

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2009

*Registered Office
Level 18, Tower 2, Etiqa Twins, (f.k.a.MNI Twins)
11 Jalan Pinang,
50450 Kuala Lumpur*

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)
(Incorporated in Malaysia)

1 PERFORMANCE OVERVIEW

The Group and the Bank registered a loss before zakat and taxation of RM35 million and RM30 million respectively for the financial year ended 31 December 2009 due to the more challenging operating environment in 2009.

The total assets of the Group has increased by RM1.9 billion to RM11.6 billion as at 31 December 2009.

The gross financing, advances and other receivables of the Group has increased to RM7.4 billion, as at 31 December 2009 from RM6.3 billion as at 31 December 2008.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

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

Roles and Responsibilities of the Board

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

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

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Board Balance

The Board currently has six (6) members, comprising three (3) independent non-executive directors, three (3) non-independent non-executive directors.

Directors' Profile

Shaheen H A KH SH Alghanem

Chairman

Non-independent non-executive director

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

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

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

Mohamed Ismail Mohamed Shariff

Member

Independent non-executive director

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

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Khairil Anuar Abdullah

Member

Independent non-executive director

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

Mr. Khairil has been a director of the Bank since 10 December 2004. He currently sits on the Boards of several listed and non-listed companies. He is the Chairman of VisDynamics Holdings Berhad and Apollo Hospitals Enterprise Ltd, Chennai. For non-listed entities, he is the Chairman for Accelteam Sdn Bhd and KFH Asset Management Sdn Bhd, a wholly owned subsidiary of the Bank. He is also a board member of Symphony House Berhad.

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

Dr. Radzuan A. Rahman

Member

Independent non-executive director

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

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

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

Dato' Khawaja Mohammad Salman Younis

Member

Non-Independent non-executive director

(54 years of age - Pakistani) Master of Business Administration, Bachelor of Commerce - International Financial Management, Economics & Management Information Systems.

Dato' Salman worked for Saudi American Bank in Saudi Arabia for more than ten (10) years before joining Citi Islamic Investment Bank in Bahrain. In September 2001, he joined Kuwait Finance House, State of Kuwait.

He was appointed as the Executive Director of the Bank on 15 December 2004 and was the Managing Director on 1 June 2006 until 31 May 2009.

Dato' Salman has since resigned as a Non executive Director of the Bank effective 7 February 2010.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Abdul Wahab I.A.A AlRushood
Member
Non-independent non-executive director

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

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

Board Meetings

During the financial year ended 31 December 2009, seventeen (17) Board meetings and three (3) Special Board meetings were held and attended by the directors. In the said Special and Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals and other matters were tabled for deliberation, approval, endorsement and reviewed by members of the Board.

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

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

Board Committees

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

Audit Committee

The Audit Committee consists of three (3) independent non-executive directors and one (1) non-independent non-executive director and held eight (8) meetings during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Khairil Anuar Abdullah - Member
Dr. Radzuan A. Rahman - Member
Abdul Wahab I.A.A. AlRushood - Member

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

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

Khairil Anuar Abdullah - Chairman
Mohamed Ismail Mohamed Shariff - Member
Dr. Radzuan A. Rahman - Member
Abdul Wahab I.A.A. AlRushood - Member

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

Nomination Committee

The Nomination Committee consists of three (3) independent non-executive directors and two (2) non-independent non-executive directors. Three (3) meetings were held during the financial year. Resolution on re-appointment of directors was approved via a Directors' Circular Resolution. The members are as follows:

Dr. Radzuan A. Rahman - Chairman
Mohamed Ismail Mohamed Shariff - Member
Shaheen H A KH SH Alghanem - Member
Khairil Anuar Abdullah - Member
Abdul Wahab I.A.A. AlRushood - Member
Dato' Khawaja Mohammad Salman Younis - (resigned on 1 December 2009)

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

Remuneration Committee

The Remuneration Committee consists of three (3) independent non-executive directors and one (1) non-independent non-executive director. Six (6) meetings were held during the financial year. The members are as follows:

Mohamed Ismail Mohamed Shariff - Chairman
Dr. Radzuan A. Rahman - Member
Khairil Anuar Abdullah - Member
Abdul Wahab I.A.A. AlRushood - Member

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit and Investment Committee

The Board Credit and Investment Committee (BCIC) consists of one (1) independent non-executive director and three (3) non-independent non-executive director and had held sixteen (16) meetings during the year. The members are as follows:

Shaheen H A KH SH Alghanem - Chairman
Khairil Anuar Abdullah - Member
Dato' Khawaja Mohammad Salman Younis - (resigned on 7 February 2010)
Abdul Wahab I.A.A. AlRushood - Member

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

(ii) Internal audit and internal control activities

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

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

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

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

Key Internal Control Processes

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

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

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

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

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

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

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

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

(iii) Risk Management

The Bank's Commitment to Risk Management

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Integrated Risk Management

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

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

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

Stress Test

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Credit Risk Management

The Bank defines credit risk, as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. In 2009, the Corporate and Commercial financing segment continues to form the bulk of the Bank's financing and investment assets . The Retail and Consumer financing segment remains relatively small and growing, as the business commenced in early 2008.

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

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

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

The Bank is in compliance with BNM's Guideline on Classification of Non-Performing Financing and Provisions for Substandard, Bad and Doubtful Debts ("BNM/GP3") in the classification of non-performing financing and has initiated efforts to meet the impending new Financial Instruments 139: Recognition and Measurement ("FRS 139") and financing impairment requirements which will be effective in the next financial year.

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

On the volume driven Retail and Consumer credit segment, the Bank continues to benefit from the credit application processing solution implemented in 2008. Credit decision process is automated and supported by a credit application scoring solution, to evaluate the potential applicants' risk exposure.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Market Risk and Asset and Liability Management

The Bank defines market risk, as the potential risk or loss arising from changes in the value of assets and liabilities (including off-balance sheet items) caused by fluctuations in market risk factors such as profit rates, foreign exchange rates, inventory, commodity, sukuk and equity prices.

It is also defined as the potential risk or loss arising when transactions become impossible to execute in the market, because of market confusion or lack of participants, or loss arising from transactions at prices that are significantly less favourable than its theoretical price (market liquidity risk). The Bank further defines liquidity risk, as the risk of loss arising from funding difficulties to raise the necessary funds, or when the Bank is forced to obtain funds at much higher rates than usual.

The Bank manages liquidity risks (in accordance to BNM's New Liquidity Framework) as a whole. In addition, the Bank has Market Risk Management Policy and Asset & Liability Management policies in place for market and liquidity risk management. The Bank monitors and manages its overall market and liquidity risk profiles proactively.

The Asset and Liability Committee ("ALCO"), chaired by the Chief Executive Officer (in the Chief Executive Officer absence, by the Deputy Chief Executive), discusses and coordinates matters relating to Asset and Liability Management policies, liquidity and market risk planning, procurement of funds, assets and market risk management, which also includes proposing the Bank response to emergencies such as sudden market changes and movement. There is in existence a Contingency Funding Plan to guide this process.

The Risk Management Division is responsible for monitoring market risk, preparing reports, providing risk analysis and commentaries, proposing and setting of market risk and liquidity limits and guidelines, as well as formulating and implementing plans relating to market and liquidity risk management. It also reports on the status of market and liquidity risks, including compliance with the corresponding risk limits.

As part of day-to-day management, the Risk Management Division monitors liquidity ratios and reports to ALCO on a weekly basis. In addition, Treasury Middle Office monitors the key Treasury limits on a daily basis.

Operational Risk Management

Operational risk is the potential risk or loss, whether direct or indirect, to which the Bank is exposed to due to inadequacy or failure of processes, procedures, systems or controls and external events. It also includes operational risk events such as IT lapses, shortcomings in the organisational structure, missing or inadequate internal controls, human error, fraud and external threats. Operational risk are inherent in each of the Bank's business and support activities which may result in direct and indirect financial losses, regulatory sanctions, customer dissatisfaction and damage to the Bank's reputation.

In the past, financial institutions have experienced detrimental losses attributed to operational risk. The increasingly dynamic pace of banking business and its operations and the rising complexity of products and processes have the potential to cause significant losses, if not controlled or mitigated. Against this backdrop, banking supervisory authorities are paying closer attention to operational risk, in particular requiring the allocation of capital for operational risk and adopting operational risk management best practices.

Operational Risk Management (ORM) department is responsible for setting the operational risk framework policy, managing operational risk exposures, defining standards for measurement and operational risk capital calculation. The operational risk framework also covers the Bank's insurance programme which mitigates the risks of exceptional high impact operational losses. As part of the operational risk management tool, a Management Information System (MIS) has also been put in place to support the effectiveness in the management of operational risk in the Bank.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework policies, procedures and tools to identify, assess, monitor, control and report such risks.

The governing principles and fundamental components of the Bank's operational risk management framework include:

- (a) Accountability of the individual business and support units of the key operational risks in the respective areas;
- (b) Robust risk control environment;
- (c) Risk control and assessment review; and
- (d) Processes and controls to identify, assess, monitor and manage operational risks.

The Bank has developed its Business Continuity Management ("BCM") in line with BNM's Guidelines on BCM to ensure the Bank's key operations are not interrupted and to minimise impact on customers, employees, products and services. BCM constitutes an essential component of the Bank's risk management process, by providing a controlled response to potential operational risk threats, that could have a negative impact on the Bank's critical processes and revenue streams. Some of the activities include the development of BCM action plans, which are then tested to ensure that the results are satisfactory.

Capital Adequacy Framework Initiatives

The Bank views the importance of having in place international best practices in managing the Bank's Credit, Market and Operational Risks. With this, the Bank has set up a Capital Planning and Regulatory Standards unit, specifically to complement the risk management practices that are carried out in the Bank, including setting up an Internal Capital Adequacy and Assessment process ("ICAAP") and setting internal capital targets.

Currently, the Bank is in compliance to CAFIB's Pillar 1 and abridged version of Pillar 3 as prescribed by BNM. Pillar 1 prescribes the minimum capital requirements to support a Bank's credit, market, and operational risks whereas Pillar 3 prescribes the minimum requirements for market disclosures of information on the risk management practices, risk exposures and capital adequacy practices of licensed banks in Malaysia.

In computing the Bank's capital charge, the Bank has adopted the following approaches as provided for in the CAFIB document, which are:

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

The Bank was in compliance with all prescribed capital ratios throughout the year.

Effective risk management is essential to ensure the Bank's continued profitability and enhancement of shareholder value, particularly in today's rapidly changing financial landscape. The active involvement from the members of the Board of Directors and BRMC ensures that the Bank is consistently guided by the Integrated Risk Management principles and framework.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

In order to cater for the inherently higher credit risks associated to dealings in Musharakah 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 Musharakah 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 non-performing 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 Musharakah and Mudharabah contracts, the Bank has introduced greater control where all new proposals are tabled to the BCIC for approvals. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

(iv) Management Reports

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

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The directors hereby submit their report together with the audited financial statements of the Kuwait Finance House (Malaysia) Berhad ("the Bank") and the subsidiaries ("the Group") for the financial year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Bank and the Group are engaged in Islamic banking business as allowed under the Islamic Banking Act, 1983.

The principal activities of the subsidiaries are disclosed in Note 15 to the financial statements.

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

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Net loss for the year	<u>30,883</u>	<u>25,976</u>

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

DIVIDENDS

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

DIRECTORS

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

- (i) Shaheen H A KH SH Alghanem (Chairman)
- (ii) Dato' Khawaja Mohammad Salman Younis (resigned as Managing Director on 31 May 2009 and resigned as a Non-Independent non-Executive Director on 7 February 2010)
- (iii) Khairil Anuar Abdullah
- (iv) Dr. Radzuan A. Rahman
- (v) Mohamed Ismail Mohamed Shariff
- (vi) Abdul Wahab I.A.A AIRushood

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 2009.

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DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 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.

AUTHORISED SHARE CAPITAL

During the financial year, the authorised share capital of the Bank has increased to RM3,000,000,000 from RM2,000,000,000 via the creation of 1,000,000,000 ordinary shares of RM1 each.

ISSUE OF SHARES

The issued and paid-up share capital of the Bank has also increased to RM2,266,125,000 from RM1,751,400,000 with an issuance of 514,725,000 new ordinary shares of RM1 each at par for cash. The new ordinary shares rank pari passu in all respects with the existing ordinary shares of the Bank.

RESERVES, PROVISIONS AND ALLOWANCES

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

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets 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 financing and the making of provisions for doubtful debts and financing and have satisfied themselves that there were no known bad debts and financing and that adequate provision had been made for doubtful debts and financing; 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) it necessary to write off any bad debts and financing or the amount of provision for bad and doubtful debts and financing in the financial statements of the Group and the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and the Bank misleading.

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OTHER STATUTORY INFORMATION (Cont'd.)

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuations of assets or liabilities of the Group and 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 the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group and 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 in respect of the Group and 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 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 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 Bank and the Group for the financial year in which this report is made.

BUSINESS PLAN FOR 2010

The Bank will continue to leverage on its current business portfolio with emphasis on strengthening asset quality and recovery efforts through proactive management.

Corporate Investment Banking and Commercial Banking will continue to grow their business with focus on selected target markets and industries. For Treasury, besides trading initiatives and investment in sukuk, it will increase its placement and distribution capabilities in both equities and Islamic debt. It will also leverage on the IMAL system to increase its activities with regards to forex, hedging and foreign currency sukuk. The Bank will revamp the business plan for Retail & Consumer Banking to increase its potential to tap into the retail & consumer markets by leveraging on the branch network and alternative channels. By participating in MEPS and GIRO network in 2010, the Bank will improve the current services as well as creating banking convenience to customers.

Growing the Bank's deposit base will be an important initiative for 2010. The Bank plans to launch series of aggressive deposit campaigns throughout the year. This deposit drive will be managed by the Deposit Management Committee. The Bank will also leverage on its tailored-made IT capability for continuous development of new, differentiated and innovative products to new customers as well as to meet the expectation of the existing customers. Another key initiative for 2010 will be to embark on the cost optimisation exercise for better financial performance ahead.

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OUTLOOK FOR 2010

The International Monetary fund (IMF) anticipates that the global economy to expand by 3.1% in 2010, from a decline of 1.1% in 2009, with all the major economies expected to recover from the economic malaise that had persisted throughout 2009.

Malaysia's economic fortunes are expected to mirror the mild recovery in global economic activity envisaged by the IMF as well. Malaysia's Gross Domestic Product (GDP) is projected to grow positively by 4.8% in 2010, from a decline of 1.7% in 2009. GDP expansion will be broad-based with almost all sectors of the economy recording higher growth, bolstered by continued positive effects of the Government's RM67 billion fiscal stimulus programme and an expected rebound in exports. The country's economic performance has been on a recovery track mainly due to a revival in domestic demand as evidenced by the fourth quarter results which showed a positive growth of 4.5%, compared to declines of 6.2%, 3.9% and 1.2% in the first, second and third quarters, respectively. The Governor of Bank Negara Malaysia (BNM) has also reiterated that the economy will rebound in the fourth quarter, and this buoyancy is expected to continue to 2010.

Meanwhile, the Consumer Price Index (CPI) may rise again in 2010 following months of deflation in the second half of 2009, with the gradual pick-up in worldwide commodity and energy prices on the back of a global economic recovery. Although inflation will follow a rising trend, it is still expected to remain low at between 1.5% to 2.5%. It is likely that BNM will hold the Overnight Policy Rate (OPR) steady at the current 2.0% to support the domestic economy's growth momentum, at least for the first half of 2010 and if the OPR be adjusted upwards, it may be increased by only about 50 basis points in second half of 2010, depending on the inflation rate as well as other global and domestic conditions at that time.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Classification	Assigned
Rating Agency Malaysia Berhad (RAM)	November 2009	Long term Short term	AA2 P1
Malaysian Rating Corporation Berhad (MARC)	November 2009	Long term Short term	AA+ MARC-1

SIGNIFICANT EVENTS

There are no significant events during the financial year ended 31 December 2009.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Three members of the Shariah Committee who are appointed by the Board for the two year term are as follows:

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

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;

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DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

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

ZAKAT OBLIGATIONS

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors on 9 March 2010.

SHAHEEN H A KH SH ALGHANEM
Director

MOHAMED ISMAIL MOHAMED SHARIFF
Director

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STATEMENT BY DIRECTORS

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

We, Shaheen H A KH SH Alghanem and Mohamed Ismail Mohamed Shariff, being two of the directors of Kuwait Finance House (Malaysia) Berhad do hereby state that, in the opinion of the directors, the financial statements set out on pages 23 to 96 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines and Shariah requirements so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2009 and of the results and the cash flows of the Group and the Bank for the year then ended.

Signed in accordance with a resolution of the directors on 9 March 2010.

SHAHEEN H A KH SH ALGHANEM

Director

MOHAMED ISMAIL MOHAMED SHARIFF

Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATUTORY DECLARATION

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

I, Shaheen H A KH SH Alghanem, being the director primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad do solemnly and sincerely declare that the financial statements set out on pages 23 to 96, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Shaheen H A KH SH Alghanem
at Kuala Lumpur, in the Federal Territory on 9 March 2010.

BEFORE ME:

Commissioner for Oaths

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

We have reviewed the principles and the contracts relating to the transactions and applications undertaken by the Bank and the Group during the financial year ended 31 December 2009. We have also conducted our review to form an opinion as to whether the Bank and the Group has complied with Shariah rules and principles and also with the specific fatwa, rulings, guidelines issued by us.

The Management is responsible for ensuring that the Bank and the Group conduct 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 the Bank and the Group, and to report to you.

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

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

In our opinion:

- (a) the contracts, transactions and dealings entered into by the Bank and the Group during the year ended 31 December 2009 have been reviewed by us and are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles.
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been disposed to charitable causes; and
- (d) the calculation of zakat is in compliance with Shariah rules and principles.

This opinion is rendered based on what has been presented to us by the Bank and the Group and its Shariah Advisor.

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

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

Kuala Lumpur, Malaysia
8 March 2010

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

Report on the financial statements

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 23 to 96.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the principles of Shariah, and 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 2009 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries which are incorporated in Malaysia have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts 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.
- (c) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and for the subsidiaries incorporated in Malaysia did not include any comment required to be made under Section 174(3) of the Act.

Other matters

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

Ernst & Young
AF 0039
Chartered Accountants

Kuala Lumpur, Malaysia
9 March 2010

Abdul Rauf bin Rashid
No. 2305/05/10(J)
Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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BALANCE SHEETS AS AT 31 DECEMBER 2009

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
ASSETS					
Cash and short-term funds	4	2,877,926	2,077,377	2,933,272	2,140,626
Deposits and placements with banks and other financial institutions	5	139,052	37,827	139,052	37,827
Securities held-for-trading	6	16,938	-	16,938	-
Securities available-for-sale	7	1,003,119	855,007	904,650	755,639
Securities held-to-maturity	8	59,797	25,474	59,797	25,474
Financing, advances and other receivables	9	7,072,175	6,157,218	7,078,663	6,160,260
Murabahah trading automobiles	10	37,429	61,779	37,429	61,779
Other assets	11	170,057	112,261	148,127	99,509
Hedging financial instruments	12	42,836	60,295	42,836	60,295
Statutory deposits with Bank Negara Malaysia	13	49,500	137,644	49,500	137,644
Musarakah capital investment	14	5,916	5,916	5,916	5,916
Investment in subsidiaries	15	-	-	66,143	37,563
Property and equipment	16	37,017	44,819	35,874	43,340
Intangible assets	17	28,668	11,865	28,625	11,832
Deferred tax assets (net)	18	29,876	49,386	29,502	49,386
TOTAL ASSETS		11,570,306	9,636,868	11,576,324	9,627,090
LIABILITIES					
Deposits from customers	19	4,255,068	4,293,347	4,264,705	4,306,094
Deposits and placements of banks and other financial institutions	20	4,202,350	2,919,008	4,215,150	2,919,008
Other liabilities	21	368,826	213,293	367,116	211,894
Hedging financial instruments	12	24,869	39,157	24,869	39,157
Provision for zakat	22	3,267	1,115	3,267	1,115
Murabahah bank financing	23	51,397	25,984	51,397	25,984
Subordinated Murabahah Tawarruq	24	374,700	365,908	374,700	365,908
TOTAL LIABILITIES		9,280,477	7,857,812	9,301,204	7,869,160
SHAREHOLDER'S EQUITY					
Share capital	25	2,266,125	1,751,400	2,266,125	1,751,400
Reserves	26	23,704	27,656	8,995	6,530
TOTAL SHAREHOLDER'S EQUITY		2,289,829	1,779,056	2,275,120	1,757,930
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY					
		11,570,306	9,636,868	11,576,324	9,627,090

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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BALANCE SHEETS AS AT 31 DECEMBER 2009 (CONT'D.)

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
COMMITMENTS AND CONTINGENCIES	40	5,218,410	5,710,207	5,218,410	5,710,207
CAPITAL ADEQUACY					
Core capital ratio	45	19.89%	17.74%	19.97%	17.73%
Risk-weighted capital ratio	45	23.79%	20.81%	23.34%	20.47%
NET ASSETS PER SHARE (RM)		1.01	1.02	1.00	1.00

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

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INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Operating revenue	27	485,030	572,954	471,524	548,155
Income derived from investment of depositors' funds and others	28	316,860	379,576	317,508	382,446
Income derived from investment of shareholder's equity	29	168,170	193,378	154,016	165,709
Total gross income		485,030	572,954	471,524	548,155
Allowance and impairment for losses on financing	30	(184,676)	(135,126)	(184,676)	(135,126)
Impairment loss	31	(2,114)	(370)	(2,114)	(370)
Total distributable income		298,240	437,458	284,734	412,659
Income attributable to the depositors	32	(162,264)	(210,865)	(162,526)	(210,927)
Total net income		135,976	226,593	122,208	201,732
Personnel expenses	33	(96,085)	(112,285)	(84,050)	(103,758)
Other overheads and expenditures	34	(60,349)	(49,009)	(53,794)	(44,720)
Finance cost	35	(14,527)	(14,890)	(14,527)	(14,890)
(Loss)/profit before zakat and taxation		(34,985)	50,409	(30,163)	38,364
Zakat		(2,361)	(905)	(2,361)	(905)
Taxation	37	6,463	6,980	6,548	6,898
Net (loss)/profit for the year		(30,883)	56,484	(25,976)	44,357
(Loss)/earnings per share (sen)					
- Basic/Diluted	38	(1.76)	5.84	-	-

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Group	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain/(Loss) on Securities Available- For-Sale RM'000		Retained Profits RM'000
At 1 January 2009	1,751,400	34,952	(584)	(63,370)	56,658	1,779,056
Unrealised gain on revaluation of securities available-for-sale	-	-	-	28,442	-	28,442
Foreign currency translation recognised directly in equity	-	-	(1,510)	-	-	(1,510)
Net (expense)/income recognised directly in equity	-	-	(1,510)	28,442	-	26,932
Net loss for the year	-	-	-	-	(30,883)	(30,883)
Total recognised net (expense)/income for the year	-	-	(1,510)	28,442	(30,883)	(3,951)
Issue of ordinary shares for cash	514,725	-	-	-	-	514,725
At 31 December 2009	2,266,125	34,952	(2,094)	(34,928)	25,775	2,289,829
At 1 January 2008	727,000	12,773	(1,679)	(5,388)	22,353	755,059
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(57,982)	-	(57,982)
Foreign currency translation recognised directly in equity	-	-	1,095	-	-	1,095
Net income/(expense) recognised directly in equity	-	-	1,095	(57,982)	-	(56,887)
Net profit for the year	-	-	-	-	56,484	56,484
Total recognised net income/(expense) for the year	-	-	1,095	(57,982)	56,484	(403)
Transfer to statutory reserve	-	22,179	-	-	(22,179)	-
Issue of ordinary shares for cash	1,024,400	-	-	-	-	1,024,400
At 31 December 2008	1,751,400	34,952	(584)	(63,370)	56,658	1,779,056

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Unrealised Gain/(Loss) on Securities Available- For-Sale RM'000		Retained Profits RM'000
Bank						
At 1 January 2009	1,751,400	34,952	-	(63,370)	34,948	1,757,930
Unrealised gain on revaluation of securities available-for-sale	-	-	-	28,442	-	28,442
Net income recognised directly in equity	-	-	-	28,442	-	28,442
Net loss for the year	-	-	-	-	(25,976)	(25,976)
Total recognised net income/(expense) for the year	-	-	-	28,442	(25,976)	2,465
Issue of ordinary shares for cash	514,725	-	-	-	-	514,725
At 31 December 2009	2,266,125	34,952	-	(34,928)	8,971	2,275,120
At 1 January 2008	727,000	12,773	-	(5,388)	12,770	747,155
Unrealised loss on revaluation of securities available-for-sale	-	-	-	(57,982)	-	(57,982)
Net expense recognised directly in equity	-	-	-	(57,982)	-	(57,982)
Net profit for the year	-	-	-	-	44,357	44,357
Total recognised net (expense)/income for the year	-	-	-	(57,982)	44,357	(13,625)
Transfer to statutory reserve	-	22,179	-	-	(22,179)	-
Issue of ordinary shares for cash	1,024,400	-	-	-	-	1,024,400
At 31 December 2008	1,751,400	34,952	-	(63,370)	34,948	1,757,930

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

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CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES				
(Loss)/profit before zakat and taxation	(34,985)	50,409	(30,163)	38,364
Adjustments for:				
Allowance for losses on financing	184,676	135,126	184,676	135,126
Amortisation of premium less accretion of discounts	331	241	331	241
Finance cost	14,527	14,890	14,527	14,890
Depreciation of property and equipment	10,239	6,882	9,553	6,446
Amortisation of intangible assets	4,385	2,648	4,365	2,639
Net gains on disposal of property and equipment	(15)	-	(15)	-
Net gains on disposal of intangible assets	(2)	-	(2)	-
Dividends from securities available-for-sale	-	(1,020)	-	-
Dividend from a subsidiary	-	-	-	(10,452)
Net gains on sale of securities available-for-sale	(372)	(1,477)	(372)	(1,477)
Net gains on sale of securities held-for-trading	(1,195)	(810)	(1,195)	(810)
Short-term accumulated compensated absences	(85)	306	(85)	272
Impairment loss on securities available-for-sale	772	-	772	-
Impairment loss on Murabahah trading automobile	1,342	370	1,342	370
Unrealised gain on subordinated Murabahah Tawarruq	-	16,582	-	16,582
Unrealised loss/(gain) on securities held-for-trading and Ijarah rental swap	1,908	(5,996)	1,908	(5,996)
Operating profit before working capital changes	181,526	218,151	185,642	196,195
(Increase)/decrease in operating assets				
Deposits and placements with banks and other financial institutions	(101,225)	15,420	(101,225)	15,420
Financing, advances and other receivables	(1,099,633)	(3,130,034)	(1,103,079)	(3,133,076)
Murabahah trading automobiles	23,008	(11,889)	23,008	(11,889)
Other assets	(21,368)	(51,242)	(11,771)	(28,455)
Statutory deposits with Bank Negara Malaysia	88,144	(47,718)	88,144	(47,718)
Increase/(decrease) in operating liabilities				
Deposits from customers	(38,279)	2,094,508	(51,389)	2,105,272
Deposits and placements of banks and other financial institutions	1,283,342	11,121	1,306,142	11,121
Other liabilities	143,933	115,955	143,623	114,504
Cash generated from/(used in) operations	459,448	(785,728)	479,095	(778,626)
Tax paid	(21,299)	(18,105)	(21,279)	(18,085)
Zakat paid	(210)	(10)	(210)	(10)
Net cash generated from/(used in) operating activities	437,939	(803,843)	457,606	(796,721)

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CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONT'D.)

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
CASH FLOW FROM INVESTING ACTIVITIES				
Proceeds from (purchase)/disposal of securities	(161,183)	191,942	(162,082)	202,067
Proceeds from disposal of Musyarakah capital	-	164	-	164
Dividends from securities available-for-sale	-	6,859	-	-
Investment in subsidiaries	-	-	(28,580)	(27,363)
Proceeds from disposal of property and equipment	313	-	313	-
Proceeds from disposal of intangible assets	12	-	12	-
Purchase of property and equipment	(20,691)	(29,148)	(20,322)	(27,304)
Purchase of intangible assets	(3,261)	(8,061)	(3,231)	(8,019)
Net cash (used in)/generated from investing activities	(184,810)	161,756	(213,890)	139,545
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	514,725	1,024,400	514,725	1,024,400
Proceeds from subordinated Murabahah Tawarruq	8,792	-	8,792	-
Proceeds from Murabahah bank financing	25,413	25,984	25,413	25,984
Net cash generated from financing activities	548,930	1,050,384	548,930	1,050,384
Net increase in cash and cash equivalents	802,059	408,297	792,646	393,208
Cash and cash equivalents at beginning of year	2,077,377	1,667,984	2,140,626	1,747,418
Exchange differences on translation of opening balances	(1,510)	1,096	-	-
Cash and cash equivalents at end of year (Note 4)	2,877,926	2,077,377	2,933,272	2,140,626

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2009

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 set out in Note 15. There has been no significant change in the nature of the principal activities during the financial year.

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 9 March 2010.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared under the historical cost convention unless otherwise indicated and comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRSs") in Malaysia as modified by Bank Negara Malaysia Guidelines, and the principles of Shariah.

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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 under the historical cost basis unless otherwise indicated 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 balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

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

Acquisition of subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financing, advances and other receivables

(i) Financing, advances and other receivables

Financing, advances and other receivables are recognised when cash is disbursed to customers. They are initially stated at cost including any direct transaction cost and are subsequently measured at amortised cost using the effective profit rate method.

(ii) Allowances for losses on financing

Specific allowance provided for impaired financing, advances and other receivables had been made in full compliance with the BNM/GP3. Additional allowances for impaired financing, advances and other receivables are provided when the recoverable amount using discounted cash flow method under BNM's Guidelines on Financial Reporting for Licensed Islamic Banks ("BNM/GP8-i") is lower than the net book value of the financing, advances and other receivables (outstanding amount, net of specific allowances). Any allowance made during the year is charged to the income statement.

A general allowance based on a percentage of the financing, advances and other receivables is also made. The percentage is reviewed annually in light of past experiences and prevailing circumstances and an adjustment is made to the overall general allowance, if necessary.

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

(d) Securities

(i) Held-for-trading

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

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

The estimated fair values for securities held-for-trading is 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.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Securities (Cont'd.)

(ii) 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 to maturity. These investments will be measured at amortised cost using the effective profit rate method. A gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.

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

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

(iii) 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 directly in equity, except for impairment losses and foreign exchange gains and losses.

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Securities (Cont'd.)

(iii) Available-for-sale (Cont'd.)

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

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

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

The estimated fair values for securities available-for-sale 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.

(e) Property and Equipment, and Depreciation

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(e) Property and Equipment, and Depreciation (Cont'd.)

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.

(ii) Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition 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 balance sheet 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 Automobiles

Murabahah trading automobiles are 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 balance sheet date.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(i) Musyarakah Capital Investment and Musyarakah Financing

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

(j) Provision for Liabilities

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

Provisions are reviewed at each balance sheet 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) Liabilities

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in future for the goods and services received.

(l) Subordinated Murabahah Tawarruq

Subordinated Murabahah Tawarruq is stated at cost including profit payable which is recognised on an accrual basis.

(m) Income Tax

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) 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 monthly or daily. Income on Musyarakah and Mudharabah financing are recognised based on estimated internal rate of return.

Where an account is classified as non-performing, income is suspended until it is realised on a cash. Financing income recognised prior to the non-performing classification is not clawed back to the first day of default in conformity with Bank Negara Malaysia Guidelines. Customers' accounts are classified as non-performing where repayments are in arrears for more than six months from the first day of default for financing, cash line and advances; and three months from first day of default for trade bills and other instruments of similar nature.

(ii) Fee and Other Income Recognition

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

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 Automobiles

Profit is recognised based on sales proceeds less purchase price.

(o) Profit Expense Recognition

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(p) 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 entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet 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 profit or loss 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 profit or loss. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation are recognised in profit or loss in the Company'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.

(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 balance sheet presented are translated at the closing rates prevailing at the balance sheet 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 within equity.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Foreign Exchange Contracts, Profit Rate, Foreign Currency and Ijarah Rental Swaps

(i) Foreign Exchange Contracts

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

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

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

Fair value hedge

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

Cash flow hedge

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

(r) 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.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(r) Employee Benefits (Cont'd.)

(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").

(s) Zakat

This represents business zakat. It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on 2.5775% of the opening reserves of the Bank.

(t) Profit Equalisation Reserves ("PER")

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

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

(u) Impairment of Assets

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(u) Impairment of 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 profit or loss 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.

(v) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group and the Bank have become a party to the contractual provisions of the 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. Profit, 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.

(w) 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.

(x) Financial Risk Management Objective and Policies

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(y) Operating Lease

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

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

On 1 January 2009, the Group and the Company adopted the following revised FRS, amendment to FRS and Interpretations:

FRS 107: Cash Flow Statements

FRS 111: Construction Contracts

FRS 112: Income Taxes

FRS 118: Revenue

FRS 120: Accounting for Government Grants and Disclosure of Government Assistance

FRS 134: Interim Financial Reporting

FRS 137: Provisions, Contingent Liabilities and Contingent Assets

Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation

IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities

IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments

IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

IC Interpretation 7: Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies

IC Interpretation 8: Scope of FRS 2

The revised FRSs, amendments to FRSs and IC Interpretations above do not have any significant impact on the financial statements of the Group and the Bank.

3.3 Standards and Interpretations Issued but Not Yet Effective

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

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
FRS 1: First Time Adoption of Financial Reporting Standards (revised)	1 July 2010
FRS 3: Business Combinations	1 July 2010
FRS 4: Insurance Contracts	1 January 2010
FRS 7: Financial Instruments: Disclosures	1 January 2010
FRS 8: Operating Segments	1 January 2010
FRS 127: Consolidated and Separate Financial Statements	1 January 2010
FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards and Interpretations Issued but Not Yet Effective (Cont'd.)

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
Amendments to FRS 1: First Time Adoption of Financial Reporting Standards	1 January 2010
Amendments to FRS 2: Share-based Payment - Vesting Conditions and Cancellations	1 July 2010
Amendment to FRS 5: Non Current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendment to FRS 7: Financial Instruments: Disclosures	1 January 2010
Amendment to FRS 8: Operating Segments	1 January 2010
Amendment to FRS 119: Employee Benefits	1 January 2010
Amendment to FRS 120: Accounting for Government Grants and Disclosure of Government Assistance	1 January 2010
Amendment to FRS 123: Borrowing Costs	1 January 2010
Amendment to FRS 127: Consolidated and Separate Financial Statements: Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2010
Amendment to FRS 128: Investments in Associates	1 January 2010
Amendment to FRS 129: Financial Reporting in Hyperinflationary Economies	1 January 2010
Amendment to FRS 131: Interests in Joint Ventures	1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2010
Amendment to FRS 134: Interim Financial Reporting	1 January 2010
Amendment to FRS 136: Impairment of Assets	1 January 2010
Amendment to FRS 138: Intangible Assets	1 July 2010
Amendment to FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010
Amendment to FRS 140: Investment Property	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 13: Customer Loyalty Programmes	1 January 2010
IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
IC Interpretation 15: Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distributions of Non-cash Assets to Owners	1 July 2010

The above FRSs, amendments to FRS and Interpretations have no significant impact on the financial statements of the Company.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards and Interpretations Issued but Not Yet Effective (Cont'd.)

The above FRSs, amendments to FRSs and Interpretations have no significant impact on the financial statements of the Group and the Bank upon their initial application other than FRS 139 and FRS 7.

The Group and the Bank are exempted from disclosing the possible impact, if any, to the financial statements upon initial application of FRS 7 and FRS 139 by virtue of exemptions provided under paragraphs 44AB and 103AB respectively.

3.4 Significant Accounting Estimates and Judgements

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

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

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

(b) Income taxes

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

(c) Income recognition on Musyarakah and Mudharabah financing

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

(d) Allowance for losses on financing

The Group and the Bank review the doubtful financing, advances and other receivables, at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of doubtful financing, and the estimation of realisation amount from the doubtful financing when determining the level of allowance required.

The Group and the Bank have adopted certain criteria in the identification of doubtful financing, which include classifying financing as non-performing when repayments are in arrears for more than six (6) months. Specific allowances for doubtful financing are provided after taking into consideration of the values assigned to collateral. The values assigned to collateral are estimated based on market value and/or forced sales value, as appropriate and conforms with BNM guidelines. In addition to the specific allowances made, the Group and the Bank also make general allowance against exposure not specifically identified based on a certain percentage of total financing. Such estimates are based on assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
4 CASH AND SHORT-TERM FUNDS				
Cash and balances with banks and other financial institutions	92,081	52,073	83,068	45,361
Money at call and interbank placements with remaining maturity less than one month	2,785,845	2,025,304	2,850,204	2,095,265
	2,877,926	2,077,377	2,933,272	2,140,626
5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS				
Licensed Islamic banks	21,698	6,698	21,698	6,698
Other financial institutions	117,354	31,129	117,354	31,129
	139,052	37,827	139,052	37,827
6 SECURITIES HELD-FOR-TRADING				
<u>At fair value</u>				
Unquoted Islamic private debt securities/Sukuk	16,938	-	16,938	-
	16,938	-	16,938	-
7 SECURITIES AVAILABLE-FOR-SALE				
<u>At fair value</u>				
Bank Negara Malaysia Sukuk Ijarah	121,081	101,388	121,081	101,388
Unquoted securities:				
Islamic private debt securities/Sukuk	764,569	653,731	764,569	653,731
Property funds *	98,469	99,368	-	-
<u>At cost</u>				
Unquoted shares in Malaysia	19,000	520	19,000	520
	1,003,119	855,007	904,650	755,639

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
8 SECURITIES HELD-TO-MATURITY				
<u>At amortised cost</u>				
Unquoted securities:				
Islamic private debt securities/Sukuk	59,797	25,474	59,797	25,474

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES				
(i) By type				
Term Financing				
Murabahah financing	4,632,625	4,139,058	4,632,625	4,139,058
Musyarakah financing	369,457	333,830	369,457	333,830
Ijarah asset financing	2,205,380	1,776,611	2,205,380	1,776,611
Mudharabah asset financing	125,767	95,712	125,767	95,712
Musyarakah Mutanaqisah financing	168,764	111,584	168,764	111,584
Istisna' financing	61,192	48,405	61,192	48,405
Qard Hassan financing	2,047	-	8,535	3,042
Staff financing	18,364	11,288	18,364	11,288
	7,583,596	6,516,488	7,590,084	6,519,530
Less: Unearned income	(134,202)	(166,726)	(134,202)	(166,726)
	7,449,394	6,349,762	7,455,882	6,352,804
Less: Allowance and impairment for bad and doubtful financing:				
- General allowance	(108,166)	(102,962)	(108,166)	(102,962)
- Specific allowance				
- Non-performing financing	(262,201)	(38,428)	(262,201)	(38,428)
- Performing but impaired financing	(6,852)	(51,154)	(6,852)	(51,154)
Total net financing, advances and other receivables	7,072,175	6,157,218	7,078,663	6,160,260
(ii) By contract				
Ijarah Muntahia Bittamlik/ Al-Ijarah				
Thumma Al-Bai' (lease ended with ownership)	2,214,293	1,778,129	2,214,293	1,778,129
Murabahah (cost-plus)	4,536,153	4,011,825	4,536,153	4,011,825
Mudharabah (profit sharing)	125,767	95,712	125,767	95,712
Musyarakah (profit and loss sharing)	540,168	446,978	540,168	446,978
Qard (benevolent loan)	2,450	115	8,938	3,157
Istisna'	30,563	17,003	30,563	17,003
	7,449,394	6,349,762	7,455,882	6,352,804
(iii) By type of customer				
Domestic business enterprises				
Small medium enterprises	1,779,551	1,945,872	1,779,551	1,945,872
Others	3,824,447	2,706,098	3,824,447	2,706,098
Individuals	136,236	89,509	136,236	89,509
Other domestic entities	72,928	96,686	72,928	96,686
Foreign entities	1,519,655	1,392,027	1,526,143	1,395,069
Domestic non-bank financial institutions	116,577	119,570	116,577	119,570
	7,449,394	6,349,762	7,455,882	6,352,804

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)				
(iv) By profit rate sensitivity				
Fixed rate				
House financing	52,140	60,731	52,140	60,731
Hire purchase receivables	5,439	3,522	5,439	3,522
Syndicated financing	69,058	25,987	69,058	25,987
Term financing	4,839,744	3,354,381	4,846,232	3,357,423
Variable				
House financing	57,312	4,355	57,312	4,355
Term financing	2,425,701	2,900,786	2,425,701	2,900,786
	7,449,394	6,349,762	7,455,882	6,352,804
(v) By sector				
Agriculture, hunting, forestry & fishing	277,503	277,329	277,503	277,329
Mining & quarrying	346,990	258,525	346,990	258,525
Manufacturing	1,364,037	1,243,020	1,364,037	1,243,020
Electricity, gas and water	156,310	4,436	156,310	4,436
Construction	809,371	714,713	809,371	714,713
Real estate	1,241,599	806,279	1,241,599	806,279
Purchase of landed property:				
- Residential	159,059	66,338	159,059	66,338
Wholesale, retail trade, restaurants and hotels	735,557	648,076	735,557	648,076
Transports, storage and communication	816,093	558,615	816,093	558,615
Finance, insurance and business services	1,227,637	1,261,387	1,227,637	1,261,387
Purchase of securities	109,381	99,996	109,381	99,996
Purchase of transport vehicles	5,593	3,623	5,593	3,623
Consumption credit	22,159	18,531	22,159	18,531
Others	178,105	388,894	184,592	391,936
	7,449,394	6,349,762	7,455,882	6,352,804
(vi) Movements in the non-performing financing, advances and other receivables				
At beginning of year	58,597	2,334	58,597	2,334
Classified as non-performing	840,840	56,263	840,840	56,263
Amount recovered	(15,644)	-	(15,644)	-
At end of year	883,793	58,597	883,793	58,597
Less : Specific allowance for non-performing	(262,201)	(38,428)	(262,201)	(38,428)
Net non-performing financing, advances and other receivables	621,592	20,169	621,592	20,169
Ratio of net non-performing financing, advances and other receivables to gross financing, advances and other receivables less specific allowance for non-performing financing	8.65%	0.32%	8.64%	0.32%

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
9 FINANCING, ADVANCES AND OTHER RECEIVABLES (Cont'd.)				
(vii) Movements in the allowance for bad and doubtful financing				
General allowance				
At beginning of year	102,962	55,324	102,962	55,324
Allowance made	5,204	47,638	5,204	47,638
At end of year	108,166	102,962	108,166	102,962
As % of total gross financing, advances and other receivables less specific allowances	1.51%	1.64%	1.51%	1.64%
Specific allowance				
<u>Non-performing financing</u>				
At beginning of year	38,428	467	38,428	467
Allowance made	176,365	36,859	176,365	36,859
Transferred from performing but impaired financing	51,154	1,625	51,154	1,625
Allowance written back	(3,746)	(523)	(3,746)	(523)
At end of year	262,201	38,428	262,201	38,428
<u>Performing but impaired financing</u>				
At beginning of year	51,154	1,625	51,154	1,625
Allowance made	6,852	51,154	6,852	51,154
Transferred to non-performing financing	(51,154)	(1,625)	(51,154)	(1,625)
At end of year	6,852	51,154	6,852	51,154
(viii) Non-performing financing by sector				
Agriculture, hunting, forestry & fishing	56,999	-	56,999	-
Mining and quarrying	141,799	-	141,799	-
Construction	74,493	56,172	74,493	56,172
Manufacturing	206,040	2,425	206,040	2,425
Real estate	64,870	-	64,870	-
Wholesale & retail trade and restaurant & hotels	616	-	616	-
Transports, storage and communication	167,862	-	167,862	-
Finance, insurance and business services	111,300	-	111,300	-
Others	59,814	-	59,814	-
	883,793	58,597	883,793	58,597

10 MURABAHAH TRADING AUTOMOBILES

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

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

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	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
11 OTHER ASSETS					
Deposits and prepayments		6,807	6,216	5,688	5,234
Amount due from holding company	(i)	189	1,155	189	1,155
Amount due from subsidiaries	(i)	-	-	11,642	11,407
Amount due from other related parties	(i)	8,528	9,806	8,528	9,806
Income receivable		5,244	5,252	5,258	5,242
Fee receivable		1,389	3,232	1,389	3,232
Sundry debtors		40,976	32,361	8,410	9,276
Commodity assets		49,916	11,268	49,916	11,268
Tax recoverable		43,497	5,449	43,596	5,367
Underwriting releases	(ii)	13,511	37,522	13,511	37,522
		170,057	112,261	148,127	99,509

(i) The amount due from holding company, subsidiaries and related parties are unsecured, profit-free and have no fixed terms of repayment.

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

12 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2009			
Forward foreign exchange related contracts	1,252,455	14,144	5,513
Ijarah rental swap related contracts	777,680	28,692	19,356
Total	2,030,135	42,836	24,869
2008			
Forward foreign exchange related contracts	876,784	12,822	2,670
Ijarah rental swap related contracts	745,137	47,473	36,487
Total	1,621,921	60,295	39,157

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

14 MUSYARAKAH CAPITAL INVESTMENT

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

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15 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost
 - in Malaysia
 - outside Malaysia

Bank	
2009 RM'000	2008 RM'000
30,200	20,200
35,943	17,363
66,143	37,563

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2009	2008
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100
Kuwait Finance House (Singapore) Pte. Ltd.	Fund management	Singapore	100	100
Kuwait Finance House (Australia) Pty Ltd	Fund management	Australia	100	100
KFH Asset Management Sdn. Bhd.	Asset management	Malaysia	100	100

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16 PROPERTY AND EQUIPMENT

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

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

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16 PROPERTY AND EQUIPMENT (Cont'd.)

Group	Renovation	Furniture & fittings	Office equipment	Computer equipment hardware	Motor vehicles	Work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2008							
<u>Cost</u>							
At 1 January 2008	7,001	3,792	4,967	7,452	1,603	5,216	30,031
Additions	5,447	3,689	3,640	4,208	-	12,164	29,148
Reclassification	438	279	121	623	-	(1,461)	-
At 31 December 2008	12,886	7,760	8,728	12,283	1,603	15,919	59,179
<u>Accumulated depreciation</u>							
At 1 January 2008	2,295	1,254	1,548	2,233	148	-	7,478
Charge for the year	1,928	1,241	1,342	2,050	321	-	6,882
At 31 December 2008	4,223	2,495	2,890	4,283	469	-	14,360
<u>Net book value</u>							
At 31 December 2008	8,663	5,265	5,838	8,000	1,134	15,919	44,819
Bank							
2008							
<u>Cost</u>							
At 1 January 2008	6,933	3,774	4,959	7,452	1,603	5,216	29,937
Additions	4,495	3,220	3,540	3,885	-	12,164	27,304
Reclassification	438	279	121	623	-	(1,461)	-
At 31 December 2008	11,866	7,273	8,620	11,960	1,603	15,919	57,241
<u>Accumulated depreciation</u>							
At 1 January 2008	2,276	1,253	1,545	2,233	148	-	7,455
Charge for the year	1,705	1,137	1,320	1,963	321	-	6,446
At 31 December 2008	3,981	2,390	2,865	4,196	469	-	13,901
<u>Net book value</u>							
At 31 December 2008	7,885	4,883	5,755	7,764	1,134	15,919	43,340

The additions for the period in respect of renovation include accrued restoration cost for the Group of RM1,841,917 (2007: RM Nil) and the Bank of RM1,722,469 (2007: RM Nil).

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17 INTANGIBLE ASSETS

Computer software

Cost

At 1 January	18,183	10,122	18,141	10,122
Additions	3,261	8,061	3,231	8,019
Disposal	(14)	-	(14)	-
Reclassification from work in progress	17,938	-	17,938	-
At 31 December	39,368	18,183	39,296	18,141

Accumulated amortisation

At 1 January	6,318	3,670	6,309	3,670
Amortisation for the year	4,385	2,648	4,365	2,639
Disposal	(3)	-	(3)	-
At 31 December	10,700	6,318	10,671	6,309

Carrying amount

At 31 December

28,668 11,865 28,625 11,832

18 DEFERRED TAXATION

At 1 January	49,386	12,796	49,386	12,796
Recognised in equity	(9,106)	19,327	(9,480)	19,327
Recognised in income statement (Note 37)	(10,403)	17,263	(10,403)	17,263
At 31 December	29,876	49,386	29,502	49,386

Presented after appropriate offsetting
as follows:
Deferred tax assets (net)

29,876 49,386 29,502 49,386

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

Deferred tax assets of the Group:

2009

At 1 January 2009	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in equity	-	(9,480)	374	(9,106)
At 31 December 2009	22,944	11,643	2,651	37,237

2008

At 1 January 2008	13,831	1,796	1,329	16,956
Recognised in income statement	16,932	-	34	16,966
Recognised in equity	-	19,327	-	19,327
At 31 December 2008	30,763	21,123	1,363	53,249

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
17 INTANGIBLE ASSETS				
Computer software				
<u>Cost</u>				
At 1 January	18,183	10,122	18,141	10,122
Additions	3,261	8,061	3,231	8,019
Disposal	(14)	-	(14)	-
Reclassification from work in progress	17,938	-	17,938	-
At 31 December	39,368	18,183	39,296	18,141
<u>Accumulated amortisation</u>				
At 1 January	6,318	3,670	6,309	3,670
Amortisation for the year	4,385	2,648	4,365	2,639
Disposal	(3)	-	(3)	-
At 31 December	10,700	6,318	10,671	6,309
<u>Carrying amount</u>				
At 31 December	28,668	11,865	28,625	11,832

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
18 DEFERRED TAXATION				
At 1 January	49,386	12,796	49,386	12,796
Recognised in equity	(9,106)	19,327	(9,480)	19,327
Recognised in income statement (Note 37)	(10,403)	17,263	(10,403)	17,263
At 31 December	29,876	49,386	29,502	49,386
Presented after appropriate offsetting as follows: Deferred tax assets (net)	29,876	49,386	29,502	49,386

	Allowance and impairment for financing losses RM'000	Unrealised gain/(loss) on securities available- for-sale RM'000	Other temporary differences RM'000	Total RM'000
Deferred tax assets of the Group:				
2009				
At 1 January 2009	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in equity	-	(9,480)	374	(9,106)
At 31 December 2009	22,944	11,643	2,651	37,237
2008				
At 1 January 2008	13,831	1,796	1,329	16,956
Recognised in income statement	16,932	-	34	16,966
Recognised in equity	-	19,327	-	19,327
At 31 December 2008	30,763	21,123	1,363	53,249

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18 DEFERRED TAXATION (Cont'd.)

Deferred tax assets of the Bank:

2009

At 1 January 2009	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in equity	-	(9,480)	-	(9,480)
At 31 December 2009	22,944	11,643	2,277	36,863

2008

At 1 January 2008	13,831	1,796	1,329	16,956
Recognised in income statement	16,932	-	34	16,966
Recognised in equity	-	19,327	-	19,327
At 31 December 2008	30,763	21,123	1,363	53,249

	Allowance and impairment for financing losses RM'000	Unrealised gain/(loss) on securities available-for-sale RM'000	Other temporary differences RM'000	Total RM'000
At 1 January 2009	30,763	21,123	1,363	53,249
Recognised in income statement	(7,819)	-	913	(6,906)
Recognised in equity	-	(9,480)	-	(9,480)
At 31 December 2009	22,944	11,643	2,277	36,863
At 1 January 2008	13,831	1,796	1,329	16,956
Recognised in income statement	16,932	-	34	16,966
Recognised in equity	-	19,327	-	19,327
At 31 December 2008	30,763	21,123	1,363	53,249

Deferred tax liabilities of the Group and Bank:

2009

At 1 January 2009	3,863	3,863
Recognised in income statement	3,497	3,497
At 31 December 2009	7,360	7,360

2008

At 1 January 2008	4,160	4,160
Recognised in income statement	(297)	(297)
At 31 December 2008	3,863	3,863

	Accelerated capital allowances RM'000	Total RM'000
At 1 January 2009	3,863	3,863
Recognised in income statement	3,497	3,497
At 31 December 2009	7,360	7,360
At 1 January 2008	4,160	4,160
Recognised in income statement	(297)	(297)
At 31 December 2008	3,863	3,863

19 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

Qard

Demand deposits	237,053	258,488	246,689	261,202
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Mudharabah

Savings deposits	15,713	5,911	15,713	5,911
General investment deposits	468,637	239,894	468,637	239,894

Murabahah

Others	3,533,666	3,789,054	3,533,666	3,799,087
	4,255,068	4,293,347	4,264,705	4,306,094

(ii) By type of customer

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Business enterprises	2,691,845	3,742,346	2,691,507	3,742,005
Individuals	193,582	107,126	193,582	107,126
Subsidiaries	-	-	10,072	13,088
Others	1,369,641	443,875	1,369,544	443,875
	4,255,068	4,293,347	4,264,705	4,306,094

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS				
<u>Murabahah</u>				
Licensed Islamic banks	296,759	50,000	296,759	50,000
Licensed banks	16,511	35,485	16,511	35,485
Bank Negara Malaysia	-	121,258	-	121,258
Other financial institutions	3,889,079	2,712,265	3,901,880	2,712,265
	4,202,350	2,919,008	4,215,150	2,919,008
21 OTHER LIABILITIES				
Income payables	30,941	39,295	31,011	39,295
Sundry creditors	84,264	38,927	84,255	38,913
Amount due to agent from the purchase of commodity assets	50,003	11,498	50,003	11,498
Amount due to holding company (i)	-	1,140	-	1,140
Project clearing account (ii)	179,949	82,123	179,949	82,123
Accrued restoration cost	3,021	1,842	2,900	1,722
Other provisions and accruals	20,648	38,468	18,998	37,203
	368,826	213,293	367,116	211,894

(i) The amount due to holding company is unsecured, profit-free and has no fixed terms of repayment.

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
22 PROVISION FOR ZAKAT				
Zakat	3,267	1,115	3,267	1,115

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23 MURABAHAH BANK FINANCING

The Murabahah bank financing of USD15,000,000 or equivalent RM51,397,485 (2008: USD7,500,000 or equivalent RM25,983,750) is an unsecured financing facility obtained in 2008 with a tenure of two years and is repayable in instalments commencing 2009. The Murabahah price is determined based on effective cost of funds.

24 SUBORDINATED MURABAHAH TAWARRUQ

The subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal amount of USD100,000,000 or equivalent RM374,700,000 (2008: USD100,000,000 or equivalent RM346,450,000) is unsecured with a tenure of six years and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

25 SHARE CAPITAL

Authorised:

At 1 January
Additions
At 31 December

Issued and fully paid:

At 1 January
Issued during the year
At 31 December

Number of ordinary shares at RM1.00 each		Amount	
2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
2,000,000	800,000	2,000,000	800,000
1,000,000	1,200,000	1,000,000	1,200,000
3,000,000	2,000,000	3,000,000	2,000,000
1,751,400	727,000	1,751,400	727,000
514,725	1,024,400	514,725	1,024,400
2,266,125	1,751,400	2,266,125	1,751,400

During the year, the Bank increased its authorised share capital to RM3,000,000,000 from RM2,000,000,000 on 1 January 2009 via the creation of additional 1,000,000,000 ordinary shares of RM1 each.

The Bank has also increased its issued and paid-up capital to RM2,266,125,000 from RM1,751,400,000 via the issuance of 514,725,000 new ordinary shares of RM1 each at par for cash.

26 RESERVES

Non-distributable

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

Distributable

Retained profits

Note	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
(i)	34,952	34,952	34,952	34,952
(ii)	(2,094)	(584)	-	-
(iii)	(34,928)	(63,370)	(34,928)	(63,370)
	(2,070)	(29,002)	24	(28,418)
(iv)	25,775	56,658	8,971	34,948
	23,704	27,656	8,995	6,530

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26 RESERVES (Cont'd.)

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

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

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

(iv) Movements of the unrealised gain/(loss) on securities available-for-sale:

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At 1 January	(63,370)	(5,388)	(63,370)	(5,388)
Unrealised gain/(loss) on securities available-for-sale	28,442	(57,982)	28,442	(57,982)
At 31 December	(34,928)	(63,370)	(34,928)	(63,370)

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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	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Income derived from investment of :				
(i) General investment deposits	15,387	10,388	15,419	10,467
(ii) Other deposits	301,473	369,188	302,089	371,979
	316,860	379,576	317,508	382,446
(i) Income derived from investment of general investment deposits				
Financing, advances and other receivables	12,803	8,000	12,803	8,000
Securities				
- Held-for-trading	10	16	10	16
- Available-for-sale	969	892	947	892
- Held-to-maturity	70	34	70	34
Money at call and deposits with financial institutions	1,046	1,262	1,100	1,341
	14,898	10,204	14,930	10,283
Amortisation of premium less accretion of discounts	(11)	(6)	(11)	(6)
	14,887	10,198	14,919	10,277
Gain arising from sale of securities				
- Held-for-trading	44	19	44	19
- Available-for-sale	12	32	12	32
Profit from Murabahah trading on automobiles	33	100	33	100
Foreign exchange profit				
- Realised	341	7	341	7
Gain on Ijarah rental swaps obligation	70	32	70	32
	15,387	10,388	15,419	10,467

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
(ii) Income derived from investment of other deposits				
Financing, advances and other receivables	249,251	283,440	249,251	283,440
Securities				
- Held-for-trading	192	546	192	546
- Available-for-sale	18,972	31,647	18,459	31,647
- Held-to-maturity	1,320	1,198	1,320	1,198
Money at call and deposits with financial institutions	20,540	45,911	21,668	48,702
	290,275	362,742	290,890	365,533
Amortisation of premium less accretion of discounts	(231)	(203)	(231)	(203)
Total financing income and hibah	290,044	362,539	290,659	365,330
Profit from Murabahah trading on automobiles	710	3,570	710	3,570
Gain arising from sale of securities				
- Held-for-trading	794	677	794	677
- Available-for-sale	218	1,274	219	1,274
Foreign exchange (loss)/profit				
- Realised	8,364	(51)	8,364	(51)
Gain on Ijarah rental swaps obligation	1,343	1,179	1,343	1,179
	301,473	369,188	302,089	371,979

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29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Financing, advances and other receivables	108,245	45,229	108,245	45,229
Securities				
- Held-for-trading	(120)	83	77	83
- Available-for-sale	7,512	4,987	8,049	4,987
- Held-to-maturity	588	188	588	188
Money at call and deposits with financial institutions	9,512	6,940	9,910	7,383
Amortisation of premium less accretion of discounts	125,737 (89)	57,427 (32)	126,869 (89)	57,870 (32)
Total financing income and hibah	125,648	57,395	126,780	57,838
Fee income				
- Commissions	4,340	4,028	4,340	4,028
- Fund management fee	10,753	31,480	-	-
- Other fee income	25,102	72,605	25,042	72,578
Gain arising from sale of securities				
- Held-for-trading	357	114	357	114
- Available-for-sale	142	171	142	171
Unrealised (loss)/gain on revaluation of securities held-for-trading and Ijarah rental swaps (net)	(1,711)	5,996	(1,908)	5,996
Profit from Murabahah trading on automobiles	282	549	282	549
Foreign exchange profit/(loss)				
- Realised	8,410	126	8,410	126
- Unrealised	(10,750)	13,082	(10,594)	13,553
Gain on Ijarah rental swaps obligation	589	184	589	184
Gross dividend from a subsidiary	-	-	-	10,452
Gross dividend from property funds (securities available-for-sale)	4,991	7,648	-	-
Gain on disposal of property and equipment	17	-	17	-
Management fee	-	-	559	120
	168,170	193,378	154,016	165,709

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30 ALLOWANCE AND IMPAIRMENT FOR LOSSES ON FINANCING

Allowance and impairment for bad and doubtful financing

- General allowance
- Specific allowance
 - Non-performing financing
 - Impaired financing

Group		Bank	
2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
5,204	47,637	5,204	47,637
223,773	36,335	223,773	36,335
(44,301)	51,154	(44,301)	51,154
184,676	135,126	184,676	135,126

31 IMPAIRMENT LOSS

Securities available-for-sale
Murabahah trading automobiles

Group		Bank	
2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
(772)	-	(772)	-
(1,342)	(370)	(1,342)	(370)
(2,114)	(370)	(2,114)	(370)

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

32 INCOME ATTRIBUTABLE TO DEPOSITORS

Deposits from customers

- Mudharabah
- Non Mudharabah

Deposits and placements of banks and other financial institutions

- Non Mudharabah

Group		Bank	
2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
8,904	6,375	8,973	6,375
77,989	86,833	78,182	86,886
75,371	117,657	75,371	117,666
162,264	210,865	162,526	210,927
65,800	56,282	56,989	50,621
330	281	316	279
(85)	306	(85)	272
9,031	14,019	7,935	13,460
21,009	41,397	18,895	39,126
96,085	112,285	84,050	103,758

33 PERSONNEL EXPENSES

Salaries and wages
Social security costs
Short-term accumulating compensated absences
Pension costs - defined contribution plan
Other staff related costs

Included in personnel expenses of the Group and the Bank are the Executive/Managing Director's remuneration amounting to RM2,916,000 and RM2,876,000 (Group and Bank 2008: RM3,532,000) as disclosed in Note 36.

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	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
34 OTHER OVERHEADS AND EXPENDITURES				
Promotion				
Advertisement and publicity	2,152	2,558	2,137	2,528
Establishment				
Rental	9,499	8,108	7,126	6,066
Depreciation of property and equipment	10,239	6,882	9,553	6,446
Amortisation of intangible assets	4,385	2,648	4,365	2,639
IT expenses	4,155	2,243	4,127	2,205
Hire of equipment	799	736	722	698
General expenses				
Auditors remuneration				
- Statutory audit	395	266	205	165
- Other services	675	200	675	195
Professional fees	2,394	2,980	2,004	2,779
Non executive directors' remuneration (Note 36)	1,476	1,436	1,476	1,436
Shariah Committee's remuneration (Note 36)	462	420	462	420
Others	23,718	20,532	20,942	19,143
	60,349	49,009	53,794	44,720
35 FINANCE COST				
Subordinated Murabahah Tawarruq	13,052	14,882	13,052	14,882
Murabahah bank financing	1,475	8	1,475	8
	14,527	14,890	14,527	14,890
36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION				
Executive Director*				
Salary and other remuneration	2,696	3,322	2,696	3,322
Fees	220	210	180	210
	2,916	3,532	2,876	3,532
Benefits-in-kind	92	57	92	57
	3,008	3,589	2,968	3,589
Non-Executive Directors				
Fees	1,020	1,020	1,020	1,020
Other remuneration	456	416	456	416
	1,476	1,436	1,476	1,436
	4,484	5,025	4,444	5,025
Directors of subsidiary company				
Fees	263	-	-	-
Other remuneration	8	-	-	-
	271	-	-	-
Shariah Committee				
Fees	312	312	312	312
Other remuneration	150	108	150	108
	462	420	462	420

Note * - The Executive Director resigned on 31 May 2009.

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

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

	Number of directors	
	2009	2008
Executive Director		
RM2,950,001 - RM3,000,000	1	-
RM3,550,001 - RM3,600,000	-	1
	1	1
Non-Executive Directors		
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	4	3
RM300,001 - RM350,000	1	1
	5	5
Total	6	6

37 TAXATION

Malaysian income tax

- Current year
- Under/(over) provision of Malaysian income tax in prior year

Deferred tax (Note 18):

- Relating to origination and reversal of temporary differences
- Relating to changes in tax rates

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
	(19,500)	17,393	(19,585)	17,475
	2,634	(7,111)	2,634	(7,111)
	9,246	(22,821)	9,246	(22,821)
	1,157	5,559	1,157	5,559
	(6,463)	(6,980)	(6,548)	(6,898)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2009 have reflected these changes.

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

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37 TAXATION (Cont'd.)

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
(Loss)/profit before taxation	(34,985)	50,409	(30,163)	38,364
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	(8,746)	13,106	(7,541)	9,975
Effect of different tax rate in a subsidiary	-	34	-	-
Deferred tax relating to changes in tax rates	1,157	5,559	1,157	5,559
Income subject to different tax rates	(1,662)	(8,996)	-	-
Income not subject to tax	(306)	-	-	(2,718)
Expenses not deductible for tax purposes	334	379	334	379
Tax losses not recognised	3,258	3,031	-	-
Tax incentive on non-taxable ICBU income	(3,132)	(12,982)	(3,132)	(12,982)
Under/(over) provision of tax expense in prior years	2,634	(7,111)	2,634	(7,111)
Tax credit for the year	(6,463)	(6,980)	(6,548)	(6,898)

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	
	2009	2008
Net (loss)/profit for the year (RM'000)	(30,883)	56,484
Weighted average number of ordinary shares in issues ('000)	1,755,631	967,027
Basic/diluted (loss)/earnings per share (sen)	(1.76)	5.84

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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 50.

Subsidiaries

Details of subsidiaries are disclosed in Note 15.

Subsidiaries of holding company

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

Companies with common directors

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

Key management personnel

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

Directors

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

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Related party transactions

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

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

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries of holding company RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2008						
(i) Income						
- Dividend income	-	10,452	-	-	-	-
- Management fees	-	120	-	-	-	-
- Profit income on placements	3,975	3,312	990	-	-	-
- Profit income on financing	-	-	-	-	14,551	-
	3,975	13,884	990	-	14,551	-
(ii) Expenditure						
- Profit expense on deposits	12,756	-	2,313	2	-	52
- Profit expense on subordinated Murabahah Tawarruq	14,882	-	-	-	-	-
	27,638	-	2,313	2	-	52
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	365,908	-	-	-	-	-
- Deposits from customers	299	13,088	112	184	28,280	4,269
- Interbank borrowing	675,578	-	15,590	-	-	-
	1,041,785	13,088	15,702	184	28,280	4,269
(iv) Amount due from related parties						
- Financing	-	-	-	-	185,292	-
- Interbank lending	350,211	69,961	76,219	-	-	-
- Profit income receivable	-	19	-	-	-	-
- Other assets	15	11,407	7,640	-	2,592	-
	350,226	81,387	83,859	-	187,884	-

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

(c) Key management personnel compensation

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Short-term employee benefits				
- Fees	220	210	180	210
- Salary and other remuneration	10,871	9,906	10,871	9,906
- Benefits-in-kind	92	57	92	57
	11,183	10,173	11,143	10,173

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

(d) Credit transactions and exposures with connected parties

As per the guidelines provided by BNM, credit transactions with connected parties encompasses the parties as defined in Note 39(a) as well as officer who is responsible for or has 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 his close relatives.

As at 31 December 2009				
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	290,263	4	532,000	-
	290,263	4	532,000	-
Total exposure to connected parties as % capital base			19.96%	-
Total exposure to connected parties as % of total outstanding credit exposures			5.45%	-

As at 31 December 2008				
	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)	184,611	3	522,000	-
Off-balance sheet exposures	-	1	1,905	-
	184,611	4	523,905	-
Total exposure to connected parties as % capital base			25.62%	-
Total exposure to connected parties as % of total outstanding credit exposures			5.85%	-

* Included total outstanding and unutilised limit.

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40 COMMITMENTS AND CONTINGENCIES

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

	2009			2008		
	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	1,276,312	1,276,312	810,140	1,615,024	1,615,024	1,204,674
Transaction related contingencies	257,737	128,868	101,198	187,899	93,950	94,834
Trade related contingencies	34,982	6,996	6,329	109,143	21,829	21,829
Irrevocable commitments to extend credit						
- maturity not exceeding one year	202,093	40,419	40,419	1,223,638	244,727	244,727
- maturity exceeding one year	1,483,535	741,768	808,731	955,312	477,656	555,222
Foreign exchange related contracts *						
- less than one year	1,253,163	24,240	12,000	874,796	29,701	14,204
- one year to five years	196,897	23,308	12,371	59,763	10,458	8,825
- five years and above	105,772	14,966	7,468	243,686	36,313	18,727
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	407,919	50,293	37,240	440,946	73,766	57,892
	5,218,410	2,307,170	1,835,896	5,710,207	2,603,423	2,220,934
		Note 45 (d)	Note 45 (d)			

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

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

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 31 December 2009, the amount of contracts which were not hedged in the Group and the Bank and, hence, exposed to market risk was RM71,249,010 (2008: RM224,493,256).

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 2009, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM42,835,949 (2008: RM46,903,138). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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41 RATE OF RETURN RISK

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

Group 2009	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	2,785,845	-	-	-	-	92,081	-	2,877,926	1.93
Deposits and placements with banks and other financial institutions	-	132,354	-	6,698	-	-	-	139,052	1.45
Securities held-for-trading	-	-	-	-	-	-	16,938	16,938	3.88
Securities available-for-sale	142,815	196,670	222,300	238,922	84,942	117,470	-	1,003,119	2.28
Securities held-to-maturity	34,449	10,140	-	15,208	-	-	-	59,797	3.21
Financing, advances and receivables	2,792,929	2,381,560	924,868	626,419	122,903	223,496	-	7,072,175	5.58
Murabahah trading automobiles	-	-	-	-	-	-	37,429	37,429	-
Musarakah capital investment	-	-	-	-	-	5,916	-	5,916	-
Other assets	-	-	-	-	-	357,954	-	357,954	-
TOTAL ASSETS	5,756,038	2,720,724	1,147,168	887,247	207,845	796,917	54,367	11,570,306	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,398,536	979,621	639,858	-	-	237,053	-	4,255,068	2.20
Deposits and placements of banks and other financial institutions	2,126,208	1,461,418	573,213	41,511	-	-	-	4,202,350	2.24
Subordinated Murabahah Tawarruq	-	-	-	374,700	-	-	-	374,700	-
Murabahah bank financing	-	-	-	51,397	-	-	-	51,397	-
Other liabilities	-	-	-	-	-	396,962	-	396,962	-
Total Liabilities	4,524,744	2,441,039	1,213,071	467,608	-	634,015	-	9,280,477	
Shareholder's equity	-	-	-	-	-	2,289,829	-	2,289,829	
Total Liabilities and Shareholder's equity	4,524,744	2,441,039	1,213,071	467,608	-	2,923,844	-	11,570,306	
On-balance sheet profit sensitivity gap	1,231,294	279,685	(65,903)	419,639	207,845	(2,126,927)	54,367	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	1,231,294	279,685	(65,903)	419,639	207,845	(2,126,927)	54,367	-	

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41 RATE OF RETURN RISK (Cont'd.)

Group 2008	Non-trading book						Trading book	Total	Effective profit rate			
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive				RM'000	RM'000	%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000						
ASSETS												
Cash and short-term funds	2,025,304	-	-	-	-	52,073	-	2,077,377	2.48			
Deposits and placements with banks and other financial institutions	-	-	31,129	6,698	-	-	-	37,827	1.20			
Securities held-for-trading	-	-	-	-	-	-	-	-	-			
Securities available-for-sale	126,584	247,555	142,395	82,014	153,283	103,176	-	855,007	3.54			
Securities held-to-maturity	-	-	-	25,474	-	-	-	25,474	5.74			
Financing, advances and receivables	1,968,006	1,695,973	1,038,222	1,055,548	299,245	100,224	-	6,157,218	7.39			
Murabahah trading automobiles	-	-	-	-	-	-	61,779	61,779	-			
Musarakah capital investment	-	-	-	-	-	5,916	-	5,916	-			
Other assets	-	-	-	-	-	416,270	-	416,270	-			
TOTAL ASSETS	4,119,895	1,943,528	1,211,746	1,169,734	452,528	677,659	61,779	9,636,868				
LIABILITIES AND SHAREHOLDER'S EQUITY												
Deposits from customers	2,338,512	854,901	837,955	-	-	261,979	-	4,293,347	3.04			
Deposits and placements of banks and other financial institutions	2,205,880	432,763	280,365	-	-	-	-	2,919,008	3.34			
Subordinated Murabahah Tawarruq	-	-	-	365,908	-	-	-	365,908	3.82			
Murabahah bank financing	-	-	25,984	-	-	-	-	25,984	3.85			
Other liabilities	-	-	-	-	-	253,565	-	253,565	-			
Total Liabilities	4,544,392	1,287,664	1,144,304	365,908	-	515,544	-	7,857,812				
Shareholder's equity	-	-	-	-	-	1,779,056	-	1,779,056				
Total Liabilities and Shareholder's equity	4,544,392	1,287,664	1,144,304	365,908	-	2,294,600	-	9,636,868				
On-balance sheet profit sensitivity gap	(424,498)	655,864	67,442	803,826	452,528	(1,616,942)	61,779	-				
Off-balance sheet profit sensitivity gap	-	(32,910)	-	17,323	15,587	-	-	-				
Total profit sensitivity gap	(424,498)	622,954	67,442	821,149	468,115	(1,616,942)	61,779	-				

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41 RATE OF RETURN RISK (Cont'd.)

Bank 2009	Non-trading book						Trading book	Total	Effective profit rate		
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive				RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000				RM'000	RM'000
ASSETS											
Cash and short-term funds	2,850,204	-	-	-	-	83,068	-	2,933,272	1.94		
Deposits and placements with banks and other financial institutions	-	132,354	-	6,698	-	-	-	139,052	1.45		
Securities held-for-trading	-	-	-	-	-	-	16,938	16,938	3.88		
Securities available-for-sale	142,815	196,670	222,300	238,922	84,942	19,001	-	904,650	2.52		
Securities held-to-maturity	34,449	10,140	-	15,208	-	-	-	59,797	3.21		
Financing, advances and receivables	2,792,929	2,381,560	924,868	626,419	122,903	229,984	-	7,078,663	5.57		
Murabahah trading automobiles	-	-	-	-	-	-	37,429	37,429	-		
Musyarakah capital investment	-	-	-	-	-	5,916	-	5,916	-		
Other assets	-	-	-	-	-	400,607	-	400,607	-		
TOTAL ASSETS	5,820,397	2,720,724	1,147,168	887,247	207,845	738,576	54,367	11,576,324			
LIABILITIES AND SHAREHOLDER'S EQUITY											
Deposits from customers	2,398,536	979,621	639,858	-	-	246,690	-	4,264,705	2.20		
Deposits and placements of banks and other financial institutions	2,139,008	1,461,418	573,213	41,511	-	-	-	4,215,150	2.24		
Subordinated Murabahah Tawarruq	-	-	-	374,700	-	-	-	374,700	-		
Murabahah bank financing	-	-	-	51,397	-	-	-	51,397	-		
Other liabilities	-	-	-	-	-	395,252	-	395,252	-		
Total Liabilities	4,537,544	2,441,039	1,213,071	467,608	-	641,942	-	9,301,204			
Shareholder's equity	-	-	-	-	-	2,275,120	-	2,275,120			
Total Liabilities and Shareholder's equity	4,537,544	2,441,039	1,213,071	467,608	-	2,917,062	-	11,576,324			
On-balance sheet profit sensitivity gap	1,282,853	279,685	(65,903)	419,639	207,845	(2,178,486)	54,367	-			
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-			
Total profit sensitivity gap	1,282,853	279,685	(65,903)	419,639	207,845	(2,178,486)	54,367	-			

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41 RATE OF RETURN RISK (Cont'd.)

Bank 2008	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	2,095,265	-	-	-	-	45,361	-	2,140,626	2.56
Deposits and placements with banks and other financial institutions	-	-	31,129	6,698	-	-	-	37,827	1.20
Securities held-for-trading	-	-	-	-	-	-	-	-	-
Securities available-for-sale	126,584	247,555	142,395	82,014	157,091	-	-	755,639	4.03
Securities held-to-maturity	-	-	-	25,474	-	-	-	25,474	5.74
Financing, advances and receivables	1,968,006	1,695,973	1,038,222	1,055,548	299,245	103,266	-	6,160,260	7.39
Murabahah trading automobiles	-	-	-	-	-	-	61,779	61,779	-
Musyarakah capital investment	-	-	-	-	-	5,916	-	5,916	-
Other assets	-	-	-	-	-	439,569	-	439,569	-
TOTAL ASSETS	4,189,855	1,943,528	1,211,746	1,169,734	456,336	594,112	61,779	9,627,090	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,352,037	854,901	837,955	-	-	261,201	-	4,306,094	3.04
Deposits and placements of banks and other financial institutions	2,205,880	432,763	280,365	-	-	-	-	2,919,008	3.34
Subordinated Murabahah Tawarruq	-	-	-	365,908	-	-	-	365,908	3.82
Murabahah bank financing	-	-	25,984	-	-	-	-	25,984	3.85
Other liabilities	-	-	-	-	-	252,166	-	252,166	-
Total Liabilities	4,557,917	1,287,664	1,144,304	365,908	-	513,367	-	7,869,160	
Shareholder's equity	-	-	-	-	-	1,757,930	-	1,757,930	
Total Liabilities and Shareholder's equity	4,557,917	1,287,664	1,144,304	365,908	-	2,271,297	-	9,627,090	
On-balance sheet profit sensitivity gap	(368,062)	655,864	67,442	803,826	456,336	(1,677,185)	61,779	-	
Off-balance sheet profit sensitivity gap	-	(32,910)	-	17,323	15,587	-	-	-	
Total profit sensitivity gap	(368,062)	622,954	67,442	821,149	471,923	(1,677,185)	61,779	-	

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42 LIQUIDITY RISK

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

Group	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,877,926	-	-	-	-	2,877,926
Deposits and placements with banks and other financial institutions	132,354	-	6,698	-	-	139,052
Securities held-for-trading	16,938	-	-	-	-	16,938
Securities available-for-sale	155,570	14,391	697,709	116,449	19,000	1,003,119
Securities held-to-maturity	10,140	-	49,657	-	-	59,797
Financing, advances and receivables	2,680,726	286,038	2,639,225	1,465,086	1,100	7,072,175
Murabahah trading automobiles	-	-	-	-	37,429	37,429
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	357,954	357,954
Total Assets	5,873,654	300,429	3,393,289	1,587,451	415,483	11,570,306
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	611,663	-	3,643,405	-	-	4,255,068
Deposits and placements of banks and other financial institutions	638,585	-	3,563,765	-	-	4,202,350
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	51,397
Other liabilities	-	-	3,267	-	393,695	396,962
Total Liabilities	1,250,248	-	7,636,534	-	393,695	9,280,477
Shareholder's equity	-	-	-	-	2,289,829	2,289,829
Total Liabilities and Shareholder's equity	1,250,248	-	7,636,534	-	2,683,524	11,570,306
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	514,242	-	2,056,968	-	-	2,571,210
Net maturity mismatch	4,109,164	300,429	(6,300,213)	1,587,451	(2,268,041)	(2,571,210)

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42 LIQUIDITY RISK (Cont'd.)

Group 2008	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,077,377	-	-	-	-	2,077,377
Deposits and placements with banks and other financial institutions	31,129	-	6,698	-	-	37,827
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	-	101,388	451,170	301,929	520	855,007
Securities held-to-maturity	-	-	25,474	-	-	25,474
Financing, advances and receivables	2,257,673	478,308	1,722,636	1,698,601	-	6,157,218
Murabahah trading automobiles	-	-	-	-	61,779	61,779
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	416,270	416,270
Total Assets	4,366,179	579,696	2,205,978	2,006,446	478,569	9,636,868
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,587,927	705,420	-	-	-	4,293,347
Deposits and placements of banks and other financial institutions	2,829,008	90,000	-	-	-	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	25,984
Other liabilities	83,869	-	-	-	169,696	253,565
Total Liabilities	6,500,804	795,420	391,892	-	169,696	7,857,812
Shareholder's equity	-	-	-	-	1,779,056	1,779,056
Total Liabilities and Shareholder's equity	6,500,804	795,420	391,892	-	1,948,752	9,636,868
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	745,138	-	4,965,069	-	-	5,710,207
Net maturity mismatch	(2,879,763)	(215,724)	(3,150,983)	2,006,446	(1,470,183)	(5,710,207)

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42 LIQUIDITY RISK (Cont'd.)

Bank 2009	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,933,272	-	-	-	-	2,933,272
Deposits and placements with banks and other financial institutions	132,354	-	6,698	-	-	139,052
Securities held-for-trading	16,938	-	-	-	-	16,938
Securities available-for-sale	155,570	14,391	599,240	116,449	19,000	904,650
Securities held-to-maturity	10,140	-	49,657	-	-	59,797
Financing, advances and receivables	2,687,796	286,038	2,638,643	1,465,086	1,100	7,078,663
Murabahah trading automobiles	-	-	-	-	37,429	37,429
Musyarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	400,607	400,607
Total Assets	5,936,070	300,429	3,294,238	1,587,451	458,136	11,576,324
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	621,300	-	3,643,405	-	-	4,264,705
Deposits and placements of banks and other financial institutions	651,385	-	3,563,765	-	-	4,215,150
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	51,397
Other liabilities	-	-	-	-	395,252	395,252
Total Liabilities	1,272,685	-	7,633,267	-	395,252	9,301,204
Shareholder's equity	-	-	-	-	2,275,120	2,275,120
Total Liabilities and Shareholder's equity	1,272,685	-	7,633,267	-	2,670,372	11,576,324
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	514,242	-	2,056,968	-	-	2,571,210
Net maturity mismatch	4,149,143	300,429	(6,395,997)	1,587,451	(2,212,236)	(2,571,210)

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42 LIQUIDITY RISK (Cont'd.)

Bank 2008	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,140,626	-	-	-	-	2,140,626
Deposits and placements with banks and other financial institutions	31,129	-	6,698	-	-	37,827
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	-	101,388	451,170	202,561	520	755,639
Securities held-to-maturity	-	-	25,474	-	-	25,474
Financing, advances and receivables	2,260,715	478,308	1,722,636	1,698,601	-	6,160,260
Murabahah trading automobiles	-	-	-	-	61,779	61,779
Musarakah capital investment	-	-	-	5,916	-	5,916
Other assets	-	-	-	-	439,569	439,569
Total Assets	4,432,470	579,696	2,205,978	1,907,078	501,868	9,627,090
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,600,674	705,420	-	-	-	4,306,094
Deposits and placements of banks and other financial institutions	2,829,008	90,000	-	-	-	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	25,984
Other liabilities	82,123	-	-	-	170,043	252,166
Total Liabilities	6,511,805	795,420	391,892	-	170,043	7,869,160
Shareholder's equity	-	-	-	-	1,757,930	1,757,930
Total Liabilities and Shareholder's equity	6,511,805	795,420	391,892	-	1,927,973	9,627,090
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	745,138	-	4,965,069	-	-	5,710,207
Net maturity mismatch	(2,824,473)	(215,724)	(3,150,983)	1,907,078	(1,426,105)	(5,710,207)

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43 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 2009	MYR	SGD	USD	EUR	KWD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and short-term funds	2,687,936	5,357	154,192	3,477	16,458	10,506	2,877,926
Deposits and placements with banks and other financial institutions	21,698	53,550	44,544	19,260	-	-	139,052
Securities held-for-trading	-	-	16,938	-	-	-	16,938
Securities available-for-sale	417,536	-	585,583	-	-	-	1,003,119
Securities held-to-maturity	25,349	-	34,448	-	-	-	59,797
Financing, advances and receivables	5,376,804	19,248	1,626,858	-	-	49,265	7,072,175
Murabahah trading automobiles	25,916	-	422	9,714	-	1,377	37,429
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	232,255	23,963	82,827	9	8	18,892	357,954
Total Assets	8,793,410	102,118	2,545,812	32,460	16,466	80,040	11,570,306

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43 FOREIGN EXCHANGE RISK (Cont'd.)

Group
2009 (Cont'd.)

**LIABILITIES AND
SHAREHOLDER'S EQUITY**

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

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

	MYR	SGD	USD	EUR	KWD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	3,780,403	83,582	348,098	18,240	16,262	8,483	4,255,068
Deposits and placements of banks and other financial institutions	3,325,619	-	777,867	51,854	-	47,010	4,202,350
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	-	51,397
Other liabilities	396,486	400	-	57	-	19	396,962
Total Liabilities	7,502,508	83,982	1,552,062	70,151	16,262	55,512	9,280,477
Shareholder's equity	2,289,829	-	-	-	-	-	2,289,829
Total Liabilities and Shareholder's equity	9,792,337	83,982	1,552,062	70,151	16,262	55,512	11,570,306
On-balance sheet open position	(998,927)	18,136	993,750	(37,691)	204	24,528	-
Off-balance sheet open position	815,913	13	(803,828)	-	-	-	12,098
Net open position	(183,014)	18,149	189,922	(37,691)	204	24,528	12,098

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43 FOREIGN EXCHANGE RISK (Cont'd.)

Group	MYR	SGD	USD	EUR	KWD	Others	Total
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and short-term funds	1,550,609	83,582	423,809	4,504	6,343	8,530	2,077,377
Deposits and placements with banks and other financial institutions	6,698	31,129	-	-	-	-	37,827
Securities held-for-trading	-	-	-	-	-	-	-
Securities available-for-sale	362,331	-	492,676	-	-	-	855,007
Securities held-to-maturity	25,474	-	-	-	-	-	25,474
Financing, advances and receivables	4,578,208	9,058	1,525,204	-	-	44,748	6,157,218
Murabahah trading automobiles	50,027	-	427	10,078	-	1,247	61,779
Musyarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	386,964	4,326	22,637	-	-	2,343	416,270
Total Assets	6,966,227	128,095	2,464,753	14,582	6,343	56,868	9,636,868
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,880,510	94,977	305,398	1,287	6,093	5,082	4,293,347
Deposits and placements of banks and other financial institutions	1,757,372	36,197	1,027,224	51,277	-	46,938	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	-	25,984
Other liabilities	245,160	574	7,505	311	-	15	253,565
Total Liabilities	5,883,042	131,748	1,732,019	52,875	6,093	52,035	7,857,812
Shareholder's equity	1,779,056	-	-	-	-	-	1,779,056
Total Liabilities and Shareholder's equity	7,662,098	131,748	1,732,019	52,875	6,093	52,035	9,636,868
On-balance sheet open position	(695,871)	(3,653)	732,734	(38,293)	250	4,833	-
Off-balance sheet open position	-	-	(679,761)	(247)	-	-	(680,008)
Net open position	(695,871)	(3,653)	52,973	(38,540)	250	4,833	(680,008)

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43 FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2009	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,678,922	5,357	191,884	30,145	16,458	10,506	2,933,272
Deposits and placements with banks and other financial institutions	21,698	53,550	44,544	19,260	-	-	139,052
Securities held-for-trading	-	-	16,938	-	-	-	16,938
Securities available-for-sale	417,536	-	487,114	-	-	-	904,650
Securities held-to-maturity	25,349	-	34,448	-	-	-	59,797
Financing, advances and receivables	5,383,292	19,248	1,626,858	-	-	49,265	7,078,663
Murabahah trading automobiles	25,916	-	422	9,714	-	1,377	37,429
Musyarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	274,908	23,963	82,827	9	8	18,892	400,607
Total Assets	8,833,537	102,118	2,485,035	59,128	16,466	80,040	11,576,324
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,790,040	83,582	348,098	18,240	16,262	8,483	4,264,705
Deposits and placements of banks and other financial institutions	3,338,419	-	777,867	51,854	-	47,010	4,215,150
Subordinated Murabahah Tawarruq	-	-	374,700	-	-	-	374,700
Murabahah bank financing	-	-	51,397	-	-	-	51,397
Other liabilities	394,776	400	-	57	-	19	395,252
Total Liabilities	7,523,235	83,982	1,552,062	70,151	16,262	55,512	9,301,204
Shareholder's equity	2,275,120	-	-	-	-	-	2,275,120
Total Liabilities and Shareholder's equity	9,798,355	83,982	1,552,062	70,151	16,262	55,512	11,576,324
On-balance sheet open position	(964,818)	18,136	932,973	(11,023)	204	24,528	-
Off-balance sheet open position	815,913	13	(803,828)	-	-	-	12,098
Net open position	(148,905)	18,149	129,145	(11,023)	204	24,528	12,098

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43 FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2008	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	1,523,996	83,582	486,322	31,852	6,343	8,531	2,140,626
Deposits and placements with banks and other financial institutions	6,698	31,129	-	-	-	-	37,827
Securities held-for-trading	-	-	-	-	-	-	-
Securities available-for-sale	362,330	-	393,309	-	-	-	755,639
Securities held-to-maturity	25,474	-	-	-	-	-	25,474
Financing, advances and receivables	4,581,249	9,058	1,525,204	-	-	44,749	6,160,260
Murabahah trading automobiles	50,027	-	427	10,078	-	1,247	61,779
Musarakah capital investment	5,916	-	-	-	-	-	5,916
Other assets	410,263	4,326	22,637	-	-	2,343	439,569
Total Assets	6,965,953	128,095	2,427,899	41,930	6,343	56,870	9,627,090
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,889,765	94,977	308,889	1,287	6,093	5,083	4,306,094
Deposits and placements of banks and other financial institutions	1,757,372	36,197	1,027,224	51,277	-	46,938	2,919,008
Subordinated Murabahah Tawarruq	-	-	365,908	-	-	-	365,908
Murabahah bank financing	-	-	25,984	-	-	-	25,984
Other liabilities	243,763	574	7,505	311	-	13	252,166
Total Liabilities	5,890,900	131,748	1,735,510	52,875	6,093	52,034	7,869,160
Shareholder's equity	1,757,930	-	-	-	-	-	1,757,930
Total Liabilities and Shareholder's equity	7,648,830	131,748	1,735,510	52,875	6,093	52,034	9,627,090
On-balance sheet open position	(682,877)	(3,653)	692,389	(10,945)	250	4,836	-
Off-balance sheet open position	-	-	(679,761)	(247)	-	-	(680,008)
Net open position	(682,877)	(3,653)	12,628	(11,192)	250	4,836	(680,008)

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44 CAPITAL COMMITMENTS

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Capital expenditure :				
Authorised and contracted for				
- purchase of equipment	6,126	16,942	6,126	16,942
- renovation	952	2,569	952	2,569
Authorised but not contracted for				
- purchase of equipment	135	850	44	850
	7,214	20,361	7,122	20,361

45 CAPITAL ADEQUACY

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

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

In addition, in accordance with para. 4.3 of Bank Negara Malaysia's Concept Paper - Risk-Weighted Capital Adequacy Framework (Basel II) and CAFIB - Disclosure Requirements (Pillar 3), the Group has also provided detailed disclosures on risk-weighted assets, as set out in Notes 44 (c), (d), (e) and (g).

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

	Group		Bank	
	2009	2008	2009	2008
Core capital ratio				
Credit risk	21.39%	18.66%	21.44%	18.62%
Credit, market, operational and large exposure risks	19.89%	17.74%	19.97%	17.73%
Risk-weighted capital ratio				
Credit risk	25.58%	21.89%	25.06%	21.49%
Credit, market, operational and large exposure risks	23.79%	20.81%	23.34%	20.47%

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45 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	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Tier I capital				
Paid-up share capital	2,266,125	1,751,400	2,266,125	1,751,400
Statutory reserve	34,952	34,952	34,952	34,952
Other reserves	25,775	56,658	8,971	34,948
	2,326,851	1,843,010	2,310,048	1,821,300
Less: Deferred tax assets (net)	(29,876)	(49,386)	(29,502)	(49,386)
Total Tier-I capital	2,296,975	1,793,624	2,280,546	1,771,914
Tier II capital				
Subordinated Murabahah Tawarruq	342,650	207,870	342,650	207,870
General allowance for bad and doubtful financing	108,166	102,962	108,166	102,962
Total Tier-II capital	450,816	310,832	450,816	310,832
Less: Investment in subsidiaries	-	-	(66,143)	(37,563)
Capital base	2,747,791	2,104,456	2,665,219	2,045,183

(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	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	10,739,925	9,614,653	10,635,925	9,516,704
Total Market RWA	255,441	110,707	255,441	110,707
Total Operational RWA	543,623	383,025	514,988	360,978
Large Exposure Risk RWA for Equity Holdings	11,956	2,956	11,956	2,956
Total Risk-Weighted Assets	11,550,945	10,111,341	11,418,310	9,991,345
Computation of Capital Ratios				
Core Capital	2,296,975	1,793,624	2,280,546	1,771,914
Capital Base	2,747,791	2,104,456	2,665,219	2,045,183
Core Capital Ratio	19.89%	17.74%	19.97%	17.73%
Risk-Weighted Capital Ratio	23.79%	20.81%	23.34%	20.47%

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45. 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 2009			Risk Weighted Assets	Total Risk Weighted Assets After Effects of PSIA	Capital Requirement
	Gross Exposures	Net Exposures **		RM'000	
	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,398,211	2,398,211	-	-	-
Public Sector Entities	84,942	84,942	-	-	-
Banks, Development Financial Institutions & MDBs	1,153,012	1,153,012	346,807	346,807	27,745
Corporates	5,430,397	5,430,397	5,170,902	5,170,902	413,672
Higher Risk Assets ¹	220,299	220,299	330,448	330,448	26,436
Equity Exposure	98,469	98,469	98,469	98,469	7,878
Other Assets	239,934	239,934	232,795	232,795	18,622
Defaulted Exposures ²	1,926,129	1,926,129	2,724,608	2,724,608	217,969
	11,551,393	11,551,393	8,904,029	8,904,029	712,322
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	112,806	112,806	69,078	69,078	5,526
Off balance sheet exposures other than OTC hedging financial instruments ⁴	2,152,010	2,152,010	1,703,970	1,703,970	136,318
Defaulted Exposures ²	42,354	42,354	62,848	62,848	5,028
	2,307,170	2,307,170	1,835,896	1,835,896	146,872
Total On and Off-Balance Sheet Exposures	13,858,563	13,858,563	10,739,925	10,739,925	859,194
(ii) Large Exposures Risk Requirement	11,956	11,956	11,956	11,956	956
	Long Position	Short Position			
(iii) Market Risk					
Benchmark Rate Risk	773,776	(747,564)	26,212	21,744	1,740
Foreign Currency Risk ⁵	173,690	(11,023)	162,667	173,690	13,894
Inventory Risk	37,429	-	37,429	60,007	4,801
			226,308	255,441	20,435
(iv) Operational Risk			543,623	543,623	43,491
(v) Total RWA and Capital Requirements			14,096,827	11,550,945	924,076

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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

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45. CAPITAL ADEQUACY (Cont'd)

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

Group	Gross Exposures	Net Exposures **	Risk Weighted Assets	Total Risk Weighted Assets	Capital Requirement
				After Effects of PSIA	
2008	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,596,808	1,596,808	-	-	-
Banks, Development Financial Institutions & MDBs	1,190,237	1,190,237	342,683	342,683	27,415
Corporates	5,647,141	5,647,141	5,470,417	5,470,417	437,633
Higher Risk Assets ¹	419,515	419,515	629,272	629,272	50,342
Other Assets	182,170	182,170	173,015	173,015	13,841
Defaulted Exposures ²	532,490	532,490	778,332	778,332	62,267
	9,568,361	9,568,361	7,393,719	7,393,719	591,498
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	150,238	150,238	99,647	99,647	7,972
Off balance sheet exposures other than OTC hedging financial instruments ⁴	2,451,119	2,451,119	2,118,187	2,118,187	169,455
Defaulted Exposures ²	2,067	2,067	3,100	3,100	247
	2,603,424	2,603,424	2,220,934	2,220,934	177,674
Total On and Off-Balance Sheet Exposures	12,171,785	12,171,785	9,614,653	9,614,653	769,172
(ii) Large Exposures Risk Requirement	2,956	2,956	2,956	2,956	236
	Long Position	Short Position			
(iii) Market Risk					
Benchmark Rate Risk	821,309	(810,602)	10,707	25,598	2,048
Foreign Currency Risk ⁵	12,117	(14,838)	(2,721)	14,838	1,187
Inventory Risk	61,779	-	61,779	70,271	5,622
			69,765	110,707	8,857
(iv) Operational Risk			383,025	383,025	30,642
(v) Total RWA and Capital Requirements			12,244,506	10,111,341	808,907

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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

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45. 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:

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

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45. 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 2008	Gross Exposures		Net Exposures **		Risk Weighted Assets	Total Risk Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000		RM'000	RM'000	RM'000
(i) Credit Risk							
(a) On-Balance Sheet Exposures							
Sovereigns/Central Banks	1,596,807	1,596,807	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	1,253,479	1,253,479	355,331	355,331	355,331	355,331	28,426
Corporates	5,550,815	5,550,815	5,374,091	5,374,091	5,374,091	5,374,091	429,927
Higher Risk Assets ¹	419,480	419,480	629,220	629,220	629,220	629,220	50,338
Other Assets	167,949	167,949	158,796	158,796	158,796	158,796	12,704
Defaulted Exposures ²	532,490	532,490	778,332	778,332	778,332	778,332	62,267
	9,521,020	9,521,020	7,295,770	7,295,770	7,295,770	7,295,770	583,662
(b) Off-Balance Sheet Exposures*							
OTC Hedging Financial Instruments ³	150,238	150,238	99,647	99,647	99,647	99,647	7,972
Off balance sheet exposures other than OTC hedging financial instruments ⁴	2,451,119	2,451,119	2,118,187	2,118,187	2,118,187	2,118,187	169,455
Defaulted Exposures ²	2,067	2,067	3,100	3,100	3,100	3,100	247
	2,603,424	2,603,424	2,220,934	2,220,934	2,220,934	2,220,934	177,674
Total On and Off-Balance Sheet Exposures	12,124,444	12,124,444	9,516,704	9,516,704	9,516,704	9,516,704	761,336
(ii) Large Exposures Risk Requirement	2,956	2,956	2,956	2,956	2,956	2,956	236
(iii) Market Risk							
Benchmark Rate Risk	821,309	(810,602)	10,707	25,598	25,598	25,598	2,048
Foreign Currency Risk ^b	12,117	(14,838)	(2,721)	14,838	14,838	14,838	1,187
Inventory Risk	61,779	-	61,779	70,271	70,271	70,271	5,622
			69,765	110,707	110,707	110,707	8,857
(iv) Operational Risk				360,978	360,978	360,978	28,879
(v) Total RWA and Capital Requirements			12,197,165	9,991,345	9,991,345	9,991,345	799,308

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45. 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:

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

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45. CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets	
	Sovereigns & Central Banks	Public Sector Entities	Banks, MDBs and DFIs	Corporate	Higher Risk Assets	Other Assets	Specialised Financing/ Investment			Equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2008										
Group										
Risk-Weights										
0%	1,596,808	-	-	90,216	-	9,154	-	-	1,696,178	-
20%	-	7,622	864,571	92,214	-	-	-	-	964,407	192,881
50%	-	-	400,780	337,996	-	-	521,000	-	1,259,776	629,888
100%	-	-	19,722	6,888,767	-	173,016	89,000	-	7,170,505	7,170,505
150%	-	-	-	459,815	621,104	-	-	-	1,080,919	1,621,379
	1,596,808	7,622	1,285,073	7,869,008	621,104	182,170	610,000	-	12,171,785	9,614,653
Bank										
Risk-Weights										
0%	1,596,808	-	-	90,216	-	9,152	-	-	1,696,176	-
20%	-	7,622	927,812	92,214	-	-	-	-	1,027,648	205,530
50%	-	-	400,780	337,996	-	-	521,000	-	1,259,776	629,888
100%	-	-	19,722	6,792,441	-	158,797	89,000	-	7,059,960	7,059,960
150%	-	-	-	459,815	621,069	-	-	-	1,080,884	1,621,326
	1,596,808	7,622	1,348,314	7,772,682	621,069	167,949	610,000	-	12,124,444	9,516,704

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45 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
2009				
0%	2,721,721	-	2,721,720	-
20%	883,233	176,647	938,524	187,705
50%	1,467,825	733,912	1,467,825	733,913
100%	6,698,621	6,698,621	6,583,613	6,583,613
150%	2,087,163	3,130,745	2,087,129	3,130,694
Risk-weighted assets for credit risk	13,858,563	10,739,925	13,798,811	10,635,925
Risk-weighted assets for market risk		255,441		255,441
Risk-weighted assets for operational risk		543,623		514,988
Large exposure risk-weighted assets for equity holdings		11,956		11,956
Total risk-weighted assets		11,550,945		11,418,310
2008				
0%	1,696,178	-	1,696,176	-
20%	964,407	192,881	1,027,648	205,530
50%	1,259,776	629,888	1,259,776	629,888
100%	7,170,505	7,170,505	7,059,960	7,059,960
150%	1,080,919	1,621,379	1,080,884	1,621,326
Risk-weighted assets for credit risk	12,171,785	9,614,653	12,124,444	9,516,704
Risk-weighted assets for market risk		110,707		110,707
Risk-weighted assets for operational risk		383,025		360,978
Large exposure risk-weighted assets for equity holdings		2,956		2,956
Total risk-weighted assets		10,111,341		9,991,345

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

Group and Bank	Risk- Weighted Assets Equivalent RM'000	Capital Required RM'000
2009		
Benchmark Rate Risk	21,744	1,740
Foreign Exchange Risk	173,690	13,894
Inventory Risk	60,007	4,801
Total	255,441	20,435
2008		
Benchmark Rate Risk	25,598	2,048
Foreign Exchange Risk	14,838	1,187
Inventory Risk	70,271	5,622
Total	110,707	8,857

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46 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.

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46 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2009	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	71,488	187,980	200,030	25,532	-	485,030
Revenue from other segments	90,850	-	-	10,437	(101,287)	-
Total Revenue	162,338	187,980	200,030	35,969	(101,287)	485,030
Segment results	9,974	31,135	24,522	(27,350)	-	38,281
Unallocated expenses						(73,266)
Loss from operations						(34,985)
Zakat						(2,361)
Taxation						6,463
Net loss for the year						(30,883)
Other information						
Segment assets	4,125,202	3,084,946	3,598,631	461,019		11,269,798
Unallocated corporate assets						300,508
Total assets						11,570,306
Segment liabilities	6,065,945	404,888	253,122	948,902		7,672,857
Unallocated corporate liabilities						1,607,620
Total liabilities						9,280,477
Other segment items						
Purchase of property and equipment	-	-	-	20,691	-	20,691
Purchase of intangible assets	-	-	-	3,261	-	3,261
Depreciation of property and equipment	-	-	-	10,238	-	10,238
Amortisation of intangible assets	-	-	-	4,384	-	4,384
Other non-cash expense other than depreciation	2,753	76,478	100,509	8,946	-	188,686

(b) Secondary Segment - By Geographical Locations

Group 2009	Operating Revenue/(Loss)	Loss Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	485,149	(21,952)	11,552,675
Outside Malaysia	(119)	(13,033)	17,631
	485,030	(34,985)	11,570,306

The Group has fund management operations in Australia and Singapore.

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46 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2008	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	112,795	215,036	223,252	21,871	-	572,954
Revenue from other segments	114,201	-	-	1,796	(115,997)	-
Total Revenue	226,996	215,036	223,252	23,667	(115,997)	572,954
Segment results	17,414	67,102	39,645	(20,339)	-	103,822
Unallocated expenses						(53,413)
Profit from operations						50,409
Zakat						(905)
Taxation						6,980
Net profit for the year						56,484
Other information						
Segment assets	3,042,438	2,713,234	3,243,900	322,188	-	9,321,760
Unallocated corporate assets						315,108
Total assets						9,636,868
Segment liabilities	6,707,716	173,479	235,586	303,149	-	7,419,930
Unallocated corporate liabilities						437,882
Total liabilities						7,857,812
Other segment items						
Purchase of property and equipment	-	-	-	29,148	-	29,148
Purchase of intangible assets	-	-	-	8,061	-	8,061
Depreciation of property and equipment	-	-	-	6,882	-	6,882
Amortisation of intangible assets	241	-	-	2,648	-	2,889
Other non-cash expense other than depreciation	-	43,046	89,693	3,063	-	135,802

(b) Secondary Segment - By Geographical Locations

Group 2008	Operating Revenue/(Loss)	Profit/(Loss) Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	573,308	62,506	9,626,564
Outside Malaysia	(354)	(12,097)	10,304
	572,954	50,409	9,636,868

The Group has fund management operations in Australia and Singapore.

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47 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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 balance sheet date.

The estimated fair values of those on-balance sheets financial assets and financial liabilities as at the balance sheet 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 balance sheet 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 balance sheet date.

(d) Financing, Advances and Other Receivables

The fair values of financing are estimated based on future cash flows of contractual instalments payments, discounted at applicable prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing financing, the fair values are deemed to approximate the carrying values which are net of specific allowance for bad and doubtful 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 balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using discounted cash flow technique.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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48 OPERATING LEASES

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

	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Within one year	8,601	7,319	6,591	7,205
Between one and five years	4,922	10,072	2,904	6,777
	13,523	17,391	9,495	13,982

49 SIGNIFICANT POST BALANCE SHEET EVENTS

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

50 HOLDING COMPANY

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