



KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Interim Report for the Period Ended 30 September 2016

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

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INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

Note	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
ASSETS				
	1,250,527	1,558,023	1,250,527	1,558,023
Cash and short-term funds				
Deposits and placements with banks and other financial institutions	A3	198,110	211,618	225,647
Investment accounts due from designated financial institutions	A11	8,604	7,490	8,604
Securities held-for-trading	A4	-	-	-
Hedging financial instruments	A7	5,908	9,267	5,908
Securities available-for-sale	A4	1,058,078	1,135,222	1,026,788
Securities held-to-maturity	A4	60,463	61,251	60,463
Financing, advances and other receivables	A5	6,397,852	7,002,145	6,397,852
Other assets	A6	200,604	211,325	200,152
Statutory deposits with Bank Negara Malaysia		206,000	242,000	206,000
Musarakah capital investment	A8	5,898	5,898	5,898
Investment in subsidiaries		-	-	18,680
Property and equipment		17,392	17,885	16,983
Intangible assets		6,270	7,763	5,989
Deferred tax assets		196,630	198,141	196,630
		9,612,336	10,668,028	9,626,121
				10,630,096
LIABILITIES				
Deposits from customers	A9	4,433,085	3,640,007	4,356,914
Investment accounts of customers	A11	8,604	7,490	8,604
Deposits and placements of banks and other financial institutions	A10	2,920,891	4,849,350	3,041,041
Hedging financial instruments	A7	454	459	454
Subordinated Murabahah Tawarruq	A13	414,916	429,538	414,916
Other liabilities	A12	143,691	73,713	142,944
		7,921,641	9,000,557	7,964,873
				8,988,857
SHAREHOLDER'S EQUITY				
Share capital	A14	1,425,272	1,425,272	1,425,272
Reserves		265,423	242,199	235,976
		1,690,695	1,667,471	1,661,248
				1,641,239
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY				
		9,612,336	10,668,028	9,626,121
				10,630,096
COMMITMENTS AND CONTINGENCIES				
	A20	674,658	918,748	674,658
				918,748
CAPITAL ADEQUACY				
Common Equity Tier I/ Tier I Capital Ratio	A22	21.718%	18.827%	21.010%
Total Capital Ratio	A22	28.940%	25.493%	28.264%
				18.241%
				24.953%
NET ASSETS PER SHARE (RM)				
		1.19	1.17	1.17
				1.15

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

<u>Group</u>	Note	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Continuing operations					
Operating revenue		121,052	116,058	373,073	357,125
Income derived from investment of depositors' funds and others	A15	95,726	95,762	303,844	294,420
Income derived from investment of investment account funds	A19	70	-	191	-
Income derived from investment of shareholder's equity	A16	25,256	20,296	69,037	62,705
Total gross income		121,052	116,058	373,072	357,125
Impairment write-back on others		-	(276)	45	(1,325)
Impairment write-back/(loss) on securities		-	-	-	-
Impairment (charge)/write-back on financing	A17	(61,143)	(47,869)	(37,092)	(43,060)
Total distributable income		59,909	67,913	336,025	312,740
Income attributable to the depositors	A18	(59,870)	(59,673)	(202,159)	(182,396)
Profit distributed to investment account holders	A19	(42)	-	(114)	-
Total net income		(3)	8,240	133,752	130,344
Personnel expenses		(19,810)	(21,649)	(60,845)	(64,390)
Other overheads and expenditures		(20,757)	(19,493)	(62,781)	(60,738)
Finance cost		(2,602)	(3,318)	(8,803)	(9,022)
Profit before zakat and taxation		(43,172)	(36,220)	1,323	(3,806)
Taxation		14,768	7,979	(15)	(2,110)
Net profit for the period		(28,404)	(28,241)	1,308	(5,916)
Attributable to:					
Equity holders of the Bank		(28,404)	(28,241)	1,308	(5,916)
Earnings per share attributable to equity holders of the Bank					
- Basic/Diluted (sen)		(1.99)	(1.98)	0.09	(0.42)

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 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Group	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net profit for the period	(28,404)	(28,241)	1,308	(5,916)
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	5,673	(4,953)	31,185	(3,161)
- Net realised (loss)/gain on securities available-for-sale reclassified to the income statement	(195)	71	(197)	1,710
Exchange differences on translation of foreign operations:				
Net income/(loss) taken to equity	1,112	6,107	(1,325)	8,212
Income tax relating to components of other comprehensive (loss)/income	(1,370)	1,221	(7,747)	363
Other comprehensive income/(loss) for the period, net of tax	5,220	2,446	21,916	7,124
Total comprehensive income for the period	(23,184)	(25,795)	23,224	1,208
Total comprehensive income for the period attributable to equity holders of the Bank	(23,184)	(25,795)	23,224	1,208

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	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank					
Continuing operations					
Operating revenue		118,340	114,142	365,567	351,040
Income derived from investment of depositors' funds and others	A15	95,849	95,415	303,618	293,361
Income derived from investment of investment account funds	A19	70	-	191	-
Income derived from investment of shareholder's equity	A16	22,421	18,727	61,758	57,679
Total gross income		118,340	114,142	365,567	351,040
Impairment write-back on others		-	-	45	(1,049)
Impairment write-back/(loss) on securities		-	-	-	-
Impairment write-back on financing	A17	(61,143)	(47,869)	(37,092)	(43,060)
Total distributable income		57,197	66,273	328,520	306,931
Income attributable to the depositors	A18	(60,086)	(59,711)	(202,738)	(182,461)
Profit distributed to investment account holders	A19	(42)	-	(114)	-
Total net income		(2,931)	6,562	125,668	124,470
Personnel expenses		(19,037)	(20,947)	(58,510)	(62,154)
Other overheads and expenditures		(20,208)	(18,862)	(60,929)	(58,846)
Finance cost		(2,602)	(3,318)	(8,803)	(9,022)
Profit before zakat and taxation		(44,778)	(36,565)	(2,574)	(5,552)
Taxation		14,771	7,983	-	(2,095)
Net profit for the period		(30,007)	(28,582)	(2,574)	(7,647)

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

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank				
Net profit for the period	(30,007)	(28,582)	(2,574)	(7,647)
Other comprehensive income/(loss):				
Securities available-for-sale:				
- Net unrealised gain/(loss) on securities available-for-sale	6,094	(4,729)	30,630	(2,867)
- Net realised (loss)/gain on securities available-for-sale reclassified to the income statement	(520)	-	(520)	1,659
Income tax relating to components of other comprehensive (loss)/income	(1,394)	1,182	(7,527)	303
Other comprehensive income/(loss) for the period, net of tax	4,180	(3,547)	22,582	(905)
Total comprehensive income for the period	(25,827)	(32,129)	20,009	(8,552)

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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 2016	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
Total comprehensive (loss)/income	-	-	(1,325)	23,241	1,308	23,224
At 30 Sep 2016	1,425,272	158,385	3,377	8,791	94,870	1,690,695
At 1 Jan 2015	1,425,272	158,385	(2,951)	(5,340)	130,742	1,706,108
Total comprehensive income/(loss)	-	-	8,212	(1,088)	(5,916)	1,208
At 30 Sep 2015	1,425,272	158,385	5,261	(6,428)	124,826	1,707,316
Bank						
At 1 Jan 2016	1,425,272	158,385	-	(13,918)	71,500	1,641,239
Total comprehensive income	-	-	-	22,583	(2,574)	20,009
At 30 Sep 2016	1,425,272	158,385	-	8,665	68,926	1,661,248
At 1 Jan 2015	1,425,272	158,385	-	(5,982)	106,862	1,684,537
Total comprehensive (loss)/income	-	-	-	(905)	(7,647)	(8,552)
At 30 Sep 2015	1,425,272	158,385	-	(6,887)	99,215	1,675,985

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	
	30-Sep 2016 RM'000	30-Sep 2015 RM'000	30-Sep 2016 RM'000	30-Sep 2015 RM'000
Profit before zakat and taxation	1,323	(3,806)	(2,574)	(5,552)
Adjustments for non-cash items	60,593	77,888	60,592	73,230
Operating profit before changes in working capital	61,916	74,082	58,018	67,678
<u>Changes in the working capital</u>				
Net changes in operating assets	627,468	(229,247)	627,341	(228,624)
Net changes in operating liabilities	(1,096,537)	(172,262)	(1,036,921)	(135,897)
Zakat and taxation refund/(paid)	(20)	(20)	-	-
Net cash generated from operating activities	(469,089)	(401,529)	(409,581)	(364,521)
Net purchases of assets	96,300	139,676	44,067	115,238
Net cash used in investing activities	96,300	139,676	44,067	115,238
Net change in cash and cash equivalents	(310,873)	(187,771)	(307,496)	(181,605)
Cash and cash equivalents at beginning of the period	1,558,023	1,526,907	1,558,023	1,526,002
Exchange differences on translation of opening balances	3,377	5,261	-	-
Cash and cash equivalents at end of the period	1,250,527	1,344,397	1,250,527	1,344,397

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

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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 recorded profit before zakat and taxation of RM1.3 million and the Bank recorded loss before zakat and taxation of RM2.6 million for the period ended 30 Sep 2016.

A2 Prospects for 2016

The Malaysian economy is expected to grow at a moderate pace of 4.0% to 4.5% in 2016. Domestic demand will continue to be the major growth driver, while private consumption is set to trend below its long term average. The gross domestic product (GDP) recorded a slower growth of 4.0% in the 2Q 2016, compared to 4.2% expansion in the 1Q 2016. On the supply side, services will continue to account for the largest share of GDP and Malaysia's global pre-eminence in the provision of Islamic finance will support the growth of the financial services sector. Price pressure will be contained in 2016 and we expect consumer price inflation to fall into a range of 2 - 3% this year. Bank Negara Malaysia (BNM) on 13 July 2016, cut its main policy rate by 25 basis points to 3.00%, citing the potential negative impact on the economy from weak global growth prospects and we believe the central bank will maintain its rate during the remainder of 2016. The outlook for economic growth remain broadly positive, reflecting a well-diversified economy, despite some risks. Similarly, the banking sector is also to remain resilient driven by strong capital, healthy funding and liquidity profiles supported by accommodative policies.

A3 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
	RM'000	RM'000	RM'000	RM'000
Other financial institutions	198,110	211,618	225,647	239,536
	198,110	211,618	225,647	239,536

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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 Available-For-Sale

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
<u>At fair value</u>				
Unquoted securities				
- Islamic private debt securities/sukuks	408,125	508,778	395,507	444,640
- Government guaranteed sukuk	574,953	462,849	574,953	462,849
Mutual Fund	4,175	86,638	4,175	86,638
	987,253	1,058,265	974,635	994,127
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	18,672	18,714	-	-
Collective Investment Scheme	16,052	22,143	16,052	22,143
	70,825	76,957	52,152	58,243
	1,058,078	1,135,222	1,026,788	1,052,370

ii) Securities Held-To-Maturity

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
<u>At amortised cost</u>				
Unquoted Islamic private debt securities/sukuk	60,463	61,251	60,463	61,251

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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	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
733,601	588,527
1,237,055	1,294,582
52,248	100,201
341,644	333,548
6,019	5,960
504,760	407,936
3,947,195	4,671,417
12,053	12,850
6,834,575	7,415,021
(93,121)	(92,212)
(343,602)	(320,664)
6,397,852	7,002,145

ii) By contract

Ijarah Muntahia Bittamlik (lease ended with ownership)	
Murabahah (cost-plus)	
Mudharabah (profit sharing)	
Qard (benevolent financing)	
Musyarakah (profit and loss sharing)	
Istisna'	

Group and Bank	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
2,018,849	1,894,939
4,506,249	5,193,684
71,111	77,816
1,291	1,147
235,724	245,935
1,351	1,500
6,834,575	7,415,021

iii) By type of customer

Domestic business enterprises	
Individuals	
Foreign entities	
Domestic non-bank financial institutions	

Group and Bank	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
4,320,280	4,898,070
2,492,664	2,326,615
14,781	34,421
6,850	155,915
6,834,575	7,415,021

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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	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
3,866,944	4,578,875
227,155	20,013
110,874	323,627
2,629,602	2,492,506
6,834,575	7,415,021

(v) By geographical distribution

Malaysia
Middle East
Other countries

Group and Bank	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
6,818,143	7,395,927
5,359	6,639
11,073	12,455
6,834,575	7,415,021

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	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
67,102	46,439
504,760	407,936
341,644	333,548
1,374,813	1,475,067
666,499	542,087
3,879,757	4,609,944
6,834,575	7,415,021

vii) By economic purpose

Merger and acquisition
Purchase of securities
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	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
-	230,759
233,512	22,120
508,393	416,739
775,318	687,640
911,140	972,781
85,949	176,683
1,851,494	2,650,879
469,514	435,355
1,255,465	1,291,879
743,790	530,186
6,834,575	7,415,021

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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
Agriculture, hunting, forestry & fishing
Real Estate
Transports, storage and communication
Wholesale & retail trade and restaurants & hotels
Others

Group and Bank	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
629,295	739,278
161,303	162,030
245,522	367,248
2,492,664	2,326,614
898,432	904,930
347,878	297,983
1,322,052	1,400,648
228,722	486,073
437,955	646,954
70,752	83,262
6,834,575	7,415,021

(ix) Financing by types and Shariah contract

	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
30 Sep 2016							
House financing	706,257	94	-	25,900	-	1,351	733,601
Personal financing	-	1,236,578	-	-	477	-	1,237,055
Leasing financing	-	24,843	27,405	-	-	-	52,248
Syndicated financing	64,932	276,712	-	-	-	-	341,644
Cashline financing	-	6,019	-	-	-	-	6,019
Hire purchase receivables	498,111	-	-	6,650	-	-	504,760
Other term financing	739,154	2,961,373	43,705	202,962	0	-	3,947,195
Staff financing	10,396	631	-	213	813	-	12,053
	2,018,849	4,506,249	71,110	235,724	1,291	1,351	6,834,575

	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
31 Dec 2015							
House financing	562,511	97	-	24,419	-	1,500	588,527
Personal financing	-	1,294,074	-	-	508	-	1,294,582
Leasing financing	27,413	38,677	34,111	-	-	-	100,201
Syndicated financing	65,083	268,465	-	-	-	-	333,548
Cashline financing	-	5,960	-	-	-	-	5,960
Hire purchase receivables	401,035	-	-	6,901	-	-	407,936
Other term financing	828,082	3,585,385	43,705	214,245	-	-	4,671,417
Staff financing	10,815	1,026	-	370	639	-	12,850
	1,894,939	5,193,684	77,816	245,935	1,147	1,500	7,415,021

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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.)

x) Purpose and Source of Qard financing

As at 1 January
Source of Qard fund:
- Depositors' Fund
- Shareholders' Fund

Uses of Qard fund:
- Financing for asset purchase
- Staff Benevolent

Closing balance

Group and Bank	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
1,147	1,157
993	1,312
806	1,084
187	229
(849)	(1,322)
(689)	(1,092)
(160)	(230)
1,291	1,147

xi) Movements in impaired financing, advances and other receivables

At 1 Jan
Impaired during the period/year
- Impaired during the period/year
- Reclassified to performing during the year
- Amount recovered
- Amount written off
Closing balance

Group and Bank	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
550,898	526,625
(20,967)	24,273
129,866	283,019
(5,940)	(7,137)
(124,449)	(138,588)
(20,444)	(113,021)
529,931	550,898
2.87%	3.25%

Ratio of net impaired financing,
advances and other
receivables to gross financing,
advances and other receivables
less individual impairment

xii) Movements in impairment and allowance on financing

Collective impairment
At 1 Jan
Allowance charged during the year

Closing balance

As % of total gross financing,
advances and other receivables
less individual impairment

Group and Bank	
30 Sep 2016	31 Dec 2015
RM'000	RM'000
92,212	148,032
908	(55,820)
93,121	92,212
1.43%	1.30%

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

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

Individual impairment

At 1 Jan

Allowance reversed during the year

- Allowance made

- Allowance written-back

Amount written off

Closing balance

Group and Bank	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
320,664	267,142
43,383	166,543
114,726	199,951
(71,343)	(33,408)
(20,444)	(113,021)
343,602	320,664

xiii) Impaired financing by sector

Agriculture, hunting, forestry and fishing

Electricity, gas and water

Finance, insurance and business services

Household

Manufacturing

Real Estate

Transport, storage and communication

Wholesale & retail trade and restaurants & hotels

Group and Bank	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
-	12,021
79	79
15,232	28
36,090	24,987
274,977	274,946
141,755	88,202
8,241	25,917
53,557	124,718
529,931	550,898

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A6 Other Assets

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Deposits and prepayments	9,442	8,526	9,304	8,311
Amount due from subsidiaries	-	-	4	4
Amount due from other related parties	51,561	51,561	51,561	51,561
Fee receivable	-	403	-	403
Sundry debtors	3,023	1,190	2,705	448
Gold depository	136,578	149,645	136,578	149,645
	200,604	211,325	200,152	210,372

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 30 Sep 2016			
Forward foreign exchange related contracts	37,858	172	138
Ijarah rental swap related contracts	204,989	5,736	316
Total	242,847	5,908	454
At 31 Dec 2015			
Forward foreign exchange related contracts	8,873	265	249
Ijarah rental swap related contracts	245,505	9,002	210
Total	254,378	9,267	459

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	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Non Mudharabah				
- Demand deposits	512,807	664,685	436,636	581,459
- Gold deposits	136,456	149,585	136,457	149,585
- Wakalah deposits	-	474	-	-
- Savings deposits	49,333	51,407	49,333	51,407
Murabahah	3,734,489	2,773,857	3,734,488	2,773,857
	4,433,085	3,640,007	4,356,914	3,556,307

(ii) By type of customer

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Business enterprises	1,684,602	1,739,879	1,513,716	1,591,087
Individuals	407,039	276,670	407,039	276,670
Subsidiaries	-	-	94,714	65,091
Government and statutory bodies	1,679,774	1,058,300	1,679,774	1,058,302
Other enterprises	661,670	565,157	661,671	565,157
	4,433,085	3,640,007	4,356,914	3,556,307

(iii) By contractual maturity

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Due within six months	3,954,292	3,263,593	3,878,122	3,213,578
More than six months to one year	441,874	367,782	441,874	334,097
More than one year to three years	36,919	8,632	36,918	8,632
	4,433,085	3,640,007	4,356,914	3,556,307

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A10 Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	254,627	247,633	254,627	247,633
Licensed investment banks	50,000	-	50,000	-
Other financial institutions	2,598,624	4,597,615	2,736,414	4,674,499
<u>Wakalah</u>				
Other financial institutions	17,640	4,102	-	-
	2,920,891	4,849,350	3,041,041	4,922,132

A11 INVESTMENT ACCOUNTS

	Group and Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000
As at 1 January	7,490	-
Net placement during the year	1,000	7,449
Income from investment	191	68
Profit distributed to mudarib	(77)	(27)
As at 31 December	8,604	7,490
Investment asset: Wadiah placement with BNM	8,604	7,490

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder	
	Average profit sharing ratio	Average rate of return
	(%)	(%)
Unrestricted investment accounts: Less than 3 months	60	1.87

	Group and Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Business enterprises	3,522	1,212
Individuals	4,847	6,273
Other enterprises	235	5
	8,604	7,490

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A12 Other Liabilities

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Sundry creditors	106,691	39,107	106,611	39,007
Accrued restoration cost	5,807	5,807	5,700	5,700
Undistributed charity funds	7,731	5,587	7,731	5,587
Other provisions and accruals	23,462	23,212	22,902	22,637
	143,691	73,713	142,944	72,931

(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:

Sources of charity funds:

Undistributed charity funds as at 1 January
Penalty charges / (Reversal) on late payment
Total sources of funds during the year

Uses of charity funds:

Contribution to Baitulmal
Compensation of late payment charges
Contribution to non profit organisations
Aid to needy family
Total uses of funds during the year

Closing balance

Group and Bank	
30 Sep 2016 RM'000	31 Dec 2015 RM'000
5,587	2,241
2,309	3,947
7,895	6,188
-	(80)
(30)	-
(87)	(455)
(47)	(66)
(164)	(601)
7,731	5,587

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A13 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 USD100,165,278 or equivalent RM414,916,157 (31 Dec 2015: USD100,026,396 or equivalent RM429,538,350) 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").

A14 Share Capital

	Number of ordinary shares at RM1.00 each		Amount	
	30 Sep 2016 Units'000	31 Dec 2015 Units'000	30 Sep 2016 RM'000	31 Dec 2015 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	1,425,272	1,425,272	1,425,272
At 1 January/At closing balance	1,425,272	1,425,272	1,425,272	1,425,272

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A15 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

3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
-	-	-	9
95,726	95,762	303,844	294,411
95,726	95,762	303,844	294,420
-	-	-	9
95,849	95,415	303,618	293,352
95,849	95,415	303,618	293,361

(i) Income derived from investment of general investment deposits

Group

Finance income from financing, advances and other receivables

Securities

- Available-for-sale

Money at call and deposits with financial institutions

Total finance income and hibah

Bank

Finance income from financing, advances and other receivables

Securities

- Available-for-sale

Money at call and deposits with financial institutions

Total finance income and hibah

3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
-	-	-	7
-	-	-	1
-	-	-	1
-	-	-	9
-	-	-	7
-	-	-	1
-	-	-	1
-	-	-	9

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A15 Income derived from Investment of Depositors' Funds and Others (cont'd.)

(ii) Income derived from investment of other deposits

<u>Group</u>	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance income from financing, advances and other receivables	76,537	77,406	240,417	237,714
Finance income from impaired financing	345	239	458	261
Securities				
- Held-for-trading	-	2	3	97
- Available-for-sale	7,570	7,706	22,996	21,931
- Held-to-maturity	645	717	1,951	2,432
Money at call and deposits with financial institutions	6,111	7,047	28,448	23,453
	91,208	93,117	294,273	285,888
Amortisation of premium less accretion of discounts	(1,009)	(1,140)	(3,295)	(1,563)
Total finance income and hibah	90,200	91,977	290,979	284,325
Fee income				
- Commissions	-	-	-	-
- Other fee income	-	-	-	-
Gain arising from sale of securities				
- Held-for-trading	93	(28)	1,107	117
- Available-for-sale	2,553	728	2,553	1,541
Foreign exchange gain				
- Realised	2,100	2,102	6,695	5,607
Gain/(loss) on Ijarah rental swap obligation	780	983	2,510	2,821
	95,726	95,762	303,844	294,411

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A15 Income derived from Investment of Depositors' Funds and Others (cont'd.)

(ii) Income derived from investment of other deposits

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank				
Finance income from financing, advances and other receivables	76,643	77,516	240,584	238,025
Finance income from impaired financing	346	239	459	261
Securities				
- Held-for-trading	0	1	3	97
- Available-for-sale	7,496	7,274	22,517	20,585
- Held-to-maturity	646	719	1,952	2,436
Money at call and deposits with financial institutions	6,155	7,057	28,580	23,484
	91,285	92,806	294,096	284,888
Amortisation of premium less accretion of discounts	(1,010)	(1,142)	(3,296)	(1,565)
Total finance income and hibah	90,275	91,664	290,800	283,323
Gain arising from sale of securities				
- Held-for-trading	94	(28)	1,108	117
- Available-for-sale	2,609	729	2,609	1,543
Foreign exchange gain				
- Realised	2,090	2,065	6,590	5,544
Gain/(loss) on Ijarah rental swap obligation	781	985	2,511	2,825
	95,849	95,415	303,618	293,352

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A16 Income derived from Investment of Shareholder's Equity

<u>Group</u>	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance income from financing, advances and other receivables	16,931	17,055	48,550	51,086
Finance income from impaired financing	77	54	97	68
Securities				
- Held-for-trading	-	-	1	21
- Available-for-sale	1,675	1,698	4,658	4,714
- Held-to-maturity	143	158	395	522
Money at call and deposits with financial institutions	1,346	1,549	5,554	4,976
	20,171	20,514	59,255	61,387
Amortisation of premium less accretion of discounts	(223)	(251)	(664)	(339)
Total finance income and hibah	19,948	20,263	58,591	61,048
Fee income				
- Commission	620	464	1,531	1,760
- Fund management fee	1,286	1,686	3,481	3,307
- Other fee income	2,727	769	4,632	3,081
Gain arising from sale of securities				
- Held-for-trading	21	(6)	223	26
- Available-for-sale	547	158	547	339
Unrealised (loss)/gain on revaluation of securities held-for-trading and Ijarah rental swap (net)	(953)	(1,079)	(3,718)	(3,383)
Foreign exchange gain/(loss)				
- Realised	405	474	1,498	1,208
- Unrealised	(1,232)	(3,344)	(2,501)	(7,153)
Gain/(loss) on Ijarah rental swap obligation	173	217	506	607
Gross dividend from property funds (securities available-for-sale)	-	-	-	-
Gain on disposal of property, plant and equipment	-	-	-	-
Reversal of provision on property restoration	-	-	-	-
Gain on Ijarah Automobile	-	-	-	-
Other income	1,577	655	3,995	1,691
Gross dividend from subsidiary			-	-
Management fee	136	39	252	174
Gain/(loss) on disposal of property, plant and equipment	-	-	-	-
	25,256	20,296	69,037	62,705

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A16 Income derived from Investment of Shareholder's Equity (cont'd.)

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank				
Finance income from financing, advances and other receivables	16,825	16,945	48,383	50,775
Finance income from impaired financing	77	54	96	68
Securities				
- Held-for-trading	-	-	1	21
- Available-for-sale	1,646	1,591	4,546	4,392
- Held-to-maturity	142	157	394	519
Money at call and deposits with financial institutions	1,345	1,539	5,555	4,945
	20,034	20,286	58,974	60,720
Amortisation of premium less accretion of discounts	(222)	(249)	(662)	(336)
Total finance income and hibah	19,812	20,037	58,313	60,384
Fee income				
- Commission	703	525	1,800	2,016
- Other fee income	2,726	1,685	4,628	3,301
Gain arising from sale of securities				
- Held-for-trading	20	(6)	222	26
- Available-for-sale	555	157	555	337
Unrealised (loss)/gain on revaluation of securities held-for-trading and Ijarah rental swap (net)	(953)	(1,078)	(3,718)	(3,383)
Foreign exchange gain/(loss)				
- Realised	401	462	1,471	1,185
- Unrealised	(1,234)	(3,393)	(2,520)	(7,216)
Gain/(loss) on Ijarah rental swap obligation	172	215	504	603
Management fee	220	123	504	426
	22,421	18,727	61,758	57,679

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A17 Impairment and Allowance on Financing, Advances and Other Receivables

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Group				
Impairment and allowance on financing				
- Collective impairment (net)	-	-	908	(26,820)
- Individual write-back (net)	62,214	49,061	43,383	74,766
<i>Allowance charge during the period</i>	84,248	51,489	114,726	104,927
<i>Allowance written-back during the period</i>	(22,034)	(2,428)	(71,343)	(30,161)
- Bad debt recovered on financing	(1,071)	(1,192)	(7,199)	(4,886)
	61,143	47,869	37,092	43,060
Bank				
Impairment and allowance on financing				
- Collective impairment (net)	-	-	908	(26,820)
- Individual write-back (net)	62,214	49,061	43,383	74,766
<i>Allowance charge during the period</i>	84,248	51,489	114,726	104,927
<i>Allowance written-back during the period</i>	(22,034)	(2,428)	(71,343)	(30,161)
- Bad debt recovered on financing	(1,071)	(1,192)	(7,199)	(4,886)
	61,143	47,869	37,092	43,060

A18 Income Attributable to the Depositors

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Group				
Deposits from customers				
- Qardh	37	15	41	413
- Murabahah	34,396	25,811	100,038	80,544
- Wakalah	189	12	195	34
- Negotiable Instrument Deposit	-	-	-	-
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	24,486	33,694	99,657	100,979
Others	762	141	2,228	426
	59,870	59,673	202,159	182,396
Bank				
Deposits from customers				
- Qardh	37	15	41	413
- Murabahah	34,396	25,743	100,038	80,359
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	24,890	33,812	100,430	101,264
Others	762	141	2,228	425
	60,086	59,711	202,738	182,461

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A19 Profit Distributed to Investment Account Holders

Group & Bank

Income derived from investment of investment account funds
Less : Profit distributed to mudarib

3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
70	-	191	-
28	-	77	-
42	-	114	-

A20 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 30 Sep 2016			As at 31 Dec 2015		
	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	5,625	5,625	5,406	28,618	28,618	20,129
Transaction related contingencies	110,204	55,102	41,633	85,700	42,850	32,888
Trade related contingencies	5,963	1,193	1,193	10,146	2,029	2,029
Irrevocable commitments to extend credit						
- maturity less than one year	147,690	29,538	28,665	269,352	53,870	52,465
- maturity more than one year	165,822	82,911	69,444	270,554	135,277	124,479
Foreign exchange related contracts *						
- less than one year	42,116	636	415	8,873	350	163
Profit rate related contracts (ljarah rental swap obligation) *						
- five years and above	197,238	9,310	7,732	245,505	13,763	11,799
	674,658	184,314	154,487	918,748	276,758	243,952

*

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

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A21 Capital Adequacy

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

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

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

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

	Group		Bank	
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
Common Equity Tier I / Tier I Capital Ratio				
Credit risk	23.389%	20.211%	22.571%	19.515%
Credit, market, operational and large exposure risks	21.718%	18.827%	21.010%	18.241%
Total Capital Ratio				
Credit risk	31.167%	27.368%	30.363%	26.696%
Credit, market, operational and large exposure risks	28.940%	25.493%	28.264%	24.953%

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A22 Capital Adequacy (Cont' d.)

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

	Group		Bank	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
<u>CET I / Tier I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	158,385	158,385	158,385	158,385
Other reserves	97,302	83,814	72,429	57,582
	1,680,959	1,667,471	1,656,086	1,641,239
Less: Deferred tax assets (net)	(198,141)	(198,141)	(198,141)	(198,141)
Less: Investment in subsidiaries	-	-	(30,200)	(30,200)
Total CET I / Tier I capital	1,482,818	1,469,330	1,427,745	1,412,898
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	413,825	429,425	413,825	429,425
Collective impairment on financing	79,247	90,873	79,069	90,500
Total Tier II capital	493,072	520,298	492,894	519,925
Total capital	1,975,890	1,989,628	1,920,639	1,932,823

(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	
	30 Sep 2016 RM'000	31 Dec 2015 RM'000	30 Sep 2016 RM'000	31 Dec 2015 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	6,339,756	7,269,805	6,325,560	7,240,016
Total Market RWA	22,254	32,918	22,254	32,918
Total Operational RWA	445,458	481,780	427,544	452,784
Large Exposure Risk RWA for Equity Holdings	20,048	20,048	20,048	20,048
Total Risk-Weighted Assets	6,827,516	7,804,551	6,795,405	7,745,766
Computation of Capital Ratios				
Core Capital	1,482,818	1,469,330	1,427,745	1,412,898
Capital Base	1,975,890	1,989,628	1,920,639	1,932,823
CET I / Tier I Capital Ratio	21.718%	18.827%	21.010%	18.241%
Total Capital Ratio	28.940%	25.493%	28.264%	24.953%

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Group	Level 2 RM'000	Level 3 RM'000	Total RM'000
30 Sep 2016			
Financial assets			
Securities available-for-sale	987,253	-	987,253
Securities held-to-maturity	60,547	-	60,547
Financing, advances and other receivables	1,128,597	5,266,752	6,395,348
Hedging financial instruments	5,908	-	5,908
Total	2,182,305	5,266,752	7,449,056
Financial liability			
Deposits from customers	4,433,084	-	4,433,084
Hedging financial instruments	454	-	454
Subordinated Murabahah Tawarruq	-	413,732	413,732
	4,433,538	413,732	4,847,270
31 Dec 2015			
Financial assets			
Securities available-for-sale	1,058,265	-	1,058,265
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
Total	2,041,916	6,087,520	8,129,435
Financial liability			
Deposits from customers	3,639,561	-	3,639,561
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	3,640,020	429,337	4,069,357

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Bank			
30 Sep 2016			
Financial assets			
Securities available-for-sale	974,635	-	974,635
Securities held-to-maturity	60,547	-	60,547
Financing, advances and other receivables	1,128,597	5,266,752	6,395,348
Hedging financial instruments	5,908	-	5,908
Total	2,169,687	5,266,752	7,436,438
Financial liability			
Deposits from customers	4,356,913	-	4,356,913
Hedging financial instruments	454	-	454
Subordinated Murabahah Tawarruq	-	413,732	413,732
	4,357,367	413,732	4,771,099
31 Dec 2015			
Financial assets			
Securities available-for-sale	994,127	-	994,127
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
Total	1,977,778	6,087,520	8,065,298
Financial liability			
Deposits from customers	3,555,851	-	3,555,851
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	3,556,310	429,337	3,985,647

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	5.5% - 6.0%

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A22 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			
	30 Sep 2016		31 Dec 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	60,463	60,547	61,251	61,088
Financing, advances and other receivables	6,397,852	6,395,348	7,002,145	7,000,816
	6,458,314	6,455,895	7,063,396	7,061,904
Financial Liabilities				
Deposits from customers	4,433,085	4,433,084	3,640,007	3,639,561
Subordinated Murabahah Tawarruq	414,916	413,732	429,538	429,337
	4,848,001	4,846,815	4,069,545	4,068,898

	Bank			
	30 Sep 2016		31 Dec 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	60,463	60,547	61,251	61,088
Financing, advances and other receivables	6,397,852	6,395,348	7,002,145	7,000,816
	6,458,315	6,455,895	7,063,396	7,061,904
Financial Liabilities				
Deposits from customers	4,356,914	4,356,913	3,556,307	3,555,851
Subordinated Murabahah Tawarruq	414,916	413,732	429,538	429,337
	4,771,830	4,770,645	3,985,845	3,985,188

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A22 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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A22 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.

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A23 FINANCIAL RISK MANAGEMENT

(d) RATE OF RETURN RISK

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

Group	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				
30 Sep 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	1,185,988	-	-	-	-	64,539	-	1,250,527	2.98
Deposits and placements with banks and other financial institutions	-	30,646	167,464	-	-	-	-	198,110	1.24
Securities available-for-sale	20,737	79,536	10,195	506,840	356,780	83,991	-	1,058,079	3.42
Securities held-to-maturity	-	-	55,446	5,017	-	-	-	60,463	5.21
Financing, advances and receivables	1,711,813	2,873,190	23,326	548,034	1,241,488	-	-	6,397,852	5.21
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	8,602	-	-	-	-	632,805	-	641,407	
TOTAL ASSETS	2,927,140	2,983,372	256,431	1,059,891	1,598,268	787,233	-	9,612,336	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,119,505	845,939	818,366	12	-	649,263	-	4,433,085	2.91
Deposits and placements of banks and other financial institutions	1,650,046	1,026,788	244,058	-	-	-	-	2,920,891	3.44
Subordinated Murabahah Tawarruq	-	-	-	-	414,916	-	-	414,916	3.27
Other liabilities	8,604	-	-	-	-	144,145	-	152,749	
Total Liabilities	3,778,155	1,872,727	1,062,423	12	414,916	793,408	-	7,921,641	
Shareholder's equity	-	-	-	-	-	1,690,695	-	1,690,695	
Total Liabilities and Shareholder's Equity	3,778,155	1,872,727	1,062,423	12	414,916	2,484,103	-	9,612,336	
On-balance sheet profit sensitivity gap	(851,015)	1,110,646	(805,992)	1,059,879	1,183,352	(1,696,870)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(851,015)	1,110,646	(805,992)	1,059,879	1,183,352	(1,696,870)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) 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 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	44,152	167,466	-	-	-	-	211,618	1.22
Securities available-for-sale	21,499	-	121,383	300,920	518,212	173,208	-	1,135,222	2.93
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,145	5.36
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	693,871	-	693,871	
TOTAL ASSETS	3,680,867	3,014,141	823,158	440,754	1,789,462	919,645	-	10,668,028	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,516,625	580,273	734,961	5,469	-	802,679	-	3,640,006	2.88
Deposits and placements of banks and other financial institutions	2,174,522	1,783,757	891,071	-	-	-	-	4,849,350	4.01
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	81,662	-	81,662	
Total Liabilities	4,120,685	2,364,030	1,626,032	5,469	-	884,340	-	9,000,557	
Shareholder's equity	-	-	-	-	-	1,667,471	-	1,667,471	
Total Liabilities and Shareholder's Equity	4,120,685	2,364,030	1,626,032	5,469	-	2,551,811	-	10,668,028	
On-balance sheet profit sensitivity gap	(439,818)	650,111	(802,874)	435,285	1,789,462	(1,632,166)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(439,818)	650,111	(802,874)	435,285	1,789,462	(1,632,166)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 30 Sep 2016	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				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	1,185,988	-	-	-	-	64,539	-	1,250,527	2.98
Deposits and placements with banks and other financial institutions	-	58,183	167,464	-	-	-	-	225,647	1.16
Securities available-for-sale	20,737	79,536	10,195	494,222	356,780	65,317	-	1,026,787	3.50
Securities held-to-maturity	-	-	55,446	5,017	-	-	-	60,463	5.21
Financing, advances and receivables	1,711,824	2,873,190	23,326	548,034	1,241,478	-	-	6,397,852	5.21
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	8,604	-	-	-	-	650,343	-	658,947	
TOTAL ASSETS	2,927,153	3,010,909	256,431	1,047,273	1,598,258	786,097	-	9,626,121	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,119,505	845,939	818,366	12	-	573,093	-	4,356,914	2.96
Deposits and placements of banks and other financial institutions	1,765,192	1,031,791	244,058	-	-	-	-	3,041,041	3.33
Subordinated Murabahah Tawarruq	-	-	-	-	414,916	-	-	414,916	3.27
Other liabilities	8,604	-	-	-	-	143,398	-	152,002	
Total Liabilities	3,893,300	1,877,730	1,062,423	12	414,916	716,490	-	7,964,873	
Shareholder's equity						1,661,249	-	1,661,249	
Total Liabilities and Shareholder's Equity	3,893,300	1,877,730	1,062,423	12	414,916	2,377,739	-	9,626,121	
On-balance sheet profit sensitivity gap	(966,147)	1,133,179	(805,992)	1,047,261	1,183,341	(1,591,642)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(966,147)	1,133,179	(805,992)	1,047,261	1,183,341	(1,591,642)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31 Dec 2015	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	72,070	167,466	-	-	-	-	239,536	1.16
Securities available-for-sale	121,383	-	258,281	518,212	154,494	-	-	1,052,370	3.05
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,145	5.36
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	710,873	-	710,873	
TOTAL ASSETS	3,780,751	3,042,060	960,056	658,046	1,425,744	763,439	-	10,630,096	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,512,523	579,801	734,961	5,469	-	723,553	-	3,556,307	2.94
Deposits and placements of banks and other financial institutions	-	1,789,083	891,070	-	-	-	-	4,922,132	3.96
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	80,880	-	80,880	
Total Liabilities	4,184,040	2,368,884	1,626,031	5,469	-	804,433	-	8,988,857	
Shareholder's equity	-	-	-	-	-	1,641,239	-	1,641,239	
Total Liabilities and Shareholder's Equity	4,184,040	2,368,884	1,626,031	5,469	-	2,445,672	-	10,630,096	
On-balance sheet profit sensitivity gap	(403,289)	673,176	(665,975)	652,577	1,425,744	(1,682,233)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(403,289)	673,176	(665,975)	652,577	1,425,744	(1,682,233)	-	-	

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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 six months ended 30 June 2016 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 2015. 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 2015.

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 2015, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2016 (whichever relevant):

Annual Improvements to MFRSs 2012 – 2014 Cycle
Amendments to MFRS 116 and MFRS 138: Clarification of
Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and MFRS 141:
Agriculture: Bearer Plants
MFRS 141 Agriculture - Agriculture: Bearer Plants (Amendments
to MFRS 141)
Amendments to MFRS 10 and MFRS 128: Sale or Contribution
of Assets between an Investor and its Associate
or Joint Venture
Amendments to MFRS 11: Accounting for Acquisitions
of Interests in Joint Operations
Amendments to MFRS 127: Equity Method in Separate
Financial Statements
Amendments to MFRS 101: Disclosure Initiatives
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment
Entities: Applying the Consolidation Exception
MFRS 14 Regulatory Deferral Accounts

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
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018

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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 2015 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 nine-months ended 30 September 2016.

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 nine-months ended 30 September 2016.

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 nine-months ended 30 September 2016.

B7 Debt and Equity Securities

There were no issuances, cancellation, repurchases, resales or repayments of debt and equity securities during the nine-months ended 30 September 2016.

B8 Dividends Paid

There were no dividends paid during the nine-months ended 30 September 2016.

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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
30 Sep 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	78,986	133,991	49,933	110,161		373,072
Revenue from other segments	160,082	1,066	4,799	45,992	(211,938)	-
Total Revenue	239,068	135,057	54,732	156,153	(211,938)	373,072
Segment results	3,964	2,233	19,339	37,337		62,872
Unallocated expenses						(61,550)
Profit from operations						1,323
Taxation						(15)
Net profit for the year						1,308
Other information						
Segment assets	2,681,718	3,232,830	785,547	2,661,683	(278,726)	9,083,052
Unallocated corporate assets						529,284
Total assets						9,612,336
Segment liabilities	5,615,427	88,824	140,332	1,870,686	(260,079)	7,455,190
Unallocated corporate liabilities						466,451
Total liabilities						7,921,641
Other segment items						
Purchase of property and equipment				6,502		6,502
Purchase of intangible assets				510		510
Depreciation of property and equipment				6,994		6,994
Amortisation of intangible assets				2,002		2,002
Other non-cash expense other than depreciation	-	(26,168)	(205)	(10,674)	-	(37,047)

(ii) By Geographical Locations

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
30 Sep 2016			
Malaysia	373,073	1,323	9,612,336
Outside Malaysia	-	-	-
	373,073	1,323	9,612,336

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

(i) Primary Segment - By Business Segment

Group	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
30 Sep 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	70,377	131,308	56,412	99,028		357,125
Revenue from other segments	157,571	1,219	3,069	42,723	(204,582)	-
Total Revenue	227,948	132,527	59,481	141,751	(204,582)	357,125
Segment results	8,112	(19,496)	2,537	75,588		66,741
Unallocated expenses						(70,547)
Profit from operations						(3,806)
Zakat						
Taxation						(2,110)
Net profit for the year						(5,916)
Other information						
Segment assets	2,798,910	3,530,597	1,186,491	2,501,247	(236,573)	9,780,672
Unallocated corporate assets						534,767
Total assets						10,315,439
Segment liabilities	6,561,094	95,410	104,732	1,539,399	(217,892)	8,082,743
Unallocated corporate liabilities						525,380
Total liabilities						8,608,123
Other segment items						
Purchase of property and equipment	-	-	-	801	-	801
Purchase of intangible assets	-	-	-	3,096	-	3,096
Depreciation of property and equipment	-	-	-	7,143	-	7,143
Amortisation of intangible assets	-	-	-	2,897	-	2,897
Other non-cash expense other than depreciation	-	(47,070)	(16,324)	19,009	-	(44,385)

(ii) By Geographical Locations

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
30 Sep 2015			
Malaysia	357,125	(3,806)	10,315,439
Outside Malaysia	-	-	-
	357,125	(3,806)	10,315,439

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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
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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 2015.

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 2015.

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 2015 other than those as disclosed in note A20.

B14 Capital Commitments

The capital commitments not provided for in the interim financial statements as at 30 September 2016 are as follows:

Capital expenditure

Authorised and contracted for:

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

Group	Bank
RM'000	RM'000
15	15
4,492	4,492
-	-
4,507	4,507

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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
Chief Financial Officer

I, Nor Azzam Bin Abdul Jalil, being the Deputy 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.



Nor Azzam Bin Abdul Jalil
Deputy Chief Executive Officer