60 days** RM'000	**61 to 90 days** RM'000	**Total** RM'000
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

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 (Cont'd.)

Impaired and past due financing by geographical regions

31.12.2011 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Malaysia	1,277,834	553,317	943,997		54,945
Middle East	93,574	773	86,574		55,782
Others	122,240	1,083	59,307		-
Total	1,493,648	555,173	1,089,878	140,866	110,727

Impaired and past due financing by industry sector

31.12.2011 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Trading and manufacturing	570,080	89,057	485,976		1,386
Banks and financial institutions	99,376	1,437	78,013		35,177
Construction and real estate	343,391	17,985	209,321		45,518
Transportation, storage and	174,350	52,420	117,559		-
Others	306,451	394,274	199,009		28,646
Total	1,493,648	555,173	1,089,878	140,866	110,727

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 (Cont'd.)

01.01.2011 Group and Bank	**Less than 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**Total RM'000**
Financing and advances to customers				
Commercial financing	401,655	127,435	301,210	830,300
Retail & Consumer financing	55,875	240	-	56,115
	457,530	127,675	301,210	886,415

Impaired and past due financing by geographical regions

01.01.2011 Group and Bank	**Impaired RM'000**	**Past due but not impaired RM'000**	**Individual impairment RM'000**	**Collective impairment RM'000**	**Write-off RM'000**
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	259,942	-

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 (Cont'd.)

Impaired and past due financing by industry sector

01.01.2011 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Trading and manufacturing	64,763	305,768	45,505		-
Banks and financial institutions	76,663	125,717	72,034		-
Construction and real estate	228,084	91,005	105,657		-
Transportation, storage and	175,430	57,317	7,000		-
Others	249,047	306,608	181,519		-
Total	793,987	886,415	411,715	259,942	-

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.

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 74.1% as at 31 December 2012, (2011: 70.3%; 2010: 90.2%). The financial effect of collateral held for other financial assets is not significant.

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.

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.

Contractual maturity of total assets and liabilities

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 tables below provide analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile. The disclosure is made in accordance with the requirement of revised BNM's GP8-i "Guidelines on Financial Reporting for Licensed Islamic Banks".

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

31.12.2012 Group	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	1,315,832	-	-	-	84,852	1,400,684
Deposits and placements with banks and other financial institutions	151,741	92,406	-	-	-	244,147
Securities held-for-trading	-	-	24,300	55,193	-	79,493
Securities available-for-sale	10,194	232,758	348,425	259,080	105,373	955,830
Securities held-to-maturity	-	-	56,172	25,321	-	81,493
Financing, advances and receivables	3,646,164	203,739	44,444	1,300,356	94,042	5,288,745
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	1,040,401	1,040,401
Total Assets	5,123,931	528,903	473,341	1,639,950	1,330,566	9,096,691

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

31.12.2012 (Cont'd.) Group (Cont'd.)	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,355,692	1,110,096	99,012	-	805,465	5,370,265
Deposits and placements of banks and other financial institutions	1,303,700	20,776	-	-	-	1,324,476
Subordinated Murabahah Tawarruq	374,054	-	-	-	-	374,054
Other liabilities	-	-	-	-	508,601	508,601
Total Liabilities	5,033,446	1,130,872	99,012	-	1,314,066	7,577,396
Shareholder's equity	-	-	-	-	1,519,295	1,519,295
Total Liabilities and Shareholder's equity	5,033,446	1,130,872	99,012	-	2,833,361	9,096,691
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	588,933	42,110	157,082	271,793	-	1,059,918
Net maturity mismatch	(498,448)	(644,079)	217,247	1,368,157	(1,502,795)	(1,059,918)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

31.12.2011 Group	**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	1,426,990	81,231	5,197,764
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	976,838	976,838
Total Assets	5,538,454	341,727	1,478,813	1,553,174	1,209,998	10,122,166
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,315,023	782,024	4,512	-	616,295	4,717,854
Deposits and placements of banks and other financial institutions	3,073,215	61,357	-	-	-	3,134,572
Subordinated Murabahah Tawarruq	-	-	373,589	-	-	373,589
Murabahah bank financing	-	-	-	-	-	-
Other liabilities	-	-	-	-	442,180	442,180
Total Liabilities	6,388,238	843,381	378,101	-	1,058,475	8,668,195
Shareholder's equity	-	-	-	-	1,453,971	1,453,971
Total Liabilities and Shareholder's equity	6,388,238	843,381	378,101	-	2,512,446	10,122,166
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	140,171	60,480	1,060,988	-	-	1,261,639
Net maturity mismatch	(989,955)	(562,134)	39,724	1,553,174	(1,302,448)	(1,261,639)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

01.01.2011 Group	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	945,336	-	5,931,615
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	692,558	692,558
Total Assets	5,199,303	476,498	3,027,296	1,065,305	998,311	10,766,713
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	7,276,300	324,062	407,305	-	846,620	8,854,287
Shareholder's equity	-	-	-	-	1,912,426	1,912,426
Total Liabilities and Shareholder's equity	7,276,300	324,062	407,305	-	2,759,046	10,766,713
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	140,171	60,480	1,060,988	-	-	1,261,639
Net maturity mismatch	(2,217,168)	91,956	1,559,003	1,065,305	(1,760,735)	(1,261,639)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

31.12.2012 Bank	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	1,286,130	-	-	-	84,037	1,370,167
Deposits and placements with banks and other financial institutions	137,098	91,740	-	-	-	228,838
Securities held-for-trading	-	-	24,300	55,193	-	79,493
Securities available-for-sale	10,193	217,124	322,823	227,223	69,251	846,614
Securities held-to-maturity	-	-	56,172	25,321	-	81,493
Financing, advances and receivables	3,646,164	203,739	44,444	1,300,356	94,042	5,288,745
Murabahah trading automobile	-	-	-	-		-
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	1,069,592	1,069,592
Total Assets	5,079,585	512,603	447,739	1,608,093	1,322,820	8,970,840
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,362,465	1,110,096	99,013	-	805,465	5,377,039
Deposits and placements of banks and other financial institutions	1,183,714	20,776	-	-	-	1,204,490
Subordinated Murabahah Tawarruq	374,054	-	-	-	-	374,054
Murabahah bank financing	-	-	-	-	-	-
Other liabilities	-	-	-	-	507,758	507,758
Total Liabilities	4,920,233	1,130,872	99,013	-	1,313,223	7,463,341
Shareholder's equity	-	-	-	-	1,507,499	1,507,499
Total Liabilities and Shareholder's equity	4,920,233	1,130,872	99,013	-	2,820,722	8,970,840
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	588,933	42,110	157,082	271,793	-	1,059,918
Net maturity mismatch	(429,581)	(660,379)	191,644	1,336,300	(1,497,902)	(1,059,918)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

31.12.2011 Bank	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	2,005,436	-	-	-	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	1,426,990	81,231	5,197,764
Murabahah trading automobile	-	-	-	-		-
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	1,002,671	1,002,671
Total Assets	5,642,712	341,727	1,430,347	1,530,541	1,180,422	10,125,749
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,318,004	782,024	4,512	-	615,046	4,719,586
Deposits and placements of banks and other financial institutions	3,090,684	61,358	-	-	-	3,152,042
Subordinated Murabahah Tawarruq	-	-	373,589	-	-	373,589
Other liabilities	-	-	-	-	440,983	440,983
Total Liabilities	6,408,688	843,382	378,101	-	1,056,029	8,686,200
Shareholder's equity	-	-	-	-	1,439,549	1,439,549
Total Liabilities and Shareholder's equity	6,408,688	843,382	378,101	-	2,495,578	10,125,749
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	140,171	60,480	1,060,988	-	-	1,261,638
Net maturity mismatch	(906,147)	(562,135)	(8,742)	1,530,541	(1,315,156)	(1,261,638)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of total assets and liabilities (Cont'd.)

01.01.2011 Bank	**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	2,465,357	-	-	-	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	945,336	-	5,931,615
Murabahah trading automobile	-	-	-	-		-
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	703,963	703,963
Total Assets	5,269,218	414,793	2,986,030	1,065,305	1,007,940	10,743,286
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	7,285,826	324,062	407,305	-	845,551	8,862,744
Shareholder's equity	-	-	-	-	1,880,542	1,880,542
Total Liabilities and Shareholder's equity	7,285,826	324,062	407,305	-	2,726,093	10,743,286
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	140,171	60,480	1,060,988	-	-	1,261,638
Net maturity mismatch	(2,156,779)	30,251	1,517,737	1,065,305	(1,718,153)	(1,261,638)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flow. The Group and the Bank manage inherent liquidity risk based on discounted expected cash flows.

Group	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
31.12.2012					
Deposits from customers	3,377,672	1,131,909	104,200	805,465	5,419,246
Deposit and placements of banks and other financial institutions	1,311,620	21,155	-	-	1,332,775
Subordinated Murabahah Tawarruq	377,439	-	-	-	377,439
Other liabilities	-	-	-	508,601	508,601
Total	5,066,731	1,153,064	104,200	1,314,066	7,638,061
31.12.2011					
Deposits from customers	3,337,482	797,919	4,757	616,295	4,756,453
Deposit and placements of banks and other financial institutions	3,093,958	62,659	-	-	3,156,617
Subordinated Murabahah Tawarruq	-	-	400,637	-	400,637
Murabahah bank financing	-	-	-	-	-
Other liabilities	-	-	-	442,180	442,180
Total	6,431,440	860,578	405,394	1,058,475	8,755,887

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis (Cont'd.)

Group (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**
01.01.2011					
Deposits from customers	3,898,222	288,114	-	405,088	4,591,424
Deposit and placements of banks and other financial institutions	3,402,825	42,403	59,480	-	3,504,708
Subordinated Murabahah Tawarruq	-	-	376,265	-	376,265
Murabahah bank financing	23,325	-	-	-	23,325
Other liabilities	-	-	-	441,531	441,531
Total	7,324,372	330,518	435,745	846,619	8,937,254
Bank					
31.12.2012					
Deposits from customers	3,384,406	1,131,826	104,180	805,465	5,425,877
Deposit and placements of banks and other financial institutions	1,191,438	21,340	-	-	1,212,778
Subordinated Murabahah Tawarruq	377,439	-	-	-	377,439
Other liabilities	-	-	-	507,758	507,758
Total	4,953,283	1,153,166	104,180	1,313,223	7,523,852

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis (Cont'd.)

Bank (Cont'd.)	Up to 6 months RM'000	> 6 -12 months RM'000	> 1 – 5 years RM'000	Not on demand & no maturity RM'000	Total RM'000
31.12.2011					
Deposits from customers	3,340,483	797,919	4,757	615,046	4,758,205
Deposit and placements of banks and other financial institutions	3,112,551	62,660	-	-	3,175,211
Subordinated Murabahah Tawarruq	-	-	400,637	-	400,637
Murabahah bank financing	-	-	-	-	-
Other liabilities	-	-	-	440,983	440,983
Total	6,453,034	860,579	405,394	1,056,029	8,775,036
01.01.2011					
Deposits from customers	3,900,470	288,114	-	405,088	4,593,672
Deposit and placements of banks and other financial institutions	3,410,831	42,403	59,480	-	3,512,714
Subordinated Murabahah Tawarruq	-	-	376,265	-	376,265
Murabahah bank financing	23,325	-	-	-	23,325
Other liabilities	-	-	-	440,462	440,462
Total	7,334,626	330,518	435,745	845,550	8,946,439

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

(i) The sum of assets to mature within a period of one week and liquefiable assets over the liabilities that will mature within a period of 1 week;

(ii) The sum of assets to mature within a period of one month and liquefiable assets over the liabilities that will mature within a period of 1 month; and

(iii) The sum of cash, bank balances, placements and deposits with banks and financial institutions, and liquefiable assets over the total deposits from the 10 largest depositors of the Bank.

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 ("HFT") sukuk, ijarah rental swap ("IRS") and cross currency ijarah rental swap ("CCIRS"). As at 31 December 2012, the total risk weighted assets for exposures with benchmark rate risk was RM61.50 million (31 December 2011: RM20.81 million; 31 December 2010: RM31.35 million) with a total capital charge of RM4.93 million (31 December 2011: RM1.67 million; 31 December 2010: RM2.51 million).

All positions in IRS and CCIRS were fully squared (31 December 2011: 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.

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

(i) Benchmark Rate Risk (Cont'd.)

Securities held-for-trading

	31.12.2012			31.12.2011			01.01.2011		
Group	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**
US Dollar (USD)	62,689	6.07	41,858	76,032	0.96	7,405	107,984	0.12	1,314

Securities held-for-trading

	31.12.2012			31.12.2011			01.01.2011		
Bank	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**
US Dollar (USD)	62,689	6.07	41,858	69,696	0.50	3,567	107,984	0.12	1,314

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 2012, the total risk weighted assets for exposures with foreign exchange rate risk was RM75.148 million (31 December 2011: RM81.926 million; 31 December 2010: RM148.190 million) with a total capital charge of RM6.012 million (31 December 2011: 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 2012. 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.

	31.12.2012		31.12.2011		01.01.2011	
Group	**Change in exchange rate %**	**Effect on Income Statements/ Equity RM'000**	**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	563	1	(390)	1	(92)
US Dollar (USD)	1	(1,610)	1	742	1	(323)
Euro (EUR)	1	(1,628)	1	(724)	1	(1,651)
Bank						
Singapore Dollar (SGD)	1	563	1	(390)	1	(92)
US Dollar (USD)	1	(473)	1	(838)	1	(1,328)
Euro (EUR)	1	(659)	1	(736)	1	(817)

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 2012, the total risk weighted assets for exposures with inventory risk was RM0.032 million (31 December 2011: RM0.032 million; 31 December 2010: RM0.032 million) with total capital charge of RM0.005 million (31 December 2011: 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

	31.12.2012	31.12.2011	01.01.2011
Type of Inventory	**RM'000**	**RM'000**	**RM'000**
Not held under resale or return basis	32	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.

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

(iii) Inventory risk (Cont'd.)

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

	31.12.2012			31.12.2011			01.01.2011		
Group	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**	**Nominal amount RM'000**	**Modified duration**	**BPV**
Ringgit Malaysia	404,050	2.47	98,781	295,000	4.22	121,483	385,000	2.9	107,683
US Dollar	425,062	8.57	226,388	722,304	2.09	151,002	566,802	1.01	56,879
Bank									
Ringgit Malaysia	404,050	2.47	98,781	295,000	4.22	121,483	385,000	2.9	107,683
US Dollar	354,728	5.37	202,946	658,944	1.93	127,628	553,802	0.81	42,124

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.

	Non-trading book								
Group **31.12.2012**	**Up to 1 month** **RM'000**	**>1 - 3 months** **RM'000**	**>3 - 12 months** **RM'000**	**>1 - 5 years** **RM'000**	**Over 5 years** **RM'000**	**Non-profit sensitive** **RM'000**	**Trading book** **RM'000**	**Total** **RM'000**	**Effective profit rate** **%**
ASSETS									
Cash and short-term funds	1,315,832	-	-	-	-	84,852	-	1,400,684	2.59
Deposits and placements with banks and other financial institutions	-	90,397	153,750	-	-	-	-	244,147	2.18
Securities held-for-trading	-	-	-	-	-	-	79,493	79,493	4.12
Securities available-for-sale	-	10,194	232,758	286,292	321,213	105,373	-	955,830	2.92
Securities held-to-maturity	-	-	-	56,172	25,321	-	-	81,493	5.24
Financing, advances and receivables	1,958,525	1,465,717	425,661	44,444	1,300,356	94,042	-	5,288,745	6.38
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	1,040,369	32	1,040,401	-
TOTAL ASSETS	3,274,357	1,566,308	812,169	386,908	1,646,890	1,330,534	79,525	9,096,691	

(b) FINANCIAL RISK MANAGEMENT (Cont'd.)

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

	Non-trading book								
Group (Cont'd.)	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
31.12.2012 (Cont'd.)	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,855,075	911,558	1,699,156	99,012	-	805,464	-	5,370,265	2.62
Deposits and placements of banks and other financial institutions	799,099	469,699	55,678	-	-	-	-	1,324,476	2.43
Subordinated Murabahah Tawarruq	-	374,054	-	-	-	-	-	374,054	3.62
Other liabilities	-	-	-	-	-	508,601	-	508,601	-
Total Liabilities	2,654,174	1,755,311	1,754,834	99,012	-	1,314,065	-	7,577,396	
Shareholder's equity	-	-	-	-	-	1,519,295	-	1,519,295	-
Total Liabilities and Shareholder's equity	2,654,174	1,755,311	1,754,834	99,012	-	2,833,360	-	9,096,691	
On-balance sheet profit sensitivity gap	620,183	(189,003)	(942,665)	287,896	1,646,890	(1,502,826)	79,525	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	620,183	(189,003)	(942,665)	287,896	1,646,890	(1,502,826)	79,525	-	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 31.12.2011	Non-trading book Up to 1 month RM'000	 >1 - 3 months RM'000	 >3 - 12 months RM'000	 >1 - 5 years RM'000	 Over 5 years RM'000	 Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
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	36,851	488,495	1,029,533	59,138	-	5,197,764	5.91
Murabahah trading automobile	-	-	-	-	-	-	-	-	-
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	976,806	32	976,838	-
TOTAL ASSETS	3,716,877	2,451,479	447,525	1,109,500	1,118,663	1,187,874	90,248	10,122,166	
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	-	-	-	-	-	1,453,971	-	1,453,971	-
Total Liabilities and Shareholder's equity	3,866,191	2,150,991	1,591,007	4,512	-	2,509,465	-	10,122,166	
On-balance sheet profit sensitivity gap	(149,314)	300,488	(1,143,482)	1,104,988	1,118,663	(1,321,591)	90,248	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(149,314)	300,488	(1,143,482)	1,104,988	1,118,663	(1,321,591)	90,248	-	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

	Non-trading book								
Group **01.01.2011**	**Up to 1 month** **RM'000**	**>1 - 3 months** **RM'000**	**>3 - 12 months** **RM'000**	**>1 - 5 years** **RM'000**	**Over 5 years** **RM'000**	**Non-profit sensitive** **RM'000**	**Trading book** **RM'000**	**Total** **RM'000**	**Effective profit rate** **%**
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	728,252	28,055	-	-	5,931,615	5.08
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	692,526	32	692,558	-
TOTAL ASSETS	4,750,464	3,102,560	558,368	1,127,796	119,131	998,279	110,115	10,766,713	
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	-	-	-	-	-	1,912,426	-	1,912,426	-
Total Liabilities and Shareholder's equity	5,265,770	1,681,712	657,384	404,374	-	2,757,473	-	10,766,713	
On-balance sheet profit sensitivity gap	(515,306)	1,420,848	(99,016)	723,422	119,131	(1,759,194)	110,115	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(515,306)	1,420,848	(99,016)	723,422	119,131	(1,759,194)	110,115	-	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31.12.2012	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	1,286,130	-	-	-	-	84,037	-	1,370,167	2.46
Deposits and placements with banks and other financial institutions	-	75,938	152,900	-	-	-	-	228,838	2.36
Securities held-for-trading	-	-	-	-	-	-	79,493	79,493	4.12
Securities available-for-sale	-	10,194	217,124	260,690	289,355	69,251	-	846,614	2.99
Securities held-to-maturity	-	-	-	56,172	25,321	-	-	81,493	5.24
Financing, advances and receivables	1,958,525	1,465,717	425,661	44,444	1,300,356	94,042	-	5,288,745	6.38
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	1,069,560	32	1,069,592	-
TOTAL ASSETS	3,244,655	1,551,849	795,685	361,306	1,615,032	1,322,788	79,525	8,970,840	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,862,036	911,370	1,699,156	99,012	-	805,465	-	5,377,039	2.61
Deposits and placements of banks and other financial institutions	748,031	400,782	55,677	-	-	-	-	1,204,490	2.61
Subordinated Murabahah Tawarruq	-	-	-	374,054	-	-	-	374,054	3.62
Other liabilities	-	-	-	-	-	507,758	-	507,758	-
Total Liabilities	2,610,067	1,312,152	1,754,833	473,066	-	1,313,223	-	7,463,341	
Shareholder's equity	-	-	-	-	-	1,507,499	-	1,507,499	-
Total Liabilities and Shareholder's equity	2,610,067	1,312,152	1,754,833	473,066	-	2,820,722	-	8,970,840	
On-balance sheet profit sensitivity gap	634,588	239,697	(959,148)	(111,760)	1,615,032	(1,497,934)	79,525	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	634,588	239,697	(959,148)	(111,760)	1,615,032	(1,497,934)	79,525	-	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31.12.2011	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
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	36,851	488,495	1,029,533	59,138	-	5,197,764	5.91
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	1,002,639	32	1,002,671	-
TOTAL ASSETS	4,036,427	2,292,847	598,638	853,262	1,102,469	1,158,298	83,808	10,125,749	
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	-	-	-	-	-	1,439,549	-	1,439,549	-
Total Liabilities and Shareholder's equity	3,883,660	2,150,991	1,591,007	4,512	-	2,495,579	-	10,125,749	
On-balance sheet profit sensitivity gap	152,767	141,856	(992,369)	848,750	1,102,469	(1,337,281)	83,808	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	152,767	141,856	(992,369)	848,750	1,102,469	(1,337,281)	83,808	-	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

	Non-trading book								
Bank **01.01.2011**	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
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	728,252	28,055	-	-	5,931,615	5.08
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	703,931	32	703,963	-
TOTAL ASSETS	4,844,981	3,102,560	472,062	1,086,529	119,131	1,007,908	110,115	10,743,286	
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	-	-	-	-	-	1,880,542	-	1,880,542	-
Total Liabilities and Shareholder's equity	5,268,723	1,681,712	662,384	404,374	-	2,726,093	-	10,743,286	
On-balance sheet profit sensitivity gap	(423,742)	1,420,848	(190,322)	682,155	119,131	(1,718,185)	110,115	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(423,742)	1,420,848	(190,322)	682,155	119,131	(1,718,185)	110,115	-	

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 **31.12.2012**	**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	1,181,198	22,998	176,291	817	3,724	15,656	1,400,684
Deposits and placements with banks and other financial institutions	50,056	25,033	169,058	-	-	-	244,147
Securities held-for-trading	10,541	-	68,952	-	-	-	79,493
Securities available-for-sale	424,242	-	531,588	-	-	-	955,830
Securities held-to-maturity	81,493	-	-	-	-	-	81,493
Financing, advances and receivables	4,728,438	-	560,307	-	-	-	5,288,745
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	849,652	-	21,470	-	-	169,279	1,040,401
Total Assets	7,331,518	48,031	1,527,666	817	3,724	184,935	9,096,691

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 31.12.2012 (Cont'd.)	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,531,132	25,527	813,607	-	-	-	5,370,266
Deposits and placements of banks and other financial institutions	907,406	-	375,904	41,165	-	-	1,324,475
Subordinated Murabahah Tawarruq	-	-	374,054	-	-	-	374,054
Other liabilities	491,847	-	16,754	-	-	-	508,601
Total Liabilities	5,930,385	25,527	1,580,319	41,165	-	-	7,577,396
Shareholder's equity	1,519,295	-	-	-	-	-	1,519,295
Total Liabilities and Shareholder's equity	7,449,680	25,527	1,580,319	41,165	-	-	9,096,691
On-balance sheet open position	(118,162)	22,504	(52,653)	(40,348)	3,724	184,935	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	(118,162)	22,504	(52,653)	(40,348)	3,724	184,935	-

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 31.12.2011	**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	1,571,924	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	4,292,563	10,814	894,387	-	-	-	5,197,764
Murabahah trading automobile	-	-	-	-	-	-	-
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	785,739	-	43,688	-	-	147,411	976,838
Total Assets	7,210,843	180,321	2,541,890	24,687	5,685	158,740	10,122,166
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,943,202	196,342	411,457	150	9,282	157,421	4,717,854
Deposits and placements of banks and other financial institutions	2,219,113	-	873,239	42,220	-	-	3,134,572
Subordinated Murabahah Tawarruq	-	-	373,589	-	-	-	373,589
Other liabilities	369,525	-	72,655	-	-	-	442,180
Total Liabilities	6,531,840	196,342	1,730,940	42,370	9,282	157,421	8,668,195
Shareholder's equity	1,453,971	-	-	-	-	-	1,453,971
Total Liabilities and Shareholder's equity	7,985,811	196,342	1,730,940	42,370	9,282	157,421	10,122,166
On-balance sheet open position	(774,968)	(16,021)	810,950	(17,683)	(3,597)	1,319	-
Off-balance sheet open position	786,555	-	(815,934)	-	-	-	(29,379)
Net open position	11,587	(16,021)	(4,984)	(17,683)	(3,597)	1,319	(29,379)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 01.01.2011	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	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	4,677,095	14,746	1,197,170	-	-	42,604	5,931,615
Murabahah trading automobile	-	-	-	-	-	-	-
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	583,437	-	80,632	-	-	28,489	692,558
Total Assets	8,146,180	255,448	2,263,097	24,602	-	77,386	10,766,713
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	401,742	-	39,789	-	-	-	441,531
Total Liabilities	7,015,696	259,317	1,471,001	40,472	-	67,801	8,854,287
Shareholder's equity	1,912,426	-	-	-	-	-	1,912,426
Total Liabilities and Shareholder's equity	8,928,122	259,317	1,471,001	40,472	-	67,801	10,766,713
On-balance sheet open position	(781,942)	(3,869)	792,096	(15,870)	-	9,585	-
Off-balance sheet open position	786,555	-	(815,934)	-	-	-	(29,379)
Net open position	4,613	(3,869)	(23,838)	(15,870)	-	9,585	(29,379)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31.12.2012	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	1,180,383	22,998	146,589	817	3,724	15,656	1,370,167
Deposits and placements with banks and other financial institutions	50,056	25,033	153,749	-	-	-	228,838
Securities held-for-trading	10,541	-	68,952	-	-	-	79,493
Securities available-for-sale	424,242	-	422,372	-	-	-	846,614
Securities held-to-maturity	81,493	-	-	-	-	-	81,493
Financing, advances and receivables	4,728,438	-	560,307	-	-	-	5,288,745
Murabahah trading automobile	-	-	-	-	-	-	-
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	878,843	-	21,470	-	-	169,279	1,069,592
Total Assets	7,359,894	48,031	1,373,439	817	3,724	184,935	8,970,840
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,624,375	25,526	727,138	-	-	-	5,377,039
Deposits and placements of banks and other financial institutions	914,832	-	272,505	17,153	-	-	1,204,490
Subordinated Murabahah Tawarruq	-	-	374,054	-	-	-	374,054
Other liabilities	491,004	-	16,754	-	-	-	507,758
Total Liabilities	6,030,211	25,526	1,390,451	17,153	-	-	7,463,341
Shareholder's equity	1,507,499	-	-	-	-	-	1,507,499
Total Liabilities and Shareholder's equity	7,537,710	25,526	1,390,451	17,153	-	-	8,970,840
On-balance sheet open position	(177,816)	22,505	(17,012)	(16,336)	3,724	184,935	-
Off-balance sheet open position	-	-	1,532	-	-	-	1,532
Net open position	(177,816)	22,505	(15,480)	(16,336)	3,724	184,935	1,532

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank **31.12.2011**	**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	4,292,562	10,814	894,388	-	-	-	5,197,764
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	811,572	-	43,688	-	-	147,411	1,002,671
Total Assets	7,253,473	180,321	2,503,135	24,395	5,685	158,740	10,125,749
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	368,328	-	72,655	-	-	-	440,983
Total Liabilities	6,538,755	196,342	1,742,029	42,370	9,283	157,421	8,686,200
Shareholder's equity	1,439,549	-	-	-	-	-	1,439,549
Total Liabilities and Shareholder's equity	7,978,304	196,342	1,742,029	42,370	9,283	157,421	10,125,749
On-balance sheet open position	(724,831)	(16,021)	761,106	(17,975)	(3,598)	1,319	-
Off-balance sheet open position	786,555	-	(815,934)	-	-	-	(29,379)
Net open position	61,724	(16,021)	(54,828)	(17,975)	(3,598)	1,319	(29,379)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 01.01.2011	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	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	4,677,095	14,746	1,197,170	-	-	42,604	5,931,615
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	594,842	-	80,632	-	-	28,489	703,963
Total Assets	8,155,808	255,448	2,234,207	20,437	-	77,386	10,743,286
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	400,673	-	39,789	-	-	-	440,462
Total Liabilities	7,024,153	259,317	1,471,001	40,472	-	67,801	8,862,744
Shareholder's equity	1,880,542	-	-	-	-	-	1,880,542
Total Liabilities and Shareholder's equity	8,904,695	259,317	1,471,001	40,472	-	67,801	10,743,286
On-balance sheet open position	(748,887)	(3,869)	763,206	(20,035)	-	9,585	-
Off-balance sheet open position	786,555	-	(815,934)	-	-	-	(29,379)
Net open position	37,668	(3,869)	(52,728)	(20,035)	-	9,585	(29,379)

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

i) The total of non rate sensitive financing over the Bank's total financing; and

ii) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2012. 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

31.12.2012
Group

RM million	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Rate sensitive assets	4,918	283	528	2,799	568	9,096
Rate sensitive liabilities	4,409	624	1,131	99	1,314	7,577
Monthly mismatch	509	(341)	(603)	2,700	(746)	
Cumulative mismatch	1,628	836	(479)	2,265	1,519	
Bank						
Rate sensitive assets	4,795	283	513	2,741	639	8,971
Rate sensitive liabilities	3,922	624	1,131	99	1,687	7,463
Monthly mismatch	873	(341)	(618)	2,642	(1,048)	
Cumulative mismatch	2,363	1,927	1,626	2,556	1,508	

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

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Exposures to profit rate risk (Cont'd.)

31.12.2011
Group

RM million	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Rate sensitive assets	6,226	404	42	2,046	1,404	10,122
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	1,454	
Bank						
Rate sensitive assets	6,326	549	102	1,777	1,372	10,126
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	1,440	

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Exposures to profit rate risk (Cont'd.)

01.01.2011
Group

RM million	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Rate sensitive assets	7,850	494	64	1,504	855	10,767
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	1,913	
Bank						
Rate sensitive assets	8,273	314	3	1,204	949	10,743
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	1,880	

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

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 (%)

31.12.2012	**Movement in market profit rate (%)**					
Group	**(2.00)**	**(1.00)**	**(0.50)**	**0.50**	**1.00**	**2.00**
Change in Net Revenue	(14.84)	(7.42)	(3.71)	3.48	6.97	13.94
Change in Economic Value of Equity	18.73	8.71	4.21	(3.93)	(7.62)	(14.30)
Bank						
Change in Net Revenue	(17.18)	(8.59)	(4.29)	4.25	8.50	17.00
Change in Economic Value of Equity	18.55	8.63	4.17	(3.89)	(7.54)	(14.15)

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2011	**Movement in market profit rate (%)**					
Group	**(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)

01.01.2011	**Movement in market profit rate (%)**					
Group	**(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)

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:

31.12.2012

	Rating of Corporates by approved ECAIs					
Exposure class	**Moodys**	**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	**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						
Corporates		95,176	603,258	58,000	-	3,778,939
		95,176	**603,258**	**58,000**	-	**3,778,939**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2012

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	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	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)						
Bank						
Corporates		95,176	603,258	46,906	-	3,778,939
		95,176	**603,258**	**46,906**	**-**	**3,778,939**

31.12.2011

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	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	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
Corporates		56,374	15,268	-	-	5,412,691
		56,374	**15,268**	**-**	**-**	**5,525,469**
Bank						
Public sector entities (applicable for entities risk-weighted based on their external ratings as corporates)		-	-	-	-	112,778
Corporates		56,373	15,268	-	-	5,414,279
		56,373	**15,268**	**-**	**-**	**5,527,057**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

01.01.2011

Exposure class		Rating of Corporates by approved ECAIs				
	Moodys	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	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**
Credit exposures (using corporate risk-weights)						
Group and Bank						
Public sector entities (applicable for entities risk-weighted based on their external ratings as corporates)		-	-	-	-	95,704
Corporates		129,068	101,658	13,523	-	6,992,463
		129,068	**101,658**	13,523	-	**7,088,167**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2012

Exposure class		Rating of Sovereigns and Central Banks by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	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		62,133	989,196	-	-	-	213,546
Bank							
Sovereigns/Central Banks		62,133	976,159	-	-	-	213,546

Exposure class		Rating of Banking Institutions by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	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		27,118	143,631	180,661	5,303	-	864,095
Bank							
Banks, MDBs and FDIs		13,763	143,631	165,027	5,303	-	819,142

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2011

Exposure class		Rating of Sovereigns and Central Banks by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	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 ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	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	-	-	2,067,575

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

01.01.2011

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

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

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:-

31.12.2012

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	1,264,875	301,831	-
Banks, Development Financial Institutions & MDBs	1,182,527	40,339	-
Corporates	2,338,820	85,646	23,148
Regulatory Retail	1,553,064	-	-
Residential Mortgages	161,339	-	-
Higher Risk Assets[1]	346,112	-	-
Other Assets	624,019	-	-
Defaulted Exposures[2]	1,376,898	-	18,241
Total On Balance Sheet Exposures	8,847,654	427,816	41,389
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	35,216	-	-
Off-balance sheet exposures other than OTC derivatives[2]	1,024,702	300,000	7,172
Total Off-Balance Sheet Exposures	1,059,918	300,000	7,172
Total On and Off-Balance Sheet Exposures	**9,907,572**	**727,816**	**48,561**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2011

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	-	-
Equity Exposure	-	-	-
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**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

01.01.2011

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	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**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2012

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	1,251,837	289,836	-
Public Sector Entities	-	-	-
Banks, Development Financial Institutions & MDBs	1,108,585	40,339	-
Corporates	2,327,727	85,646	23,148
Regulatory Retail	1,553,065	-	-
Residential Mortgages	161,339	-	-
Higher Risk Assets[1]	346,113	-	-
Other Assets	565,391	-	-
Defaulted Exposures[2]	1,376,897	-	18,241
Total On-Balance Sheet Exposures	8,690,954	415,821	41,389
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	35,216	-	-
Off-balance sheet exposures other than OTC derivatives[2]	1,024,702	300,000	7,172
Total Off Balance Sheet Exposures	1,059,918	300,000	7,172
Total On and Off-Balance Sheet Exposures	**9,750,872**	**715,821**	**48,561**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31.12.2011

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**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

01.01.2011

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	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

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

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

01.01.2011 (Cont'd.)

Bank (Cont'd.)	**Exposures before CRM**	**Exposures Covered by Guarantees**	**Exposures Covered by Eligible Financial Collateral**
	RM'000	**RM'000**	**RM'000**
(i) Credit Risk			
(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	1,441,181	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 "unlikeliness to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

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

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**
31.12.2012	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Direct credit substitutes	448,398		448,398	297,589
Transaction related contingent items	130,067		65,033	46,302
Short-term self liquidating trade related contingencies	28,653		5,731	5,687
Profit rate related contracts				
- Over five years	278,339	21,299	35,216	29,649
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	861,949		430,975	416,934
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	372,828		74,565	70,448
	2,120,234	**21,299**	**1,059,918**	**866,609**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk (Cont'd.)

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
31.12.2011				
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
	3,516,405	**40,782**	**1,261,638**	**1,025,233**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk (Cont'd.)

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**
01.01.2011				
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
- 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
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**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions)

31.12.2012
Group and Bank

Equity	Amount RM'000	Impairment RM'000	Risk-Weighted Assets RM'000
(i) Privately Held			
(a) Subsidiaries	**46,193**	**(15,241)**	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	-	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(15,241)	Capital Deduction
(b) Investment	**59,207**	**-**	**88,811**
Intrared Sdn Bhd	25,000	-	37,500
Al Faiz Fund 1	34,207	-	51,311
(c) Musyarakah Capital Investment	**5,898**	**-**	**8,847**

31.12.2011
Group and Bank

Equity	Amount RM'000	Impairment RM'000	Risk-Weighted Assets RM'000
(i) Privately Held			
(a) Subsidiaries	**46,193**	**(15,241)**	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	-	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(15,241)	Capital Deduction
(b) Investment	**19,771**	**-**	**29,657**
Intrared Sdn Bhd	19,000	-	28,500
MK One Fund (Labuan) Ltd	771	-	1,157
(c) Musyarakah Capital Investment	**5,898**	**-**	**8,847**

50. FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions) (Cont'd.)

01.01.2011
Group and Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
(i) Privately Held			
(a) Subsidiaries	**67,897**	**(35,500)**	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	-	Capital Deduction
Kuwait Finance House (Singapore) Pte. Ltd.	21,704	(21,500)	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(14,000)	Capital Deduction
(b) Investment			
Intrared Sdn Bhd	**19,000**	**-**	**28,500**
(c) Musyarakah Capital Investment	**5,898**	**-**	**8,847**

51 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

The incident of Shariah non-compliance event together with the plan to rectify them have been reported to BNM. The report of the said incident had earlier been presented to Shariah Committee, Management Committee, Board Risk Management Committee and subsequently to Board of Directors for approval.

The rectification method which was proposed by Shariah Committee and approved by Board of Directors was to de-recognize the profit portion and channeling it to charity as determined by the Bank.

(b) The amount and number of event of non-Shariah compliant income are as follows:

Number of events occur	Amount
	RM'000
1	63
1	63