



KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Interim Report for the Period Ended 31 March 2014

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	Group		Bank	
		31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
ASSETS					
Cash and short-term funds		1,131,791	1,406,209	1,130,468	1,431,875
Deposits and placements with banks and other financial institutions	A3	46,776	75,902	73,489	75,902
Securities held-for-trading	A4	16,221	-	16,221	-
Hedging financial instruments	A7	13,852	15,192	13,852	15,192
Securities available-for-sale	A4	1,181,736	1,188,943	1,082,691	1,090,608
Securities held-to-maturity	A4	80,955	81,486	80,955	81,486
Financing, advances and other receivables	A5	6,017,911	6,009,772	6,017,911	6,009,772
Other assets	A6	201,301	195,570	200,614	195,420
Statutory deposits with Bank Negara Malaysia		206,400	182,200	206,400	182,200
Musyarakah capital investment	A8	5,898	5,898	5,898	5,898
Investment in subsidiaries		-	-	19,432	19,432
Property and equipment		31,519	34,189	31,115	33,748
Intangible assets		13,289	14,264	12,537	13,469
Deferred tax assets		224,340	241,258	224,286	241,134
		9,171,989	9,450,883	9,115,869	9,396,136
LIABILITIES					
Deposits from customers	A9	4,847,475	5,342,642	4,793,916	5,320,777
Deposits and placements of banks and other financial institutions	A10	2,004,576	1,771,560	2,017,947	1,753,737
Hedging financial instruments	A7	1	200	1	200
Subordinated Murabahah Tawarruq	A12	417,892	415,577	417,892	415,577
Other liabilities	A11	267,695	331,290	266,746	330,448
		7,537,639	7,861,269	7,496,502	7,820,739
SHAREHOLDER'S EQUITY					
Share capital	A13	1,425,272	1,425,272	1,425,272	1,425,272
Reserves		209,078	164,342	194,095	150,125
		1,634,350	1,589,614	1,619,367	1,575,397
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY					
		9,171,989	9,450,883	9,115,869	9,396,136
COMMITMENTS AND CONTINGENCIES					
	A18	1,209,163	1,172,841	1,209,163	1,172,841
CAPITAL ADEQUACY					
Common Equity Tier I/ Tier I Capital Ratio	A19	18.13%	18.01%	17.51%	17.40%
Total Capital Ratio	A19	21.90%	21.78%	21.30%	21.20%
NET ASSETS PER SHARE (RM)					
		1.15	1.12	1.14	1.11

These condensed consolidated statements of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

Group	Note	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Continuing operations					
Operating revenue		111,800	108,177	111,800	108,177
Income derived from investment of depositors' funds and others	A14	88,990	83,458	88,990	83,458
Income derived from investment of shareholder's equity	A15	22,810	24,719	22,810	24,719
Total gross income		111,800	108,177	111,800	108,177
Impairment loss on securities		-	(142)	-	(142)
Impairment write-back on financing	A16	41,249	12,108	41,249	12,108
Total distributable income		153,049	120,143	153,049	120,143
Income attributable to the depositors	A17	(43,607)	(42,222)	(43,607)	(42,222)
Total net income		109,442	77,921	109,442	77,921
Personnel expenses		(26,402)	(26,900)	(26,402)	(26,900)
Other overheads and expenditures		(26,152)	(25,955)	(26,152)	(25,955)
Finance cost		(3,782)	(3,424)	(3,782)	(3,424)
Profit before zakat and taxation		53,106	21,642	53,106	21,642
Taxation		(17,287)	(8,989)	(17,287)	(8,989)
Net profit for the period		35,819	12,653	35,819	12,653
Attributable to:					
Equity holders of the Bank		35,819	12,653	35,819	12,653
Earnings per share attributable to equity holders of the Bank					
- Basic/Diluted (sen)		2.51	0.89	2.51	0.89

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Group	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net profit for the period	35,819	12,653	35,819	12,653
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised gain/(loss) on securities available-for-sale	11,991	(6,690)	11,991	(6,690)
- Net realised gain on securities available-for-sale reclassified to the income statement	2	163	2	163
Exchange differences on translation of foreign operations:				
Net (loss)/gain taken to equity	(78)	336	(78)	336
Income tax relating to components of other comprehensive (loss)/income	(2,998)	1,632	(2,998)	1,632
Other comprehensive income for the period, net of tax	8,917	(4,559)	8,917	(4,559)
Total comprehensive income for the period	44,736	8,094	44,736	8,094
Total comprehensive income for the period attributable to equity holders of the Bank	44,736	8,094	44,736	8,094

These condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED INCOME STATEMENTS

	Note	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank					
Continuing operations					
Operating revenue		110,042	105,839	110,042	105,839
Income derived from investment of depositors' funds and others	A14	88,661	83,028	88,661	83,028
Income derived from investment of shareholder's equity	A15	21,381	22,811	21,381	22,811
Total gross income		110,042	105,839	110,042	105,839
Impairment loss on securities		-	(142)	-	(142)
Impairment write-back on financing	A16	41,249	12,108	41,249	12,108
Total distributable income		151,291	117,805	151,291	117,805
Income attributable to the depositors	A17	(43,594)	(42,243)	(43,594)	(42,243)
Total net income		107,697	75,562	107,697	75,562
Personnel expenses		(25,427)	(25,675)	(25,427)	(25,675)
Other overheads and expenditures		(25,358)	(24,693)	(25,358)	(24,693)
Finance cost		(3,782)	(3,424)	(3,782)	(3,424)
Profit before zakat and taxation		53,130	21,770	53,130	21,770
Taxation		(17,267)	(8,971)	(17,267)	(8,971)
Net profit for the period		35,863	12,799	35,863	12,799

These condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

Bank

Net profit for the period

Other comprehensive income/(loss):

Items that may be reclassified subsequently to profit or loss:

Securities available-for-sale:

- Net unrealised gain/(loss) on securities
available-for-sale

- Net realised gain on securities

available-for-sale reclassified to the income statement

Income tax relating to components of other comprehensive
(loss)/income

Other comprehensive income/(loss) for the period, net of tax

Total comprehensive income for the period

1st Quarter ended 31 Mar		Three-months ended 31 Mar	
2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
35,863	12,799	35,863	12,799
10,807	(5,753)	10,807	(5,753)
2	163	2	163
(2,702)	1,399	(2,702)	1,399
8,107	(4,191)	8,107	(4,191)
43,970	8,608	43,970	8,608

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INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Non-distributable			Distributable	Total Equity RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Translation Reserve RM'000	Available-for-sale Reserve RM'000		Retained Earnings RM'000
Group						
At 1 Jan 2014	1,425,272	113,895	(5,088)	(26,871)	82,406	1,589,614
Total comprehensive (loss)/income	-	-	(78)	8,995	35,819	44,736
At 31 Mar 2014	1,425,272	113,895	(5,166)	(17,876)	118,225	1,634,350
At 1 Jan 2013	2,266,125	66,697	(7,112)	2,574	(808,989)	1,519,295
Effect of capital reduction	(840,853)	-	-	-	840,853	-
Total comprehensive income/(loss)	-	-	336	(4,895)	12,653	8,094
At 31 Mar 2013	1,425,272	66,697	(6,776)	(2,321)	44,517	1,527,389
Bank						
At 1 Jan 2014	1,425,272	113,895	-	(26,142)	62,372	1,575,397
Total comprehensive income	-	-	-	8,107	35,863	43,970
At 31 Mar 2014	1,425,272	113,895	-	(18,035)	98,235	1,619,367
At 1 Jan 2013	2,266,125	66,697	-	355	(825,678)	1,507,499
Effect of capital reduction	(840,853)	-	-	-	840,853	-
Total comprehensive income	-	-	-	(4,191)	12,799	8,608
At 31 Mar 2013	1,425,272	66,697	-	(3,836)	27,974	1,516,107

These condensed consolidated statements of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	Group		Bank	
	31 Mar 2014 RM'000	31 Mar 2013 RM'000	31 Mar 2014 RM'000	31 Mar 2013 RM'000
Profit before zakat and taxation	53,106	21,642	53,130	21,770
Adjustments for non-cash items	(31,670)	(2,908)	(31,725)	(2,743)
Operating profit before changes in working capital	21,436	18,734	21,405	19,027
<u>Changes in the working capital</u>				
Net changes in operating assets	33,889	268,483	5,670	246,878
Net changes in operating liabilities	(322,429)	(198,038)	(325,934)	(153,717)
Zakat and taxation paid	-	-	-	-
Net cash (used in)/generated from operating activities	(288,540)	70,445	(320,264)	93,161
Net cash used in investing activities	(2,148)	(228,184)	(2,548)	(228,367)
	(2,148)	(228,184)	(2,548)	(228,367)
Net change in cash and cash equivalents	(269,252)	(139,005)	(301,407)	(116,179)
Cash and cash equivalents at beginning of the period	1,406,209	1,400,684	1,431,875	1,370,167
Exchange differences on translation of opening balances	(5,166)	(6,776)	-	-
Cash and cash equivalents at end of the period	1,131,791	1,254,903	1,130,468	1,253,988

These condensed consolidated statements of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A1 Performance Review

The Group and the Bank both recorded a profit before zakat and taxation of RM53.1 million for the period ended 31 March 2014.

A2 Prospects for 2014

The economy is expected to remain on a broadly steady growth path whereby Bank Negara Malaysia (BNM) has revised its forecast of growth expansion to 4.5% - 5.5% in 2014, from 4.7% in 2013. Domestic demand will continue to be the main driver of overall growth in 2014. Despite the new pricing framework for consumer loans announced by BNM which will put more pressures on banking sector revenues as the new rules begin to take effect, the local banking and financial sectors are expected to remain resilient in 2014. However, this is a positive development that should not only help to cool demand for loans and address the rise in household indebtedness and also improve the effectiveness of monetary policy. Overall, these policies will play a positive role in enhancing the stability of Malaysia's banking system, going forward.

The Bank's focus for 2014 is on three strategic thrusts, namely for growth in quality and sustainable assets, cost optimisation and capacity as well as capability building, including IT enhancement and human capital development. KFH Malaysia continues to be the Group's regional hub for the Asia-Pacific region. With the current year's focus on widening its product portfolio, the Bank is looking closely in accelerating its financing services through synergistic efforts both at the region and at the Group level for sustainable growth and profit.

A3 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Licensed Islamic banks	-	50,005	-	50,005
Other financial institutions	46,776	25,897	73,489	25,897
	46,776	75,902	73,489	75,902

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A4 Securities

i) Securities Held-For-Trading

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
At fair value				
Unquoted Islamic private debt securities/sukuk	16,221	-	16,221	-

ii) Securities Available-For-Sale

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
At fair value				
Unquoted securities				
- Islamic private debt securities/sukuks	381,360	385,991	365,472	372,571
- Government guaranteed sukuk	581,096	583,149	537,556	538,057
Mutual Fund	65,290	65,515	65,290	65,515
	1,027,746	1,034,655	968,318	976,143
At cost				
Unquoted shares in Malaysia	87,700	87,700	87,700	87,700
Property funds	39,616	39,823	-	-
Collective Investment Scheme	26,674	26,765	26,673	26,765
	153,990	154,288	114,373	114,465
	1,181,736	1,188,943	1,082,691	1,090,608

iii) Securities Held-To-Maturity

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
At amortised cost				
Unquoted Islamic private debt securities/sukuk	80,955	81,486	80,955	81,486

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables

i) At amortised cost

Term financing

- House financing
- Personal financing
- Leasing financing
- Syndicated financing
- Cashline financing
- Hire purchase receivables
- Other term financing

Staff financing

Less: Impairment allowances on financing

- Collective assessment
- Individual assessment

Net financing, advances and other receivables

Group and Bank	
31 Mar 2014	31 Dec 2013
RM'000	RM'000
426,624	414,635
1,431,808	1,443,259
146,823	153,057
460,231	374,233
5,469	4,603
195,404	184,364
3,853,478	3,932,840
10,709	9,784
6,530,546	6,516,775
(200,926)	(190,926)
(311,709)	(316,077)
6,017,911	6,009,772

ii) By contract

Ijarah Muntahia Bittamlik

(lease ended with ownership)

Murabahah (cost-plus)

Mudharabah (profit sharing)

Qard (benevolent financing)

Musarakah (profit and loss sharing)

Istisna'

Group and Bank	
31 Mar 2014	31 Dec 2013
RM'000	RM'000
1,841,877	1,883,974
4,250,289	4,196,002
78,940	80,223
561	535
355,978	353,112
2,901	2,929
6,530,546	6,516,775

iii) By type of customer

Domestic business enterprises

- Small medium enterprises
- Others

Individuals

Foreign entities

Domestic non-bank financial institutions

Group and Bank	
31 Mar 2014	31 Dec 2013
RM'000	RM'000
975,075	985,659
3,349,725	3,229,194
2,003,053	1,989,138
158,517	167,612
44,176	145,172
6,530,546	6,516,775

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

(iv) By residual contractual maturity

Maturity within one year
More than one year to three years
More than three years to five years
More than five years

Group and Bank	
31 Mar 2014 RM'000	31 Dec 2013 RM'000
3,864,151	3,667,380
149,147	109,438
214,102	197,556
2,303,146	2,542,401
6,530,546	6,516,775

(v) By geographical distribution

Malaysia
Middle East
Other countries

Group and Bank	
31 Mar 2014 RM'000	31 Dec 2013 RM'000
6,458,356	6,437,309
9,426	15,725
62,764	63,741
6,530,546	6,516,775

vi) By profit rate sensitivity

Fixed rate
- House financing
- Hire purchase receivables
- Syndicated financing
- Term financing
Variable rate
- House financing
- Term financing

Group and Bank	
31 Mar 2014 RM'000	31 Dec 2013 RM'000
70,967	83,277
195,404	184,364
460,231	374,233
3,461,431	3,516,971
355,657	331,358
1,986,856	2,026,572
6,530,546	6,516,775

vii) By economic purpose

Merger and acquisition
Purchase of transport vehicles
Purchase of landed properties
- residential
- non-residential
Purchase of fixed assets
Working capital
Construction
Personal use
Other purposes

Group and Bank	
31 Mar 2014 RM'000	31 Dec 2013 RM'000
221,103	141,109
343,179	333,691
566,190	542,858
477,017	491,060
336,184	342,264
1,976,443	2,051,970
595,035	584,542
1,431,428	1,442,306
583,967	586,975
6,530,546	6,516,775

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

viii) By sector

Construction	
Electricity, gas and water	
Finance, insurance and business services	
Household	
Manufacturing	
Mining and quarrying	
Agriculture, hunting, forestry & fishing	
Real Estate	
Transports, storage and communication	
Wholesale & retail trade and restaurants & hotels	
Others	

Group and Bank	
31 Mar 2014 RM'000	31 Dec 2013 RM'000
343,051	287,930
120,080	119,915
348,132	446,468
2,018,249	2,005,077
975,435	1,006,081
250,412	242,931
235,568	231,144
1,145,330	1,143,918
537,013	486,144
296,776	284,990
260,500	262,177
6,530,546	6,516,775

(ix) Financing by types and Shariah contract

31 Mar 2014	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	383,002	103	-	40,618	-	2,901	426,624
Personal financing	-	1,431,395	-	-	413	-	1,431,808
Leasing financing	59,333	52,255	35,235	-	-	-	146,823
Syndicated financing	188,372	271,859	-	-	-	-	460,231
Cashline financing	-	5,469	-	-	-	-	5,469
Hire purchase receivables	148,886	-	-	46,518	-	-	195,404
Other term financing	1,053,734	2,488,027	43,705	268,012	-	-	3,853,478
Staff financing	8,550	1,181	-	830	148	-	10,709
	1,841,877	4,250,289	78,940	355,978	561	2,901	6,530,546

31 Dec 2013	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	370,089	103	-	41,514	-	2,929	414,635
Personal financing	-	1,442,883	-	-	376	-	1,443,259
Leasing financing	60,732	55,717	36,608	-	-	-	153,057
Syndicated financing	195,464	178,769	-	-	-	-	374,233
Overdraft financing	-	4,603	-	-	-	-	4,603
Hire purchase receivables	138,119	-	-	46,245	-	-	184,364
Other term financing	1,111,958	2,512,757	43,615	264,510	-	-	3,932,840
Staff financing	7,612	1,170	-	843	159	-	9,784
	1,883,974	4,196,002	80,223	353,112	535	2,929	6,516,775

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

xii) Movements in impairment and allowance on financing (cont'd.)

	Group and Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Individual impairment		
At 1 Jan	316,077	546,824
Allowance reversed during the year	(4,368)	(116,236)
- Allowance made	4,330	85,308
- Allowance written-back	(8,698)	(201,544)
Amount written off	-	(114,511)
Closing balance	311,709	316,077

xiii) Impaired financing by sector

	Group and Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Construction	21,426	23,179
Electricity, gas and water	79	79
Finance, insurance and business services	16,632	22,119
Household	30,290	28,506
Manufacturing	340,114	342,124
Mining and quarrying	115,373	116,393
Real Estate	57,021	56,645
Transport, storage and communication	56,139	56,197
Wholesale & retail trade and restaurants & hotels	33,970	33,950
Others	11,395	11,434
	682,439	690,626

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A6 Other Assets

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Deposits and prepayments	10,531	10,333	10,361	10,173
Amount due from holding company	299	299	299	299
Amount due from subsidiaries	-	-	5	4
Amount due from other related parties	615	615	615	615
Fee receivable	53	53	53	53
Sundry debtors	15,904	22,213	15,263	22,119
Tax recoverable	3,019	3,038	3,138	3,138
Gold depository	170,880	159,019	170,880	159,019
	201,301	195,570	200,614	195,420

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

A7 Hedging Financial Instruments

	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Group and Bank			
At 31 Mar 2014			
Ijarah rental swap related contracts	253,612	13,852	1
Total	253,612	13,852	1
At 31 Dec 2013			
Ijarah rental swap related contracts	263,825	15,192	200
Total	263,825	15,192	200

A8 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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A9 Deposits from Customers

(i) By type of deposit

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Non Mudharabah				
- Demand deposits	497,893	561,296	444,771	539,869
- Gold deposits	169,703	158,910	169,703	158,910
- Wakalah deposits	1,064,393	1,421,572	1,063,956	1,421,134
Mudharabah				
- Savings deposits	93,742	81,185	93,742	81,185
- General investment deposits	94,643	236,630	94,643	236,630
- Negotiable Instrument Deposit	11,836	165,275	11,836	165,275
Murabahah	2,915,265	2,717,774	2,915,265	2,717,774
	4,847,475	5,342,642	4,793,916	5,320,777

(ii) By type of customer

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Business enterprises	2,600,099	2,493,905	2,492,981	2,450,174
Individuals	793,658	1,046,038	793,658	1,046,038
Subsidiaries	-	-	53,559	21,866
Government and statutory bodies	1,162,627	1,533,534	1,162,627	1,533,534
Other enterprises	291,091	269,165	291,091	269,165
	4,847,475	5,342,642	4,793,916	5,320,777

(iii) By contractual maturity

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Due within six months	4,325,708	4,579,884	4,272,149	4,558,019
More than six months to one year	502,590	725,216	502,590	725,216
More than one year to three years	19,177	37,542	19,177	37,542
	4,847,475	5,342,642	4,793,916	5,320,777

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A10 Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	96,956	45,870	96,956	45,870
Other financial institutions	1,125,319	562,970	1,161,228	562,970
<u>Wakalah</u>				
Licensed Islamic banks	53,974	-	53,974	-
Other financial institutions	728,327	1,162,720	705,789	1,144,897
	2,004,576	1,771,560	2,017,947	1,753,737

A11 Other Liabilities

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Sundry creditors	231,038	285,391	230,659	285,366
Accrued restoration cost	5,611	5,681	5,504	5,574
Undistributed charity funds	1,221	1,259	1,221	1,259
Other provisions and accruals	29,825	38,959	29,362	38,249
	267,695	331,290	266,746	330,448

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

(ii) Sources and uses of charity funds:

	Group and Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	1,259	7,291
Penalty charges on late payment	642	7,782
Total sources of funds during the year	1,901	15,073
Uses of charity funds:		
Contribution to Baitulmal	-	(130)
Compensation of late payment charges	(680)	(12,643)
Contribution to non profit organisations	-	(722)
Aid to needy family	-	(319)
Total uses of funds during the year	(680)	(13,814)
Closing balance	1,221	1,259

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A12 Subordinated Murabahah Tawarruq

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD128,010,964 or equivalent RM417,891,793 (31 Dec 2013: USD126,864,726 or equivalent RM415,577,127) is unsecured with a tenure of five years and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

A13 Share Capital

	Number of ordinary shares at RM1.00 each		Amount	
	31 Mar 2014 Units'000	31 Dec 2013 Units'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Authorised:				
At 1 January/At closing balance	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid:				
At 1 January	1,425,272	2,266,125	1,425,272	2,266,125
Effect of capital reduction	-	(840,853)	-	(840,853)
At 1 January/At closing balance	1,425,272	1,425,272	1,425,272	1,425,272

During the financial year 2013, the Bank decreased its issued and paid up share capital from RM2,266,125,000 to RM1,425,272,000 in March 2013 pursuant to the capital reduction exercise. KFHM's share capital of RM2,266,125,000 consisting of RM2,266,125,000 ordinary shares of RM1.00 each has been reduced by the cancellation of RM840,853,000 issued and fully paid up shares of the Bank of RM1.00 each.

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A14 Income derived from Investment of Depositors' Funds and Others

Group

Income derived from investment of:

- General investment deposits
- Other deposits

Bank

Income derived from investment of:

- General investment deposits
- Other deposits

1st Quarter ended 31 Mar		Three-months ended 31 Mar	
2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
2,296	1,880	2,296	1,880
86,694	81,578	86,694	81,578
88,990	83,458	88,990	83,458
2,296	1,869	2,296	1,869
86,365	81,159	86,365	81,159
88,661	83,028	88,661	83,028

(i) Income derived from investment of general investment deposits

Group

Finance income from financing, advances and other receivables

Finance income from impaired financing

Securities

- Held-for-trading
- Available-for-sale
- Held-to-maturity

Money at call and deposits with financial institutions

Amortisation of premium less accretion of discounts

Total finance income and hibah

Gain arising from sale of securities

- Held-for-trading
- Available-for-sale

Foreign exchange gain

- Realised

Gain on Ijarah rental swap obligation

1st Quarter ended 31 Mar		Three-months ended 31 Mar	
2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
1,918	1,403	1,918	1,403
12	65	12	65
-	10	-	10
183	171	183	171
21	20	21	20
103	175	103	175
2,237	1,844	2,237	1,844
(25)	(24)	(25)	(24)
2,212	1,820	2,212	1,820
-	12	-	12
-	6	-	6
59	36	59	36
25	6	25	6
2,296	1,880	2,296	1,880

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A14 Income derived from Investment of Depositors' Funds and Others (cont'd.)

(i) Income derived from investment of general investment deposits

	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank				
Finance income from financing, advances and other receivables	1,928	1,405	1,928	1,405
Finance income from impaired financing	11	65	11	65
Securities				
- Held-for-trading	-	10	-	10
- Available-for-sale	174	159	174	159
- Held-to-maturity	22	20	22	20
Money at call and deposits with financial institutions	103	175	103	175
	2,238	1,834	2,238	1,834
Amortisation of premium less accretion of discounts	(25)	(24)	(25)	(24)
Total finance income and hibah	2,213	1,810	2,213	1,810
Gain arising from sale of securities				
- Held-for-trading	-	11	-	11
- Available-for-sale	-	6	-	6
Foreign exchange gain				
- Realised	58	36	58	36
Gain on Ijarah rental swap obligation	25	6	25	6
	2,296	1,869	2,296	1,869

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A14 Income derived from Investment of Depositors' Funds and Others (cont'd.)

(ii) Income derived from investment of other deposits

<u>Group</u>	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Finance income from financing, advances and other receivables	72,448	61,745	72,448	61,745
Finance income from impaired financing	416	2,104	416	2,104
Securities				
- Held-for-trading	17	425	17	425
- Available-for-sale	6,930	6,904	6,930	6,904
- Held-to-maturity	812	837	812	837
Money at call and deposits with financial institutions	3,820	7,576	3,820	7,576
	84,443	79,591	84,443	79,591
Amortisation of premium less accretion of discounts	(942)	(864)	(942)	(864)
Total finance income and hibah	83,501	78,727	83,501	78,727
Gain arising from sale of securities				
- Held-for-trading	-	703	-	703
- Available-for-sale	-	268	-	268
Foreign exchange gain				
- Realised	2,259	1,629	2,259	1,629
Gain on Ijarah rental swap obligation	934	251	934	251
	86,694	81,578	86,694	81,578

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A14 Income derived from Investment of Depositors' Funds and Others (cont'd.)

(ii) Income derived from investment of other deposits

	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank				
Finance income from financing, advances and other receivables	72,505	61,838	72,505	61,838
Finance income from impaired financing	417	2,107	417	2,107
Securities				
- Held-for-trading	17	426	17	426
- Available-for-sale	6,567	6,401	6,567	6,401
- Held-to-maturity	812	838	812	838
Money at call and deposits with financial institutions	3,804	7,559	3,804	7,559
Amortisation of premium less accretion of discounts	84,122	79,169	84,122	79,169
Total finance income and hibah	(942)	(865)	(942)	(865)
	83,180	78,304	83,180	78,304
Gain arising from sale of securities				
- Held-for-trading	-	704	-	704
- Available-for-sale	-	268	-	268
Foreign exchange gain				
- Realised	2,250	1,631	2,250	1,631
Gain on Ijarah rental swap obligation	935	252	935	252
	86,365	81,159	86,365	81,159

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A15 Income derived from Investment of Shareholder's Equity

<u>Group</u>	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Finance income from financing, advances and other receivables	17,930	14,186	17,930	14,186
Finance income from impaired financing	103	485	103	485
Securities				
- Held-for-trading	4	98	4	98
- Available-for-sale	1,716	1,587	1,716	1,587
- Held-to-maturity	201	192	201	192
Money at call and deposits with financial institutions	943	1,741	943	1,741
	20,897	18,289	20,897	18,289
Amortisation of premium less accretion of discounts	(233)	(199)	(233)	(199)
Total finance income and hibah	20,664	18,090	20,664	18,090
Fee income				
- Commission	1,010	990	1,010	990
- Other fee income	1,957	3,764	1,957	3,764
- Fund management fee	647	780	647	780
Gain arising from sale of securities				
- Held-for-trading	-	161	-	161
- Available-for-sale	-	61	-	61
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(1,260)	(314)	(1,260)	(314)
Foreign exchange gain/(loss)				
- Realised	564	388	564	388
- Unrealised	(1,430)	376	(1,430)	376
Gain on disposal of property, plant and equipment	11	-	11	-
Gain on Ijarah rental swap obligation	231	58	231	58
Other income	84	69	84	69
Gross dividend from property funds	332	296	332	296
	22,810	24,719	22,810	24,719

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A15 Income derived from Investment of Shareholder's Equity (cont'd.)

	1st Quarter ended 31 Mar		Three-months ended 31 Mar	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Bank				
Finance income from financing, advances and other receivables	17,864	14,092	17,864	14,092
Finance income from impaired financing	103	482	103	482
Securities				
- Held-for-trading	4	97	4	97
- Available-for-sale	1,618	1,460	1,618	1,460
- Held-to-maturity	200	191	200	191
Money at call and deposits with financial institutions	935	1,723	935	1,723
	20,724	18,045	20,724	18,045
Amortisation of premium less accretion of discounts	(232)	(197)	(232)	(197)
Total finance income and hibah	20,492	17,848	20,492	17,848
Fee income				
- Commission	1,011	991	1,011	991
- Other fee income	1,949	3,762	1,949	3,762
Gain arising from sale of securities				
- Held-for-trading	-	160	-	160
- Available-for-sale	-	61	-	61
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(1,260)	(314)	(1,260)	(314)
Foreign exchange gain/(loss)				
- Realised	558	386	558	386
- Unrealised	(1,424)	336	(1,424)	336
Gain on disposal of property, plant and equipment	11	-	11	-
Management fee	(186)	(476)	(186)	(476)
Gain on Ijarah rental swap obligation	230	57	230	57
	21,381	22,811	21,381	22,811

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A16 Impairment and Allowance on Financing, Advances and Other Receivables

Group

Impairment and allowance on financing

- Collective impairment (net)
- Individual write-back (net)
- Allowance charge during the period
- Allowance written-back during the period
- Bad debt recovered on financing

Bank

Impairment and allowance on financing

- Collective impairment (net)
- Individual write-back (net)
- Allowance charge during the period
- Allowance written-back during the period
- Bad debt recovered on financing

1st Quarter ended 31 Mar		Three-months ended 31 Mar	
2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
10,000	3,700	10,000	3,700
(4,368)	(15,361)	(4,368)	(15,361)
4,330	4,909	4,330	4,909
(8,698)	(20,270)	(8,698)	(20,270)
(46,881)	(447)	(46,881)	(447)
(41,249)	(12,108)	(41,249)	(12,108)
10,000	3,700	10,000	3,700
(4,368)	(15,361)	(4,368)	(15,361)
4,330	4,909	4,330	4,909
(8,698)	(20,270)	(8,698)	(20,270)
(46,881)	(447)	(46,881)	(447)
(41,249)	(12,108)	(41,249)	(12,108)

A17 Income Attributable to the Depositors

Group

Deposits from customers

- Mudharabah
- Murabahah
- Wakalah
- Negotiable Instrument Deposit

Deposits and placements of banks and other financial institutions

- Murabahah and Wakalah

Others

Bank

Deposits from customers

- Mudharabah
- Murabahah
- Wakalah
- Negotiable Instrument Deposit

Deposits and placements of banks and other financial institutions

- Murabahah and Wakalah

Others

1st Quarter ended 31 Mar		Three-months ended 31 Mar	
2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
1,590	1,965	1,590	1,965
22,291	22,673	22,291	22,673
7,933	7,037	7,933	7,037
1,153	6,361	1,153	6,361
10,516	4,082	10,516	4,082
124	104	124	104
43,607	42,222	43,607	42,222
1,590	1,965	1,590	1,965
22,291	22,673	22,291	22,673
7,741	7,037	7,741	7,037
1,153	6,361	1,153	6,361
10,695	4,103	10,695	4,103
124	104	124	104
43,594	42,243	43,594	42,243

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A18 Commitments and Contingencies

- (a) 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.

	As at 31 Mar 2014			As at 31 Dec 2013		
	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	23,436	23,436	22,025	11,220	11,220	8,889
Transaction related contingencies	148,580	74,290	53,077	142,880	71,440	42,219
Trade related contingencies	50,351	10,070	10,070	23,897	4,779	4,779
Irrevocable commitments to extend credit						
- maturity less than one year	506,379	101,276	85,704	333,208	66,643	65,496
- maturity more than one year	226,805	113,403	111,713	397,811	198,905	197,595
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	253,612	23,887	19,793	263,825	25,585	21,359
	1,209,163	346,362	302,382	1,172,841	378,572	340,337

* 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").

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A19 Capital Adequacy

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

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

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

	Group		Bank	
	31 Mar 2014	31 Dec 2013	31 Mar 2014	31 Dec 2013
Common Equity Tier I/ Tier I Capital Ratio				
Credit risk	19.80%	19.60%	19.09%	18.91%
Credit, market, operational and large exposure risks	18.13%	18.01%	17.51%	17.40%
Total Capital Ratio				
Credit risk	23.91%	23.71%	23.23%	23.05%
Credit, market, operational and large exposure risks	21.90%	21.78%	21.30%	21.20%

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A19 Capital Adequacy (Cont' d.)

(b) The CET I and Tier II capital of the Group and the Bank are as follows:

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
<u>CET I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	113,895	113,895	113,895	113,895
Other reserves	59,365	50,447	44,338	36,230
	1,598,532	1,589,614	1,583,505	1,575,397
Less: Deferred tax assets (net)	(241,259)	(241,258)	(241,134)	(241,134)
Less: Investment in subsidiaries	-	-	(46,193)	(46,193)
Total CET I capital	1,357,273	1,348,356	1,296,178	1,288,070
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	195,870	196,545	195,870	196,545
Collective impairment on financing	85,669	85,980	84,872	85,132
Total Tier II capital	281,539	282,525	280,742	281,677
Total capital	1,638,812	1,630,881	1,576,920	1,569,747

(c) The Common Equity Tier I/ Tier I Capital Ratio and Total Capital Ratio of the Group and the Bank are as follows:

	Group		Bank	
	31 Mar 2014 RM'000	31 Dec 2013 RM'000	31 Mar 2014 RM'000	31 Dec 2013 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	6,853,534	6,878,375	6,789,733	6,810,596
Total Market RWA	85,944	69,335	85,944	69,335
Total Operational RWA	500,815	495,913	484,071	479,311
Large Exposure Risk RWA for Equity Holdings	44,490	44,490	44,490	44,490
Total Risk-Weighted Assets	7,484,783	7,488,113	7,404,238	7,403,732
Computation of Capital Ratios				
Total CET I capital	1,357,273	1,348,356	1,296,178	1,288,070
Total capital	1,638,812	1,630,881	1,576,920	1,569,747
Common Equity Tier I/ Tier I Capital Ratio	18.13%	18.01%	17.51%	17.40%
Total Capital Ratio	21.90%	21.78%	21.30%	21.20%

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A20 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Group			
31 Mar 2014			
Financial assets			
Securities held-for-trading	16,221	-	16,221
Securities available-for-sale	1,181,736	-	1,181,736
Securities held-to-maturity	80,998	-	80,998
Financing, advances and other receivables	588,348	5,412,659	6,001,007
Hedging financial instruments	13,852	-	13,852
Total	1,881,154	5,412,659	7,293,813
Financial liability			
Deposits from customers	4,743,265	-	4,743,265
Hedging financial instruments	1	-	1
	4,743,266	-	4,743,266
31 Dec 2013			
Financial assets			
Securities available-for-sale	1,034,655	-	1,034,655
Securities held-to-maturity	81,514	-	81,514
Financing, advances and other receivables	565,641	5,432,789	5,998,430
Hedging financial instruments	15,192	-	15,192
Total	1,697,002	5,432,789	7,129,791
Financial liability			
Deposits from customers	5,336,276	-	5,336,276
Hedging financial instruments	200	-	200
	5,336,476	-	5,336,476

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A20 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

	Level 2 RM'000	Level 3 RM'000	Total RM'000
Bank			
31 Mar 2014			
Financial assets			
Securities held-for-trading	16,221	-	16,221
Securities available-for-sale	1,082,691	-	1,082,691
Securities held-to-maturity	80,998	-	80,998
Financing, advances and other receivables	588,348	5,412,659	6,001,007
Hedging financial instruments	13,852	-	13,852
Total	1,782,109	5,412,659	7,194,768
Financial liability			
Deposits from customers	4,697,949	-	4,697,949
Hedging financial instruments	1	-	1
	4,697,950	-	4,697,950
31 Dec 2013			
Financial assets			
Securities available-for-sale	976,143	-	976,143
Securities held-to-maturity	81,486	-	81,486
Financing, advances and other receivables	565,641	5,432,789	5,998,430
Hedging financial instruments	15,192	-	15,192
Total	1,638,462	5,432,789	7,071,251
Financial liability			
Deposits from customers	5,317,772	-	5,317,772
Hedging financial instruments	200	-	200
	5,317,972	-	5,317,972

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	3% - 5%

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A20 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

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

The estimated fair values of those on-balance sheets financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the following assets and liabilities:

		Group			
		31 Mar 2014		31 Dec 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
	Securities held-to-maturity	80,955	80,998	81,486	81,514
	Financing, advances and other receivables	6,017,911	6,001,007	6,009,772	5,998,430
		6,098,866	6,082,005	6,091,258	6,079,944
Financial Liabilities					
	Deposits from customers	4,847,475	4,743,265	5,342,642	5,336,276

		Bank			
		31 Mar 2014		31 Dec 2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
	Securities held-to-maturity	80,955	80,998	81,486	81,514
	Financing, advances and other receivables	6,017,911	6,001,007	6,009,772	5,998,430
		6,098,866	6,082,005	6,091,258	6,079,944
Financial Liabilities					
	Deposits from customers	4,793,916	4,697,949	5,320,777	5,317,772

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A20 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

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

(a) Cash and Short-Term Funds

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

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

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

(c) Securities Held-For-Trading and Available-For-Sale

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

(d) Securities Held-To-Maturity

Fair values of securities that are traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including earnings multiples and discounted cash flow analysis. Where discounted cash flows techniques is used, the estimated futures cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(e) Hedging Financial Instruments

Derivatives products valued using a valuation technique with market observable inputs are mainly ijarah rental swaps and promissory foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

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A20 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

(f) Financing, Advances and Other Receivables

The fair values of variable rate financing are estimated to approximate their carrying values. For fixed rate financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new borrowers with similar credit profiles. In respect of impaired loans, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

(g) 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 fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities. As at the reporting date, all deposits and placements of banks and other financial institutions have maturity less than one year.

(h) Subordinated Murabahah Tawaruq

The fair values of subordinated murabahah tawaruq with maturity of less than one year approximate their carrying values due to the relatively short maturity of the instruments. The fair values of subordinated murabahah tawaruq with remaining maturities of more than one year are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowings with similar risk profiles. As at the reporting date, all subordinated murabahah tawaruq have maturity less than one year.

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A21 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) 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	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			
31 Mar 2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	1,088,290	-	-	-	-	43,501	-	1,131,791	2.30
Deposits and placements with banks and other financial institutions	-	20,860	25,916	-	-	-	-	46,776	0.78
Securities available-for-sale	-	-	167,505	332,585	452,798	228,848	-	1,181,736	3.08
Securities held-to-maturity	-	-	-	55,424	25,531	-	-	80,955	5.24
Financing, advances and receivables	2,349,315	1,768,997	389,321	363,635	1,146,643	-	-	6,017,911	5.91
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	690,701	-	690,701	-
TOTAL ASSETS	3,437,605	1,789,857	582,742	767,865	1,624,972	968,948	-	9,171,989	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,499	913,320	1,062,445	19,178	668,033	-	-	4,847,475	2.78
Deposits and placements of banks and other financial institutions	1,252,134	504,587	247,855	-	-	-	-	2,004,576	2.42
Subordinated Murabahah Tawarruq	-	-	417,892	-	-	-	-	417,892	3.62
Other liabilities	-	-	-	-	-	267,696	-	267,696	-
Total Liabilities	3,436,633	1,417,907	1,728,192	19,178	668,033	267,696	-	7,537,639	
Shareholder's equity	-	-	-	-	-	1,634,350	-	1,634,350	
Total Liabilities and Shareholder's Equity	3,436,633	1,417,907	1,728,192	19,178	668,033	1,902,046	-	9,171,989	
On-balance sheet profit sensitivity gap	972	371,950	(1,145,450)	748,687	956,939	(933,098)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	972	371,950	(1,145,450)	748,687	956,939	(933,098)	-	-	

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A21 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
31 Dec 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
ASSETS									
Cash and short-term funds	1,327,227	-	-	-	-	78,982	-	1,406,209	2.86
Deposits and placements with banks and other financial institutions	-	50,005	25,897	-	-	-	-	75,902	1.50
Securities available-for-sale	-	10,202	169,083	319,266	460,976	229,416	-	1,188,943	3.09
Securities held-to-maturity	-	-	-	56,170	25,316	-	-	81,486	5.24
Financing, advances and receivables	1,973,144	1,755,869	474,374	477,793	1,328,592	-	-	6,009,772	5.78
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	682,673	-	682,673	-
TOTAL ASSETS	3,300,371	1,816,076	669,354	853,229	1,814,884	996,969	-	9,450,883	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,991	1,079,640	1,319,824	37,542	21,866	698,779	-	5,342,642	2.82
Deposits and placements of banks and other financial institutions	1,119,844	213,509	438,207	-	-	-	-	1,771,560	2.71
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	-	415,577	3.62
Other liabilities	-	-	-	-	-	331,490	-	331,490	-
Total Liabilities	3,304,835	1,293,149	2,173,608	37,542	21,866	1,030,269	-	7,861,269	
Shareholder's equity	-	-	-	-	-	1,589,614	-	1,589,614	-
Total Liabilities and Shareholder's Equity	3,304,835	1,293,149	2,173,608	37,542	21,866	2,619,883	-	9,450,883	
On-balance sheet profit sensitivity gap	(4,464)	522,927	(1,504,254)	815,687	1,793,018	(1,622,914)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(4,464)	522,927	(1,504,254)	815,687	1,793,018	(1,622,914)	-	-	

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A21 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
Bank									
31 Mar 2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	1,088,291	-	-	-	-	42,177	-	1,130,468	2.30
Deposits and placements with banks and other financial institutions	-	47,573	25,916	-	-	-	-	73,489	0.78
Securities available-for-sale	-	-	167,505	273,157	452,797	189,232	-	1,082,691	3.01
Securities held-to-maturity	-	-	-	55,424	25,531	-	-	80,955	5.24
Financing, advances and receivables	2,349,315	1,768,997	389,321	363,635	1,146,643	-	-	6,017,911	5.91
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	708,236	-	708,236	-
TOTAL ASSETS	3,437,606	1,816,570	582,742	708,437	1,624,971	945,543	-	9,115,869	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,499	913,320	1,062,445	19,178	614,474	-	-	4,793,916	2.80
Deposits and placements of banks and other financial institutions	1,265,393	504,656	247,898	-	-	-	-	2,017,947	2.42
Subordinated Murabahah Tawarruq	-	-	417,892	-	-	-	-	417,892	3.62
Other liabilities	-	-	-	-	-	266,747	-	266,747	-
Total Liabilities	3,449,892	1,417,976	1,728,235	19,178	614,474	266,747	-	7,496,502	
Shareholder's equity	-	-	-	-	-	1,619,367	-	1,619,367	
Total Liabilities and Shareholder's Equity	3,449,892	1,417,976	1,728,235	19,178	614,474	1,886,114	-	9,115,869	
On-balance sheet profit sensitivity gap	(12,286)	398,594	(1,145,493)	689,259	1,010,497	(940,571)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(12,286)	398,594	(1,145,493)	689,259	1,010,497	(940,571)	-	-	

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A21 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
31 Dec 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
ASSETS									
Cash and short-term funds	1,354,068	-	-	-	-	77,807	-	1,431,875	2.72
Deposits and placements with banks and other financial institutions	-	50,005	25,898	-	-	-	-	75,902	1.50
Securities available-for-sale	-	10,202	169,083	260,755	460,976	189,593	-	1,090,609	3.03
Securities held-to-maturity	-	-	-	56,170	25,316	-	-	81,486	5.24
Financing, advances and receivables	1,973,144	1,755,869	474,374	477,793	1,328,592	-	-	6,009,772	5.78
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	700,594	-	700,594	-
TOTAL ASSETS	3,327,212	1,816,076	669,354	794,718	1,814,884	973,892	-	9,396,136	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,991	1,079,640	1,319,824	37,542	-	698,780	-	5,320,777	2.82
Deposits and placements of banks and other financial institutions	1,102,021	213,509	438,207	-	-	-	-	1,753,737	2.70
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	-	415,577	3.62
Other liabilities	-	-	-	-	-	330,648	-	330,648	-
Total Liabilities	3,287,012	1,293,149	2,173,608	37,542	-	1,029,428	-	7,820,739	
Shareholder's equity	-	-	-	-	-	1,575,397	-	1,575,397	-
Total Liabilities and Shareholder's Equity	3,287,012	1,293,149	2,173,608	37,542	-	2,604,825	-	9,396,136	
On-balance sheet profit sensitivity gap	40,200	522,927	(1,504,254)	757,176	1,814,884	(1,630,933)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	40,200	522,927	(1,504,254)	757,176	1,814,884	(1,630,933)	-	-	

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**Part B - Explanatory Notes Pursuant to Financial Reporting Standard ("MFRS 134")
Issued by Malaysian Accounting Standards Board**

B1 Basis of Preparation of the Financial Statements

The unaudited condensed interim financial statements for the 1st quarter and three months ended 31 March 2014 of the Group and the Bank have been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB"), BNM's Guidelines on Financial Reporting for Islamic Banking Institutions ("BNM/GP8-i") and Shariah principles.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2013. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2013.

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

B2 Significant Accounting Policies

The significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2013, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2014:

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting
IC interpretation 21: Levies

The following FRSs and IC Interpretations have been issued by the MASB but are not yet effective, and have yet to be adopted by the Group and the Bank:

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
Amendment to MFRS 2 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendment to MFRS 3 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendment to MFRS 3 (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014
Amendment to MFRS 8 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendment to MFRS 13 (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014
Amendment to MFRS 116 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Defined Benefit Plans: Employee Contributions (Amendments to MFRS 119)	1 July 2014
Amendment to MFRS 124 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendment to MFRS 140 (Annual Improvements to MFRSs 2011-2013 Cycle)	1 July 2014
Amendment to MFRS 138 (Annual Improvements to MFRSs 2010-2012 Cycle)	1 July 2014
Amendments to MFRS 119: Defined Benefit Plans: Employee Contribution	1 July 2014
Amendments to MFRS contained in the documents entitled " Annual Improvements 2010 - 2012 cycle"	1 July 2014
Amendments to MFRS contained in the documents entitled " Annual Improvements 2010 - 2013 cycle"	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be decided
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be decided
MFRS 9 Financial Instruments (Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139)	To be decided

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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
("MFRS 134") Issued by Malaysian Accounting Standards Board**

B3 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2013 was not qualified.

B4 Seasonal or Cyclical Factors Affecting Operations

The operations of the Group and the Bank were not materially affected by any seasonal or cyclical factors in the three-months ended 31 March 2014.

B5 Unusual Items Due to their Nature, Size or Incidence

There were no items of unusual nature, size or incidence affecting the assets, liabilities, equity, net income or cash flows of the Group and the Bank during the three-months ended 31 March 2014.

B6 Changes in Estimates

There were no changes in the estimates of amounts reported in prior financial years that have a material effect to the three-months ended 31 March 2014.

B7 Debt and Equity Securities

There were no issuances, cancellation, repurchases, resales or repayments of debt and equity securities during the three-months ended 31 March 2014.

B8 Dividends Paid

There were no dividends paid during the three-months ended 31 March 2014.

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("MFRS 134") Issued by Malaysian Accounting Standards Board**

B9 Segment Information on Operating Revenue, Profit Before Zakat & Taxation and Total Assets

(i) Primary Segment - By Business Segment

Group	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
31 Mar 2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	16,726	43,769	18,347	32,958	-	111,800
Revenue from other segments	26,961	1,382	2,088	19,749	(50,180)	-
Total Revenue	43,687	45,151	20,435	52,707	(50,180)	111,800
Segment results	1,926	66,244	11,946	6,976	-	87,092
Unallocated expenses						(33,986)
Profit from operations						53,106
Taxation						(17,287)
Net profit for the year						35,819
Other information						
Segment assets	2,606,381	3,318,918	848,545	2,286,581	(369,537)	8,690,888
Unallocated corporate assets						481,101
Total assets						9,171,989
Segment liabilities	4,498,471	273,270	237,707	2,223,158	(350,104)	6,882,502
Unallocated corporate liabilities						655,137
Total liabilities						7,537,639
Other segment items						
Purchase of property and equipment	-	-	-	59	-	59
Purchase of intangible assets	-	-	-	1,102	-	1,102
Depreciation of property and equipment	-	-	-	2,709	-	2,709
Amortisation of intangible assets	-	-	-	2,077	-	2,077
Other non-cash expense other than depreciation	-	51,314	1,916	(11,981)	-	41,249

(ii) By Geographical Locations

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
31 Mar 2014			
Malaysia	111,534	53,042	9,170,565
Outside Malaysia	266	64	1,424
	111,800	53,106	9,171,989

The Group has funds management operations in Australia.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
("MFRS 134") Issued by Malaysian Accounting Standards Board**

B9 Segment Information on Operating Revenue, Profit Before Zakat & Taxation and Total Assets (cont'd.)

(i) Primary Segment - By Business Segment

Group 31 Mar 2013	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	21,262	39,182	12,453	35,280	-	108,177
Revenue from other segments	22,621	799	1,747	21,702	(46,869)	-
Total Revenue	43,883	39,981	14,200	56,982	(46,869)	108,177
Segment results	814	13,572	20,843	9,875	-	45,104
Unallocated expenses						(23,462)
Profit from operations						21,642
Zakat						(8,989)
Taxation						(8,989)
Net profit for the year						12,653
Other information						
Segment assets	2,900,429	2,918,823	655,837	2,133,298	(277,742)	8,330,645
Unallocated corporate assets						582,748
Total assets						8,913,393
Segment liabilities	3,705,972	111,698	373,152	2,869,642	(246,790)	6,813,674
Unallocated corporate liabilities						572,330
Total liabilities						7,386,004
Other segment items						
Purchase of property and equipment	-	-	-	1,694	-	1,694
Purchase of intangible assets	-	-	-	347	-	347
Depreciation of property and equipment	-	-	-	2,985	-	2,985
Amortisation of intangible assets	-	-	-	2,388	-	2,388
Other non-cash expense other than depreciation	(142)	257	16,620	(4,769)	-	11,966

(ii) By Geographical Locations

Group 31 Mar 2013	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	107,440	21,481	8,912,843
Outside Malaysia	737	161	550
	108,177	21,642	8,913,393

The Group has funds management operations in Australia.

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B10 Valuation of Property and Equipment

There was no change in the valuation of property and equipment that were brought forward from the previous audited financial statements for the year ended 31 December 2013.

B11 Subsequent Events

There were no material events subsequent to the end of the current interim period that requires disclosure or adjustments to the unaudited condensed interim financial statements.

B12 Changes In Composition Of The Group

There were no significant changes in the composition of the Group since the last audited financial statements as at 31 December 2013.

B13 Changes In Contingent Liabilities and Contingent Assets

There were no significant changes in the contingent liabilities and contingent assets since the last annual statements of financial position as at 31 December 2013 other than those as disclosed in note A18.

B14 Capital Commitments

The capital commitments not provided for in the interim financial statements as at 31 March 2014 are as follows:

Capital expenditure

Authorised and contracted for:

- renovation
- purchase of IT hardware & software
- purchase of equipment

Authorised and not contracted for:

- purchase of equipment

Group	Bank
RM'000	RM'000
2,673	2,673
2,316	2,313
291	291
5,280	5,277
789	789
789	789


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Certification of Financial Statements

I, Mohd Hazran Abd Hadi, being the officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, hereby certify that the financial statements are to the best of my knowledge and belief, correct and prepared in accordance to the Company's accounting and other records and are in conformity with the approved accounting standards in Malaysia.



Mohd Hazran Abd Hadi
Head of Finance

I, Dato' Sri Abdul Hamidy Abdul Hafiz, being the Chief Executive Officer of Kuwait Finance House (Malaysia) Berhad, hereby certify that the financial statements are to the best of my knowledge and belief, correct and prepared in accordance to requirements stipulated in Bank Negara Malaysia Capital Adequacy Framework for Islamic Bank (CAFIB) - Disclosures Requirements (Pillar 3) guidelines.



Dato' Sri Abdul Hamidy Abdul Hafiz
Chief Executive Officer