

**KUWAIT FINANCE HOUSE (MALAYSIA)
BERHAD**
(672174-T)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2017

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)
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1 PERFORMANCE OVERVIEW

The Group and the Bank recorded a profit for the year of RM5.2 million and RM7.7 million respectively for the year ended 31 December 2017.

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2017 stood at a commendable 22.500% and 29.927% respectively.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

Kuwait Finance House (Malaysia) Berhad (hereinafter referred to as "KFHMB" or "the Bank") acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. Hence, the Board is committed to a corporate governance framework and structure which ensures protection of shareholder's rights as well as recognition of the rights of all other stakeholders ranging from customers, creditors, suppliers, employees, regulators and the community as part of its effort to achieve long-term sustainable value for all its stakeholders.

Additionally, the Bank has also adopted the Corporate Governance Policy for the subsidiaries of Kuwait Finance House K.S.C.P. ("KFHK").

Roles and Responsibilities of the Board

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

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

Accountability is part and parcel of governance in the Bank as whilst the Board is accountable to the shareholder, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its stakeholders, and strives to improve the performance of the Bank.

The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest caliber. The year saw extensive reviews to the Bank's corporate and business governance in an effort to strengthen controls and enhance good governance practices in staying relevant to the challenges of the changing market environment.

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Composition and Balance

The Board currently has seven (7) members, comprising five (5) independent non-executive directors and one (1) non-independent non-executive director and one (1) non-independent executive director. The Bank appointed Mr Muad S M M AIOsaimi as its independent Chairman on 16 February 2017.

The Directors comprise of members who are seasoned bankers and have wealth of experience in various banking segments including retail, corporate banking and credit management. The current independent members of the Board assist the Board in ensuring effective check and balance on the function of the Board. The composition of the Board also comprise nominee directors of KFHK to reflect the interest of the shareholder. A brief profile of each Director is presented below.

None of the Directors in office during the financial year has any shareholding in the Bank.

Directors' Profile

Muad S M M AIOsaimi

Chairman / Independent Non-Executive Director

(39 years of age - Kuwaiti)

Mr Muad S M M AIOsaimi ("Mr Muad") has a Bachelor of Science in Finance from George Mason University, U.S.A.

Currently, he is the CEO of Faiha International Real Estate Company K.S.C and the Deputy General Manager of Global Retail Company (a family-owned company) since 2003. He was appointed as an Independent Non-Executive Director of KFHK on 23 March 2014 and has been appointed as a member of Board Executive Committee, Board Risk Committee and Board Investment Committee of KFHK.

He has extensive experience in investment, leasing and knowledge in the banking and real estate development and investment of all kinds. He was an Investment Officer under the Investment Department of Aayan Leasing and Investment Company K.S.C.P in 2012 and completed an 18-month specialized training program consisting both theoretical and practical training in the fields of finance and investment at the Kuwait Investment Authority in 2001.

He has served as a Board Member of Kuwait Gate Holding Company from (2004 to 2014), Kuwaiti Financial Center Company from (2008 to 2011), Kuwait Auctions Company and as Vice Chairman of AlRaya International Real Estate Company.

He was appointed as the Chairman/Independent Non-Executive Director of KFHMB on 16 February 2017.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Mohammad Nasser AlFouzan
Non-Independent Non-Executive Director
(55 years of age - Kuwaiti)

Mr. Mohammad Nasser AlFouzan ("Mr AlFouzan") has a Bachelor degree in Business Administration from Kuwait University, Kuwait and a Diploma in Advance Banking from Arab Institute of Banking, Jordan. He completed the Executive Development Program at Wharton Business School, U.S.A and Strategic Marketing Management Program at Harvard Business School, U.S.A.

Mr AlFouzan was appointed as a Non Independent Non-Executive Director ("NINED") on 7 October 2014. Currently, he is also the Vice Chairman of Kuwait Finance House (Bahrain) B.S.C. and the Chairman of the Board Executive Committee of the said entity.

Mr AlFouzan has over 29 years of banking experience which includes the management of Retail Banking and Consumer Finance business with significant exposure to the Wholesale Banking activities at KFHK and has held senior positions in various committees of KFHK Group. He joined KFHK as a Department Manager in the Banking Sector in December 1996 and moved on to various senior positions within KFHK. He now acts as a Consultant to the Group Chief Executive Officer of KFHK.

Ahmad S A A AlKharji
Non-Independent Executive Director
(45 years of age - Kuwaiti)

Mr Ahmad S A A AlKharji ("Mr AlKharji") has a Bachelor of Science in Finance and Banking from Kuwait University, Kuwait and a Master of Business Administration from the University of San Diego, California, U.S.A.

Mr AlKharji was appointed as a NINED of KFHMB on 1 June 2014. Subsequent thereto, he became the Chief Executive Officer and Managing Director ("CEO & MD") of KFHMB and was later re-designated as a NINED in July 2016. He is currently a Board member of Kuvayt Turk Participation Bank Inc, a subsidiary of Kuwait Finance House K.S.C.P. ("KFHK") in Turkey.

Mr AlKharji is a seasoned banker with more than 19 years of extensive experience in various portfolios including structured finance, corporate finance, project finance and banking supervision. Prior to his appointment as the CEO & MD of KFHMB, Mr AlKharji was the Deputy General Manager of Structured Finance at KFHK. He started his career with the Central Bank of Kuwait and Burgan Bank in Kuwait. Since joining KFHK in August 2003, he had served in various senior capacities within the Group. He is currently the Group Chief Corporate Banking Officer of KFHK.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Khalid Sufat
Independent Non-Executive Director
(61 years of age - Malaysian)

En Khalid Sufat ("En Khalid") is a fellow Member of Association of Chartered Certified Accountants (UK), Member of Malaysian Institute of Certified Public Accountants And Member of Malaysian Institute of Accountants.

En Khalid was appointed as an Independent Non-Executive Director ("INED") of KFHMB on 3 January 2011.

En Khalid has considerable experience in the banking industry having held several senior positions, namely, Managing Director of Bank Kerjasama Rakyat Malaysia Berhad, General Manager, Consumer Banking of Malayan Banking Berhad and Executive Director of United Merchant Finance Berhad.

He had previously managed three listed companies, namely, as Executive Director of Tronoh Mines Malaysia Berhad, as Deputy Executive Chairman of Furqan Business Organisation Berhad and as Group Managing Director of Seacera Tiles Berhad.

His directorships in other public companies include UMW Holdings Berhad, Chemical Company of Malaysia Berhad and Employees Provident Fund.

Md Adnan Md Zain
Independent Non-Executive Director
(60 years of age – Malaysian)

En Md Adnan Md Zain ("En Md Adnan") has a Bachelor of Economics from Universiti Putra Malaysia and is a Registered Financial Planner certified by the Malaysian Financial Planning Council.

He was appointed as an INED of KFHMB on 15 January 2014.

En Md Adnan's career has been in the banking and insurance industries both foreign and local. He started his career with Standard Chartered Bank in 1981 and moved on to various senior positions in Hong Leong Bank, Amanah Finance Malaysia Berhad, Alliance Merchant Bank Bhd, RHB Bank Berhad and eventually was appointed as the CEO of MCIS Zurich Insurance Berhad before he retired in 2012.

His directorships in other public companies include Malaysian Reinsurance Berhad and Takaful Ikhlas Berhad.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Abdul Khalil Abdul Hamid
Independent Non-Executive Director
(61 years of age – Malaysian)

En Abdul Khalil Abdul Hamid ("En Abdul Khalil") has a Bachelor of Economics (B. Admin) degree from the University of Malaya, Malaysia.

En Abdul Khalil was appointed as an INED of KFHMB on 10 June 2016. He is an Investment Committee member of Eastspring Investments Bhd. On 13 April 2007, En Abdul Khalil was appointed as an INED of Prudential Assurance Malaysia Berhad ("PAMB") and subsequently as Chairman of PAMB on 1 January 2017. En. Abdul Khalil was also an INED of Prudential BSN Takaful Bhd from 17 July 2006 until the end of his tenure on 13 July 2017.

En Abdul Khalil has 35 years of experience in the banking industry. He was the Executive Vice-President of Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad ("BTM") from 2002 until 2012, overseeing the execution of the bank's long and short-term strategies. He was appointed as the Advisor of Operations of BTM prior to his retirement in October 2013. Before joining BTM, he was the Head of Credit Management for Affin Bank Berhad where he was responsible for the underwriting and management of commercial loans. En Abdul Khalil's career began in February 1979 where he worked for Hongkong & Shanghai Banking Corporation. He subsequently left in 1985 as a Branch Sub-Manager of customer service and joined The Bank of Nova Scotia for 10 years, leaving as Manager, Personal Banking.

Noorur Rahman Abbas Ali Abid
Independent Non-Executive Director
(65 years of age – Bahraini)

Mr Noorur Rahman Abbas Ali Abid ("Mr Abid") is a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales.

Mr Abid has more than 35 years' experience in the profession, across Europe, Middle East and Africa of which the last 25 years have been in various leadership roles as Assurance leader for the Middle East and North Africa ("MENA") region and Audit Partner for clients ranging from investment companies, private equity houses, commercial banks, Islamic banks, government ministries, regulators, commercial entities and manufacturing industries. He retired in June 2012.

He served as the Chairman of Auditing Standards Committee and the Deputy Chairman of Accounting and Auditing Standards Board of Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). He is currently a member of the Board of Trustees of this organisation.

Mr Abid was declared the winner of the World Islamic Banking Conference 2012 Industry Leadership Award in recognition of his contribution to Islamic Banking.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Noorur Rahman Abbas Ali Abid (Cont'd.)

Independent Non-Executive Director

(65 years of age – Bahraini)

He is currently the Independent Board Member, Chairman of Audit Committee and Member of Nominations And Remuneration Committee of KFHK, Kuwait Finance House (Bahrain) B.S.C and Fakeeh Hospital in Jeddah. He is also an Independent Director and a member of the Audit Committee and the Human Resources Committee of Meezan Bank, the largest Islamic Bank in Pakistan.

Mr Abid was appointed as an INED of KFHMB on 1 August 2017.

Board Meetings

During the financial year ended 31 December 2017, seven (7) Board meetings were held and attended by the directors. In the said Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals, reviewing of the Bank's significant policies and other matters were tabled for deliberation, approval and endorsement by the members of the Board.

The agenda for every Board meeting together with management reports, proposals and supporting documents were circulated to all directors in advance prior to the scheduled Board meetings for their perusal. The Board has an annual schedule established for Board and Board Committee meetings and also are aware of matters that are specifically reserved for its decision.

The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Muad S M M AlOsaimi ∞ (Chairman)	6/6	100%
Khalid Sufat	7/7	100%
Mohamed Zaheer Mohamed Azreen^	2/2	100%
Md Adnan Md Zain	7/7	100%
Ahmed S. Al Kharji	6/7	86%
Mohammad Nasser AlFouzan	6/7	86%
Abdul Khalil Abdul Hamid	7/7	100%
Noorur Rahman Abbas Ali Abid*	2/2	100%

Notes:

∞ Appointed with effect from 16 February 2017

^ Retired as a Director with effect from 9 April 2017 at the end of tenure

* Appointed with effect from 1 August 2017

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees

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

Board Audit Committee

The Board Audit Committee ("BAC") currently consists of three (3) INEDs. Nine (9) BAC meetings were held during the financial year. The members are as follows:

Noorur Rahman Abbas Ali Abid – Chairman (Appointed on 16 October 2017)

Khalid Sufat - Member

Abdul Khalil Abdul Hamid - Member

Ahmad S A A AlKharji – Member (Appointed on 10 April 2017 and ceased as a Member on 20 January 2018)

Mohamed Zaheer Mohamed Azreen – Member (Ceased as a Member on 9 April 2017)

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

The attendance of each Director in office at the end of the financial year at the aforesaid BAC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Noorur Rahman Abbas Ali Abid (Chairman) ∞	2/2	100%
Khalid Sufat	9/9	100%
Mohamed Zaheer Mohamed Azreen*	2/2	100%
Abdul Khalil Abdul Hamid	9/9	100%
Ahmad S A A AlKharji ^	6/7	86%

Note:

∞ Appointed with effect from 16 October 2017

^ Appointed with effect from 10 April 2017 and ceased as a Member on 20 January 2018

* Ceased as a Member on 9 April 2017

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

The Board Risk Management Committee ("BRMC") consists of two (2) INEDs and one (1) NINED.

Five (5) BRMC meetings were held during the financial year. The members during the financial year were as follows:

Abdul Khalil Abdul Hamid - Chairman
 Mohammad Nasser AlFouzan - Member
 Md Adnan Md Zain – Member (Appointed on 10 April 2017)
 Mohamed Zaheer Mohamed Azreen - Member (Ceased as a Member on 9 April 2017)

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational and other risks and to ensure that the risk management framework and processes are robust and functions effectively. The BRMC also oversees the formulation of risk strategies on an on-going basis and addresses issues arising from the changes in both the external business environment and internal operating conditions. The Risk Management function is overseen by the Chief Risk Officer, who reports to BRMC.

In addition, the BRMC assists the Board in ensuring the effectiveness of the Bank's daily operations so that the Bank's operations are in accordance with the corporate objectives and risk strategies as well as the approved risk policies.

Pursuant to the issuance of BNM's Standards on Compliance which came into effect on 1 January 2017, BRMC also now oversees the Compliance function of the Bank which includes reviewing among others, compliance policies, framework and plan.

The attendance of each Director in office at the end of the financial year at the aforesaid BRMC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Abdul Khalil Abdul Hamid (Chairman)	5/5	100%
Mohammad Nasser AlFouzan	5/5	100%
Mohamed Zaheer Mohamed Azreen [∞]	2/2	100%
Md Adnan Md Zain – Member [^]	3/3	100%

Note:

- [∞] Ceased as a Member on 9 April 2017
- [^] Appointed with effect from 10 April 2017

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Nominating And Remuneration Committee

The Board Nominating And Remuneration Committee ("BNRC") currently consists of three (3) INEDs and one (1) NINED. Eight (8) BNRC meetings were held during the financial year. The members during the financial year were as follows:

Md Adnan Md Zain - Chairman
 Khalid Sufat - Member
 Mohammad Nasser A AlFouzan - Member (Appointed on 10 April 2017)
 Noorur Rahman Abbas Ali Abid - Member (Appointed on 1 November 2017)
 Mr Ahmad S A A AlKharji - Member (Ceased as a Member on 20 January 2018)
 Abdul Khalil Abdul Hamid - Member (Ceased as a Member on 20 January 2018)
 Mohamed Zaheer Mohamed Azreen - Member (Ceased as Member on 9 April 2017)

The roles and responsibilities of the BNRC are as follows:-

- (a) to provide a formal and transparent procedure for the appointment of directors, Chief Executive Officer, key senior management officers and members of Shariah Committee as well as assessment of the effectiveness of individual directors, the Board as a whole, Shariah Committee Members and the performance of the Chief Executive Officer and key senior management officers.
- (b) to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer, Shariah Committee members and key senior management officers as well as to ensure that the Bank's compensation packages are competitive and consistent with the Bank's culture, objectives and strategies.

The attendance of each Director in office at the end of the financial year at the aforesaid BNRC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
En Md Adnan Md Zain - Chairman	8/8	100%
En. Khalid Sufat	7/8	88%
Mr. Mohamed Zaheer Mohamed Azreen ∞	2/2	100%
Mr Ahmad S A A Al Kharji *	7/8	88%
En Abdul Khalil Abdul Hamid *	8/8	100%
Mr Mohammad Nasser A AlFouzan ^	5/6	83%
Mr Noorur Rahman Abbas Ali Abid #	1/1	100%

Note:

- ∞ Ceased as a Member on 9 April 2017
- ^ Appointed with effect from 10 April 2017
- # Appointed with effect from 1 November 2017
- * Ceased as a Member on 20 January 2018

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit Committee

The BCC currently consists of three (3) INEDs. Seventeen (17) BCC meetings were held during the financial year. The members are as follows:

Md Adnan Md Zain – Chairman (Appointed as Member/Chairman on 10 April 2017)

Khalid Sufat - Member

Abdul Khalil Abdul Hamid – Member (Appointed on 10 April 2017)

Mohamed Zaheer Mohamed Azreen - Chairman (Ceased as Member/Chairman on 9 April 2017)

The roles and responsibilities of the BCC are as follows:-

- (a) to provide an independent and objective view of credit and treasury investment proposals, investment in funds proposals - for both quoted/unquoted and/or close/open ended funds, credit reviews and corporate finance activities approved and recommended by the Management Credit Committee (changed name from Management Credit, Investment and Recovery Committee on 26 October 2016); and
- (b) in monitoring and overseeing the management and recovery of the accounts graded '5' or worse (corporate and commercial accounts), other impaired accounts, early care accounts and accounts transferred to Profit Sharing Investment Account and to enhance the Board's oversight of financing/asset recovery functions. The BCC is also responsible in overseeing the performance of rescheduled and restructured accounts, to minimize financial loss and maximize the recovery of such accounts.

The attendance of each Director in office at the end of the financial year at the aforesaid BCC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
En Md Adnan Md Zain ^ (Chairman)	17/17	100%
En. Khalid Sufat	17/17	100%
Abdul Khalil Abdul Hamid ^	14/14	100%
Mr. Mohamed Zaheer Mohamed Azreen ∞	2/3	67%

Note:

∞ Ceased as a Member/Chairman on 9 April 2017

^ Appointed with effect from 10 April 2017

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

Board Corporate Governance Committee

The Board Corporate Governance Committee ("BCGC") currently consists of three (3) INEDs and one (1) NINED. One (1) BCGC meeting was held during the financial year. The Chairmanship of the BCGC is reserved for the Board Chairman. The members are as follows:

Muad S M M AIOsaimi – Chairman (Appointed on 16 February 2017)
Mohammad Nasser AlFouzan - Member
Md Adnan Md Zain - Member
Abdul Khalil Abdul Hamid - Member (Appointed on 20 January 2018)

The main responsibilities of the BCGC are to develop and recommend to the Board corporate governance principles for the group and to continuously review its governance framework to ensure its relevance, effectiveness to meet the challenges of the future to remain sustainable.

All three members of the Committee in position during the financial year attended the sole meeting of BCGC during the year.

Board Remuneration

A summary of the total remuneration of the Directors, in aggregate with categorization into appropriate Board Committees for the financial year ended 31 December 2017 is disclosed under Note 35 of the Audited Financial Statements.

Board Training

The Board acknowledges the importance of keeping abreast with market developments and enhancement of their skills and knowledge to ensure that they are able to discharge their duties as Directors effectively and efficiently. During the year, the Directors had attended various training programmes and workshops on issues relevant to the industry.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2017 were as follows:-

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
Mr Muad S M M AIOsaimi	MFRS 9 – Financial Instruments <i>(29 March 2017)</i>	<ul style="list-style-type: none"> ▪ Implication and challenges in the implementation of MFRS 9.
	Recent Trends in Corporate Governance <i>(2 May 2017)</i>	<ul style="list-style-type: none"> ▪ Board consideration is expanding and needs a balance. ▪ Corporate Governance's Path to Accountability. ▪ Culture & What Goes Wrong. ▪ Likely areas to advance in the coming years. Different concepts of governance, boards, and objectives for directors.
	Islamic Finance <i>(10 July 2017)</i>	<ul style="list-style-type: none"> ▪ Explore the principles, structure and operations behind the Islamic financial system.
	FIDE Core (Module A & B) <i>(1-4 August 2017 & 9-11 October 2017)</i>	<ul style="list-style-type: none"> ▪ Emphasise and reinforce a clear understanding of the role of the board and its fiduciary responsibilities. ▪ Deepen boards' understanding of principles of sound governance and to translate this into practice ▪ Create a heightened awareness of the changing dimensions of risk. ▪ Provide an understanding of the key issues in financial reporting ▪ Help boards identify and avoid common pitfalls in strategy execution ▪ Encourage the adoption of more structured and robust processes for the selection of board members
	Strategy Business Model Canvas <i>(27 September 2017)</i>	<ul style="list-style-type: none"> ▪ Introduction to the Business Model Canvas (BMC) ▪ Compare and Contrast Value Proposition & Business Models ▪ Blue Ocean strategy
	Anti-Money Laundering/Banking Secrecy <i>(31 October 2017)</i>	<ul style="list-style-type: none"> ▪ Identify key changes to AMLATFPUAA 2001/IFSA 2013. ▪ Analyze the importance of banking secrecy and the need to balance between business & compliance towards satisfying regulators expectations.
	Fintech and Blockchain Technology <i>(8 November 2017)</i>	<ul style="list-style-type: none"> ▪ Overview of Fintech ecosystem and its impact to the financial services industry. ▪ Understanding the potential of Blockchain technology.
	Shariah Governance Landscape and Requirements In Malaysia <i>(29 November 2017)</i>	<ul style="list-style-type: none"> ▪ Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure ▪ Understanding new development in Shariah
	Advanced Corporate Governance, Focus on Mergers and Acquisitions <i>(6 December 2017)</i>	<ul style="list-style-type: none"> ▪ Latest development in Corporate Governance ▪ How to manage the M&A process and setting up the governance structure ▪ Main pitfalls of M&A

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

Board Training (Cont'd.)

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
En Md Adnan Md Zain	MFRS 9 – Financial Instruments (29 March 2017)	<ul style="list-style-type: none"> Implication and challenges in the implementation of MFRS 9
	<ul style="list-style-type: none"> Recognising Risks & Being Prepared ICAAP (7 April 2017)	<ul style="list-style-type: none"> Identifying the material-risk drivers across the businesses and defining potential stress scenarios
	MPFC Islamic Wealth Management International Conference (15 April 2017)	<ul style="list-style-type: none"> Promote Islamic Wealth Management and Financial Planning Explore best current practices of Wealth Management and Financial Planning based on Shariah principles
	MFPC Professionalism & Ethics Conference (4 October 2017)	<ul style="list-style-type: none"> Analyse the significance and importance of professionalism and ethics in the practice conduct of a financial planner. Identify, analyse and evaluate the impact of conducting practice with integrity. Classify and compare current business practice against professional conduct practice standards.
	Development of Reinsurance and Retakaful (8 October 2017)	<ul style="list-style-type: none"> Examine the development of Reinsurance and Retakaful in the industry
	Anti-Money Laundering/Banking Secrecy (31 October 2017)	<ul style="list-style-type: none"> Identify key changes to AMLATFPUAA 2001/IFSA 2013. Analyze the importance of banking secrecy and the need to balance between business & compliance towards satisfying regulators expectations.
	Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure Understanding new development in Shariah
En Khalid Sufat	FinTech & Digital Economy Conference 2017 (12 January 2017)	<ul style="list-style-type: none"> Insights in mastering the digital economy and to improve social wellbeing and economic inclusion. Collective ideas on the access, inclusion and diversity for sustainable businesses with FinTech. Understanding how FinTech and digital innovation can impact growth.
	MFRS 9 – Financial Instruments (29 March 2017)	<ul style="list-style-type: none"> Implication and challenges in the implementation of MFRS 9.
	Halal Pharmaceuticals & Informed Choice (31 March 2017)	<ul style="list-style-type: none"> Challenges of halal Pharmaceutical industry and updates.
	Compliance Conference 2017 (18 May 2017)	<ul style="list-style-type: none"> Update and development of Compliance issues in the Financial Industry.

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

Board Training (Cont'd.)

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
En Khalid Sufat (Cont'd.)	FIDE Forum - Fintech: Opportunities for the Financial Services Industry in Malaysia (11 July 2017)	<ul style="list-style-type: none"> ▪ Current status and adoption of fintech among FIs in Malaysia ▪ Opportunities for FI-fintech collaborations ▪ Key issues that boards should be focusing in order to strategically lead in FI-fintech collaboration.
	Outward Mindset: Leadership & Self Betrayal (13 July 2017)	<ul style="list-style-type: none"> ▪ Management technique.
	Dialogue on Value Based Intermediation ("VBI") (24 August 2017)	<ul style="list-style-type: none"> ▪ Aimed at strengthening the roles and impact of Islamic banking institutions in generating positive and sustainable impact to the economy, community and environment, through their practices, offerings and conduct without compromising the financial returns to shareholders
	Economic Forum (12 September 2017)	<ul style="list-style-type: none"> ▪ Update on World and Regional Economies.
	Cyber Security And Digital Transformation (20 September 2017)	<ul style="list-style-type: none"> ▪ Development and challenges of Cyber Security and Digital Technologies.
	Anti-Money Laundering/Banking Secrecy (31 October 2017)	<ul style="list-style-type: none"> ▪ Identify key changes to AMLATFPUAA 2001/IFSA 2013. ▪ Analyze the importance of banking secrecy and the need to balance between business & compliance towards satisfying regulators expectations.
	MIA International Accountants Conference (7-8 November 2017)	<ul style="list-style-type: none"> ▪ Review the importance of good governance and how it can contribute to sustainable growth. ▪ Evaluate value creation strategies. ▪ Venture into new exciting areas and diversify your capabilities.
	Corporate Governance Programme (13 November 2017)	<ul style="list-style-type: none"> ▪ Updates on Corporate Governance issues.
	2 nd Securities Commission – FIDE Forum Dialogue: Leveraging Technology for Growth (14 November 2017)	<ul style="list-style-type: none"> ▪ Enhance access to financing: the progress of equity crowdfunding (ECF) and peer-to-peer financing (P2P) in Malaysia thus far. ▪ Increase investor participation: Robo-advisory and Digital Investment Management Framework introduced in May 2017. ▪ Emerging Technologies: Artificial Intelligence for Capital Markets.
Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> ▪ Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure ▪ Understanding new development in Shariah 	

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
En Abdul Khalil Abdul Hamid	Seminar – Implication of the New Companies Act 2016 (7 February 2017)	<ul style="list-style-type: none"> ▪ Provide a legal overview and underlying policies of the Companies Act 2016 ▪ Raise the level of understanding on the key amendments in the Companies Act 2016 ▪ Identify specific actions required under the new compliance and disclosure requirements ▪ Provide overview on significant transitional issues and challenges under the new Act. ▪ Provide and overview on issues that directors must be aware of.
	Breakfast Talk with ACGA: CG Watch 2016 – Ecosystems Matter (7 March 2017)	<ul style="list-style-type: none"> ▪ Highlights strengths and weaknesses of the corporate governance practices in Malaysia as compared to other countries surveyed ▪ Discuss implications and findings
	MFRS 9 – Financial Instruments (29 March 2017)	<ul style="list-style-type: none"> ▪ Implication and challenges in the implementation of MFRS 9
	FIDE Forum: Efficient Inefficiency - Making Boards Effective In A Changing World by Professor Sampler (4 May 2017)	<ul style="list-style-type: none"> ▪ Identify hindrances to strategic thinking agility at the board and organisational levels ▪ Identify the key concepts and techniques that support agile strategic discussion and decision making for board members ▪ Apply agile strategic discussion and decision making in a given scenario
	FIDE Forum: Workshop for Nomination Committee Chairman And Members: Board Selection – Engagement with Potential Directors (23 May 2017)	<ul style="list-style-type: none"> ▪ Discuss challenges faced in recruiting, retaining and nurturing board talent. ▪ Demonstrate how participants will be able to assess the suitability of candidates based on experience, competencies, traits and drivers. ▪ Provide practical tools and approaches so that directors can leverage on the behavioral-based interviewing methodology to engage with potential directors.
	FIDE Forum: Fintech: Opportunities for the Financial Services Industry in Malaysia (11 July 2017)	<ul style="list-style-type: none"> ▪ Current status and adoption of fintech among FIs in Malaysia. ▪ Opportunities for FI-fintech collaborations ▪ Key issues that boards should be focusing in order to strategically lead in FI-fintech collaboration
	FIDE Forum: Cryptocurrency and Blockchain Technology (10 August 2017)	<ul style="list-style-type: none"> ▪ Key issues and challenges, as well as opportunities and threats of cryptocurrencies and blockchain technology ▪ Possible strategy for organisation's business models

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

Board Training (Cont'd.)

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
En Abdul Khalil Abdul Hamid (Cont'd.)	ASEAN + 3 Region: 20 Years After The Asian Financial Crisis – Lessons Learned (11 August 2017)	<ul style="list-style-type: none"> Highlights on lessons learned from the Asian Financial Crisis
	Dialogue on Value Based Intermediation (“VBI”) (24 August 2017)	<ul style="list-style-type: none"> Aimed at strengthening the roles and impact of Islamic banking institutions in generating positive and sustainable impact to the economy, community and environment, through their practices, offerings and conduct without compromising the financial returns to shareholders
	Anti-Money Laundering/Banking Secrecy (31 October 2017)	<ul style="list-style-type: none"> Identify key changes to AMLATFPUAA 2001/IFSA 2013. Analyze the importance of banking secrecy and the need to balance between business & compliance towards satisfying regulators expectations.
	International Association Of Insurance Supervisors Annual Conference 2017 (2 & 3 November 2017)	<ul style="list-style-type: none"> Highlights issues and development on insurance markets globally Facilitate cooperation between insurance supervisors given the rapid change in the industry
	Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure Understanding new development in Shariah
Mr Mohammad Nasser AlFouzan	Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure Understanding new development in Shariah
Mr Noorur Rahman Abbas Ali Abid	Sharia in Islamic Banks (25 July 2017)	<ul style="list-style-type: none"> Acquire the fundamental knowledge on Shariah principles behind Islamic commercial transactions Identify to explain the rule-making process in Islamic finance (covering both modern and classical rule making process)
	Strategy Business Model Canvas (27 September 2017)	<ul style="list-style-type: none"> Introduction to the Business Model Canvas (BMC) Compare and Contrast Value Proposition & Business Models Blue Ocean strategy
	IFRS & VAT Update (18 October 2017)	<ul style="list-style-type: none"> Highlights impact and implications on the implementation of IFRS 9 and look at VAT compliance on businesses
	Anti-Money Laundering/Banking Secrecy (31 October 2017)	<ul style="list-style-type: none"> Identify key changes to AMLATFPUAA 2001/IFSA 2013. Analyze the importance of banking secrecy and the need to balance between business & compliance towards satisfying regulators expectations.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Name of Directors	Training Programmes/ Workshops Attended	Training Scope & Description
Mr Noorur Rahman Abbas Ali Abid (Cont'd.)	Fintech and Blockchain Technology (8 November 2017)	<ul style="list-style-type: none"> ▪ Overview of Fintech ecosystem and its impact to the financial services industry ▪ Understanding the potential of Blockchain Technology
	Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> ▪ Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure ▪ Understanding new developments in Shariah
	Advanced Corporate Governance, Focus on Mergers and Acquisitions (6 December 2017)	<ul style="list-style-type: none"> ▪ Latest development in Corporate Governance ▪ How to manage the M&A process and setting up the governance structure ▪ Main pitfalls of M&A
Mr Ahmad S. AIKharji	Shariah Governance Landscape and Requirements In Malaysia (29 November 2017)	<ul style="list-style-type: none"> ▪ Understanding the role of the board in ensuring Shariah compliance through the implementation of sound Shariah governance structure ▪ Understanding new development in Shariah

(ii) Key Internal Control Processes

The BAC of the Bank and its major subsidiaries assist the Board to evaluate the adequacy and effectiveness of the internal controls systems.

The BAC reviews the financial statements, and reports issued by Internal Audit Division, the external auditors and regulatory authorities and follow-up on corrective action taken to address issues raised in the reports. Internal Audit Division conducts independent risk-based audits and provides assurance that the design and operation of the governance, risk and control framework across the Group is effective. The BAC oversees the independence and objectivity of the Internal Audit function, approve the annual risk-based audit plan and periodically review the progress of the plan and reports issued by Internal Audit Division.

Internal Audit Function

Internal Audit function operates under a charter from the BAC that gives it unrestricted access to review all activities of the Bank and its subsidiaries. The Chief Internal Auditor functionally reports to the BAC. The internal auditing function covers the Bank and its subsidiaries to ensure consistency in the governance, risk management, internal controls systems and the application of policies and procedures.

Internal Audit focuses its efforts on performing audits in accordance with the audit plan, which is prioritised based on a risk assessment of all activities undertaken by the Group. The risk assessment approach ensures that all risk-rated areas are kept in view to ensure appropriate audit coverage and audit frequency. The risk-based audit plan is reviewed annually taking into account the changing financial significance of the business and risk environment. The BAC reviews and approves the annual internal audit plan.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(ii) Key Internal Control Processes (Cont'd.)

Internal Audit Function (cont'd.)

Internal Audit also performs Shariah governance and operational audit, investigations and special reviews and also participates actively in system development activities and project committees to advise on risk management and internal control measures. Internal Audit plays an active role in ensuring compliance with the requirements of Regulatory Authorities. Internal Audit also works collaboratively with the External Auditor, Risk Management and Compliance function to avoid duplication of effort.

There is an effective process for ensuring prompt resolution of audit issues. The progress of significant issues is regularly tabled to the BAC until such issues are satisfactorily resolved.

Management reports

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

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

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

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

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

Risk management disclosures provided in line with the requirements of the Malaysian Financial Reporting Standard ("MFRS") 7 *Financial Instruments: Disclosures*, and disclosures on capital management as required by MFRS 101 *Presentation of Financial Statements (Revised)* form part of the financial statements audited by the Bank's independent auditors Ernst & Young.

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational and other risks and to ensure that the risk management process is robust and functions effectively.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Highlights of major achievements

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

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

- Implementation of data loss prevention system with the objective to strengthen the control measures on data leakage.
- Continued improvement in the corporate governance practices by ensuring compliance against the relevant regulatory requirements and KFH Kuwait Subsidiary Corporate Governance Policy.
- Reviewed comprehensiveness of all takaful coverages subscribed by the Bank to ensure the Bank's interest is adequately safeguarded.
- Enhanced the anti-money laundering system to be more efficient in detecting and capturing potential money laundering activities as well as conducting the required screening on existing and potential customers against entities suspected involved in terrorism as issued by United Nations Security Council ("UNSC") and Kementerian Dalam Negeri.
- A complete reorganisation of the Risk Management Department during the course of the year, including the hiring of experienced Risk professionals to head each of the major Risk Units (Credit, Market Risk, Risk Achitecture) including the establishment of a dedicated Financial Analysts Unit staffed with experienced Analysts, most of whom having worked in the local Rating agencies with many years of experience.

Risk Management Framework

The Board has delegated the overall responsibility of reviewing the effectiveness of risk management practices to the BRMC. Generally, BRMC assists the Board in reviewing and overseeing the effectiveness of the risk management practices of the Bank whilst Risk Management Division facilitates in institutionalising continuous monitoring and evaluation of the Bank's risk management practices. Any risk management policy and framework formulated to identify, measure, and monitor various risk components are to be reviewed and recommended by the BRMC to the Board for its approval.

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Three Lines of Defence Concept

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

Credit Risk Management

The Bank defines credit risk as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. Corporate and commercial financing segment continues to contribute major share of the Bank's financing and investment assets with 53% of the Bank's financing asset portfolio while the consumer financing segment contributed 47% of the Bank's total financing assets in 2017.

Credit risk limit is further refined with the full implementation of the new Single Counterparty Exposure Limit ("SCEL") requirements. A new calibrated Moody's Rating System is used for corporate customers and more detailed assessment on real estate exposure are implemented to monitor the quality of the corporate portfolio.

The financing and investment limits are established in accordance to the Board's approved Credit Delegation Approval Matrix for all types of financing and investment monitored by Credit Management Team and Management Credit Committee. KFHM Malaysia Financing Transactions Golden Rules are adopted to optimize the asset allocation decisions by measuring the impact of all major transactions on KFHM Group capital adequacy ratio.

The Credit Management Team, consisting of independent full time credit personnel, plays a central role in analysing, reviewing and monitoring transactional credits pertaining to corporate, commercial and consumer financing activities. Counterparty risk is restricted and monitored at the customer level in accordance to the BNM/SCEL.

The Bank's credit risk policies and guidelines set the principles to govern the way the Bank and its related subsidiaries conduct their credit risk management activities. It ensures credit risk underwriting consistency across the Bank and provides guidance in the formulation of supplementary credit policies and practices specific to business units.

The Credit Risk Management Team has further enhanced credit risk management practices by producing more granular analysis reports to be presented to the Management and BRMC. With the business intelligence tools employed by the Bank, proactive collection strategies, monitoring and identification of business credit risk and opportunities are now more effective and efficient.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Market Risk Management

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

Market risk is defined as the risk of losses or reduction in values in on- and off-balance sheet positions arising from movements in market prices.

Liquidity Risk Management

Liquidity risk is defined as inability of the Bank to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled over. The Bank adopts the BNM's Liquidity Coverage Ratio as a foundation in managing its liquidity. The objective of liquidity risk management is to ensure that cash needs can always be met at reasonable cost, either by:

- Maturity or sale of assets; or
- Acquisition of deposits or additional funding from the Islamic money markets.

The Bank has also adopted Basel III's new Liquidity Coverage Ratio and internal 3-days Liquidity Coverage Ratio as a liquidity risk management tool to ensure the next 30 days and 3 days cashflow obligations are sufficient. The Bank has also developed a Contingency Funding Plan to further manage its liquidity risk.

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

Profit Rate (Rate of Return) Risk Management

Profit rate risk refers to movements in profit rates that can expose the Bank to higher funding costs or lower investment and financing yields. Due to the nature of the Bank's business, changes in profit rates can adversely affect the Bank in the form of lower net revenue depending on the mix and form of assets and liabilities.

The profit rate risk management function is also overseen by ALCO comprising members of the senior management representing major business units, Treasury Division, Finance Division and Risk Management Division.

The primary aim of profit rate risk management is to maintain the Bank's profit rate risk exposure within acceptable parameters when there is a change in the market profit rate. Profit rate risk limits shall provide the means for achieving this objective.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Profit Rate (Rate of Return) Risk Management (Cont'd)

Among others, ALCO has set the limits for the following ratios:

- Economic Value of Equity ("EVE") @ 100 bps for Asset Liability Risk.
- Present Value of 01 ("PV01") measurement for Sukuk Exposure.

Operational Risk Management ("ORM")

Operational risk is defined as losses due to failed internal processes, people, systems or from external events.

The Bank has an ORM Policy that is aimed at managing the overall operational risk within the Bank. This policy is being reviewed periodically to ensure it is being aligned with the overall Bank's business strategy. Various operational risk tools have been implemented with the intention to minimise the operational risk to an acceptable level and within the Bank's appetite.

A clear delegation of authority had been approved and implemented in order to provide clear job responsibility. This authority is regularly reviewed in order to align it with the latest structure of the Bank.

The Bank also continuously reviews and evolves its technology practices and processes in order to ensure acceptable standards are put in place.

The overall corporate governance practices is being monitored closely with the aim to ensure that the Bank's operates the highest standards of business integrity, ethics and professionalism across the Bank.

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

Under the Bank's Compliance Policy, the line management plays an important role in cultivating a compliance culture within the organisation. The Bank has appointed Business Unit Compliance Officers ("BUCOs") at divisional / departmental levels who are responsible to identify applicable regulatory requirements at their respective divisions / departments and to keep RAC informed on an ongoing basis of the quality of compliance, compliance deficiencies, gaps in work processes and the status of any corrective actions.

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(iii) Risk Management (Cont'd.)

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

As a fully licensed Islamic Bank, the Bank has a legal obligation to deter money laundering and counter financing of terrorism within the ambit of the Anti-Money Laundering, Anti-Terrorism Financing & Proceeds of Unlawful Activities (AMLATPFUA) 2001. As such, the Bank is at the forefront of the Government and BNM's continuous initiatives in the prevention of the use of the banking system at any point for money laundering or terrorist financing activities.

The Bank has demonstrated its full commitment of compliance with the Anti-Money Laundering / Counter Financing of Terrorism ("AML/CFT") requirements by establishing a robust and comprehensive framework, policies, procedures, processes and systems for the prevention and detection of money laundering and terrorist financing activities. The Head of Compliance reports to the CEO and to the Board Risk Committee on AML/CFT and Regulatory Compliance matters. Key measures undertaken by the Bank to mitigate the AML/CFT matters include:

- Implemented a dedicated anti-money laundering ("AML") system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System ("MIS") for prompt detection and reporting of suspicious transactions;
- Established Know Your Customer ("KYC") policy and procedures to address the establishment of new business relationship with customers;
- Constant review of the AML system to optimise detection of potential money laundering activities and incorporate regular screening exercise for entities suspected involved in terrorism as issued by United Nations Security Council ("UNSC") and Office of Foreign Assets Control (OFAC) US;
- Constantly updating record keeping procedures in accordance with the statutory requirements;
- Conduct regularly AML/CFT training sessions to ensure high level of staff awareness on the matters;
- Regular update to the Management, BRMC and the Bank's Chairman on AMLCFT trend of the Bank.

The AMLCFT measures have undergone thematic assessment by the regulators and further validated internally as part of the ongoing risk assessment towards meeting the Financial Action Task Force ("FATF") recommendations.

The above measures especially with the implementation of a dedicated MIS to systematically conduct ongoing customer due diligence and to monitor the customers' transactions on a daily basis, demonstrate that the Bank including KFHM Group have shown strong commitment in ensuring compliance to the relevant AML legislations as well as to protect the Bank's integrity and reputation.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives

The Bank is of the view that it is important to have in place sound practices in managing the range of risks facing the Bank and its potential impacts on the capital. Hence, the Capital Planning and Asset Liability Management Unit has continued to complement the risk management practices carried out by the Bank. The Unit is also tasked to ensure the successful adoption of Pillar 1, 2 and 3 under BNM Capital Adequacy Framework for Islamic Banks ("CAFIB").

Pillar 1

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

- Credit Risk Charge – Standardised Approach
- Market Risk Charge – Standardised Approach
- Operational Risk Charge – Basic Indicator Approach

The Bank is in compliance with all regulatory capital ratios prescribed under Pillar 1 throughout the year.

Pillar 2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has carried out comprehensive assessment of its existing capital and risk management practices against expectations set forth in the BNM Guideline. The Bank's ICAAP framework is very much aligned to Kuwait Finance House Group's ICAAP implementation inclusive of the following efforts:

- Continuous monitoring of the Bank's Key Risk Indicators (KRIs) which are aligned to the Bank's Risk Appetite Statements; and
- Improvement initiatives on ICAAP and Stress Test Submission.

The Bank leverages on ICAAP in assessing the overall capital adequacy in relation to its risk profile and take necessary steps to strengthen the risk and capital management capability.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

Pillar 3

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

Stress Test

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

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

The preparation of the stress test involves risk management teams, business units, Economist of the Bank and parent company. The stress test results are computed using the Integrated Risk Management System ("IRMS") based on predefined scenarios which are as follows:

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

The stress test reports are presented to the Senior Management and Board level committees and discussed with BNM on a regular basis.

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Bank is Islamic banking business as allowed under the Islamic Financial Services Act, 2013.

The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund and asset management.

During the financial year, the Bank's subsidiary involved in fund management and asset management activities surrendered its licence to the Securities Commission and commenced member's voluntary liquidation. Other information relating to the subsidiaries are disclosed in Note 14 to the financial statements.

RESULTS

	Group RM'000	Bank RM'000
Profit from continuing operations, net of tax	6,739	7,661
Loss from discontinued operations, net of tax	(1,543)	-
Profit net of tax	<u>5,196</u>	<u>7,661</u>
Profit attributable to:		
Owners of the parent	5,196	7,661
Minority interests	-	-
	<u>5,196</u>	<u>7,661</u>

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

DIVIDENDS

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

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DIRECTORS

The names of the directors of the Bank in office since the beginning of the financial year to the date of this report are:

Muad S M M AIOsaimi (Appointed as Independent Chairman on 16 February 2017)
Mohammad Nasser AlFouzan
Khalid Sufat
Md Adnan Md Zain
Abdul Khalil Abdul Hamid
Ahmad S A A AlKharji
Noorur Rahman Abbas Ali Abid (Appointed on 1 August 2017)
Mohamed Zaheer Mohamed Azreen (Retired as Director with effect from 9 April 2017 at the end of tenure)

The names of the directors of the Bank's subsidiaries in office since the beginning of the financial year to the date of this report are:

KFH Asset Management Sdn Bhd

Mohammad Nasser AlFouzan
Md Adnan Md Zain
Mohamed Zaheer Mohamed Azreen (Resigned on 31 March 2017)
Mushthaq Ahmad bin A.M. Ibrahim (Resigned on 15 August 2017)
Mohd Zulkifli Tiew Abdullah (Appointed on 3 April 2017 and resigned on 28 November 2017)

Kuwait Finance House (Labuan) Bhd

Mohammad Nasser AlFouzan
Md Adnan Md Zain
Mohamed Zaheer Mohamed Azreen (Resigned on 31 March 2017)

KFH Nominees (Tempatan) Sdn Bhd

Mexdelina Hussein
Mohd Hazran Abd Hadi

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 37 of the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which the director is a member, or with a company in which he has a substantial financial interest except as disclosed in Note 40 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2017.

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CHANGES IN SHARE CAPITAL

There were no changes to the authorised, issued and paid-up capital of the Bank during the financial year.

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than as those disclosed in Notes 7, 9, 14, 29, 30 and the statements of changes in equity of the financial statements.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

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

HOLDING COMPANY

The ultimate holding company is Kuwait Finance House K.S.C., which is incorporated in Kuwait.

OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and income statements of the Group and the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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OTHER STATUTORY INFORMATION (Cont'd.)

- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

BUSINESS PLAN FOR 2018

The Bank's focus for 2018 is built around four core building blocks continuing the successful transformation started in 2017. Our committed focus on developing our people, improving customer focused internal processes, expanding distribution reach through our digital strategy and creating sustainable performance will be central to our success in 2018. Embedded throughout the organisation will be the continuation of Simpler-Better-Faster (SBF) and putting the customer at the heart of everything that we do. The Bank will continue to build and restructure its balance sheet to compete in the market and provide sustainable earnings into the future.

The Bank will continue with its transformation initiatives as we invest in rebuilding the infrastructure throughout the organisation, specifically focusing on technology, risk management solutions, digital innovation and customer led initiatives. The Bank will continue to drive innovative value propositions to our customers by introducing new products and services across both the Retail and Wholesale franchises. KFHM remains committed to our core Islamic values and principles and to build a strong brand across the Islamic banking industry in Malaysia.

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OUTLOOK FOR 2018

The Malaysian economy is projecting strong growth of between 5% and 5.5% in 2018 (2017: 5.2% and 5.7%). Economic growth will be underpinned by resilient domestic demand. Household spending will remain the key source of growth, benefitting from higher income following stable employment conditions. The private sector continues to spearhead growth, while the public sector remains committed towards a fiscal consolidation path. The external sector is expected to remain strong supported by sustained demand from major trading partners. Inflation will remain between 2.5% and 3.5% while it is expected the economy continues to operate under full employment.

On the supply side, growth is broad-based with favourable contribution from all sectors. The Services sector 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. Overall, the current monetary policy stance is appropriate to support the economic activity.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	December 2017	AA+ / MARC-1	Stable

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Seven (7) Shariah Committee Meetings were held with full attendance from all members and thirty three (33) Notes were issued during the financial year. The Shariah Committee comprises of five (5) qualified Shariah scholars who are appointed by the Board as the term approved by Bank Negara Malaysia (BNM) as follows:

- (a) Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae (Chairman)
- (b) Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam (Member)
- (c) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi (Member)
- (d) Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali (Member)
- (e) Sheikh Isa Abdulla Yusuf Dowaishan (Member)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

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

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

ZAKAT OBLIGATIONS

Kuwait Finance House K.S.C. who is the shareholder of Kuwait Finance House (Malaysia) Berhad paid zakat on behalf of the Bank. The Bank does not pay zakat on behalf of the shareholder or depositors.

SUBSEQUENT EVENT

Details of subsequent events are disclosed in Note 47 to the financial statements.

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AUDITORS

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

Auditors' remuneration are disclose in Note 34 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 January 2018.



Muad S M M AIOsaimi

Director



Noorur Rahman Abbas Ali Abid

Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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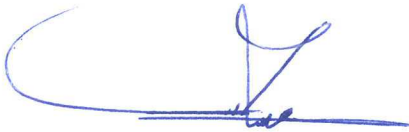
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

Pursuant To Section 251(2) of the Companies Act, 2016

We, Muad S M M AIOsaimi and Noorur Rahman Abbas Ali Abid, being two of the directors of Kuwait Finance House (Malaysia) Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 41 to 220 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 January 2018.



Muad S M M AIOsaimi
Director



Noorur Rahman Abbas Ali Abid
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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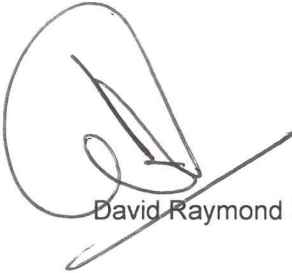
(Incorporated in Malaysia)

STATUTORY DECLARATION

Pursuant To Section 251(1)(b) of the Companies Act, 2016

I, David Raymond Power, being the officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 41 to 220, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed David Raymond Power
at Kuala Lumpur, in the Federal Territory
on 19 January 2018



David Raymond Power

BEFORE ME



Lot 1.68, 1st Floor,
Wisma Cosway, Jalan Raja Chulan
50200 Kuala Lumpur.
Tel: 03-91725900
H/P: 012-3766796



KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

Kuwait Finance House (Malaysia) Berhad's Board of Directors are responsible for ensuring that the Bank conducts its business in accordance with Shariah advice and ruling of its Shariah Committee and Bank Negara Malaysia's Shariah Advisory Council (SAC).

As the Shariah Committee for Kuwait Finance House (Malaysia) Berhad, it is our responsibility to form our independent opinion, based on our review of the operations of Kuwait Finance House (Malaysia) Berhad, and to report to you.

We have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries ("the Group") during the year ended 31 December 2017.

We have obtained all information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Kuwait Finance House (Malaysia) Berhad has not violated the Shariah rules and principles in all transactions that had been presented to us.

We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles. We conducted our review, through Kuwait Finance House (Malaysia) Berhad's Shariah Division, on selected areas, operations and activities related to the transactions of Kuwait Finance House (Malaysia) Berhad with its customers, investors and other related parties. The review was done according to the approved annual Shariah Review Plan where regular reports were submitted by the Shariah Division regarding the review process and findings, field visits, conduct of business and proper implementation of decisions issued by the Shariah Committee.

In our opinion:

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2017 that we have reviewed are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account for channeling to charitable causes;
- (d) the calculation of Zakat is in compliance with Shariah rules and principles; and
- (e) any known non compliance with Shariah and action taken to remedy such non compliance has been addressed adequately.

This opinion is rendered based on what has been presented to us by the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Division.

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae
Chairman
Signature:

Date: 19 January 2018

Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam
Member
Signature:

Date: 19 January 2018

Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi
Member
Signature:

Date: 19 January 2018

Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali
Member
Signature:

Date: 19 January 2018

Sheikh Isa Abdulla Yusuf Dowaishan
Member
Signature:

Date: 19 January 2018

Date: 19 January 2018
Kuala Lumpur, Malaysia

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 41 to 220.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditor's report thereon

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Statement of Corporate Governance and Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

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**Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (cont'd.)
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Information other than the financial statements and auditors' report thereon (cont'd.)

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with MFRS, IFRS and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Auditors' responsibilities for the audit of financial statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Other matters

The report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

19 January 2018



Muhammad Syafrizal Bin Abdul Rahim

No. 03157/01/2019 J

Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Group	
		2017	2016
		RM'000	RM'000
	Note		
ASSETS			
Cash and short-term funds	4	429,575	2,341,840
Deposits and placements with banks and other financial institutions	5	214,806	179,636
Gold depository	6	102,824	126,949
Hedging financial instruments	11	1,714	5,956
Securities available-for-sale	7	2,282,276	1,092,402
Securities held-to-maturity	8	5,064	61,251
Financing, advances and other receivables	9	5,596,649	6,494,270
Other assets	10	65,828	63,420
Statutory deposit with Bank Negara Malaysia	12	213,600	201,000
Musyarakah capital investment	13	18	5,898
Property and equipment	15	22,281	13,633
Computer software	16	10,601	10,719
Deferred tax assets	17	196,775	198,329
TOTAL ASSETS		9,142,011	10,795,303
LIABILITIES			
Deposits from customers	18	4,699,178	4,329,342
Investment accounts of customers	20	8,218	8,563
Deposits and placements of banks and other financial institutions	19	2,262,903	4,261,411
Hedging financial instruments	11	14,981	1,163
Subordinated Murabahah Tawarruq	23	409,716	451,070
Other liabilities	21	96,524	96,976
TOTAL LIABILITIES		7,491,520	9,148,525
SHAREHOLDER'S EQUITY			
Share capital	24	1,425,272	1,425,272
Reserves	25	225,219	221,506
TOTAL SHAREHOLDER'S EQUITY		1,650,491	1,646,778
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,142,011	10,795,303

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Group	
		2017	2016
Note		RM'000	RM'000
	COMMITMENTS AND CONTINGENCIES		
		1,339,318	895,885
	CAPITAL ADEQUACY		
	CET 1/Tier 1 capital ratio	22.500%	20.275%
	Total capital ratio	29.927%	27.722%
	NET ASSETS PER SHARE (RM)	1.16	1.16

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(672174-T)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

		Bank	
		2017	2016
		RM'000	RM'000
ASSETS	Note		
Cash and short-term funds	4	458,403	2,341,840
Deposits and placements with banks and other financial institutions	5	214,806	207,728
Gold depository	6	102,824	126,949
Hedging financial instruments	11	1,714	5,956
Securities available-for-sale	7	2,255,531	1,059,538
Securities held-to-maturity	8	5,064	61,251
Financing, advances and other receivables	9	5,596,649	6,494,270
Other assets	10	65,692	63,026
Statutory deposit with Bank Negara Malaysia	12	213,600	201,000
Musarakah capital investment	13	18	5,898
Investment in subsidiaries	14	13,732	15,069
Property and equipment	15	22,020	13,276
Computer software	16	10,379	10,363
Deferred tax assets	17	196,775	198,329
TOTAL ASSETS		9,157,207	10,804,493
LIABILITIES			
Deposits from customers	18	4,416,919	4,295,095
Investment accounts of customers	20	8,218	8,563
Deposits and placements of banks and other financial institutions	19	2,584,891	4,336,014
Hedging financial instruments	11	14,981	1,163
Subordinated Murabahah Tawarruq	23	409,716	451,070
Other liabilities	21	96,022	96,141
TOTAL LIABILITIES		7,530,747	9,188,046
SHAREHOLDER'S EQUITY			
Share capital	24	1,425,272	1,425,272
Reserves	25	201,188	191,175
TOTAL SHAREHOLDER'S EQUITY		1,626,460	1,616,447
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,157,207	10,804,493

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Bank	
Note	2017 RM'000	2016 RM'000	
COMMITMENTS AND CONTINGENCIES			
41	1,339,318	895,885	
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	21.716%	19.505%	43
Total capital ratio	29.162%	26.979%	43
NET ASSETS PER SHARE (RM)	1.14	1.13	

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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INCOME STATEMENTS

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Continuing Operation					
Operating revenue	26	509,438	488,966	504,594	489,033
Income derived from investment of depositors' funds and others	27	408,186	399,607	408,391	399,316
Income derived from investment of investment account funds	32	300	258	300	258
Income derived from investment of shareholder's equity	28	100,952	89,101	95,903	89,459
Total gross income		509,438	488,966	504,594	489,033
Impairment allowance on financing, advances and other receivables	29	(12,075)	(78,442)	(12,075)	(78,442)
Impairment (allowances)/writeback on investments	30	(16,809)	334	(11,297)	(4,331)
Total distributable income		480,554	410,858	481,222	406,260
Income attributable to the depositors	31	(253,300)	(258,520)	(254,467)	(259,306)
Profit distributed to investment account holders	32	(179)	(154)	(179)	(154)
Total net income		227,075	152,184	226,576	146,800
Personnel expenses	33	(94,829)	(80,825)	(94,159)	(80,161)
Other overheads and expenditures	34	(89,384)	(84,968)	(88,633)	(83,656)
Finance cost	35	(33,704)	(12,693)	(33,704)	(12,693)
Profit/(loss) before taxation		9,158	(26,302)	10,080	(29,710)
Taxation	38	(2,419)	(20)	(2,419)	-
Net profit /(loss) for the year from continuing operations		6,739	(26,322)	7,661	(29,710)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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(Incorporated in Malaysia)

INCOME STATEMENTS (CONT'D.)

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Discontinued operations					
Loss after tax for the year from discontinued operations	36	(1,543)	(1,955)	-	-
Profit/loss for the year		5,196	(28,277)	7,661	(29,710)
Total net profit/(loss) for the year					
		5,196	(28,277)		
Attributable to:					
- Equity holder of the Bank		5,196	(28,277)		
Earning/(loss) per share (sen)					
- Basic/Diluted	39	0.36	(1.98)		

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit / (loss) for the year	5,196	(28,277)	7,661	(29,710)
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised (loss)/gain on securities available-for-sale	(524)	4,310	(601)	3,707
- Net realised loss available-for-sale reclassified to the income statements	2,476	564	2,476	889
Exchange differences on translation of foreign operations:				
- Net (loss)/gain taken to equity	(3,912)	2,388	-	-
Income tax relating to components of other comprehensive income (Note 17)	477	322	477	322
Other comprehensive (loss)/income for the year, net of tax	(1,483)	7,584	2,352	4,918
Total comprehensive profit/(loss) for the year	3,713	(20,693)	10,013	(24,792)
Total comprehensive profit/(loss) for the year attributable to equity holder of the Bank	3,713	(20,693)	10,013	(24,792)

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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STATEMENTS OF CHANGES IN EQUITY

	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available- For-Sale Reserve RM'000		Retained Earning RM'000
Group						
At 1 January 2017	1,425,272	158,385	7,090	(9,254)	65,285	1,646,778
Total comprehensive income	-	-	(3,912)	2,429	5,196	3,713
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
At 31 December 2017	1,425,272	162,216	3,178	(6,825)	66,650	1,650,491
At 1 January 2016	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
Total comprehensive loss	-	-	2,388	5,196	(28,277)	(20,693)
At 31 December 2016	1,425,272	158,385	7,090	(9,254)	65,285	1,646,778
Bank						
At 1 January 2017	1,425,272	158,385	-	(9,000)	41,790	1,616,447
Total comprehensive income	-	-	-	2,352	7,661	10,013
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
At 31 December 2017	1,425,272	162,216	-	(6,648)	45,620	1,626,460
At 1 January 2016	1,425,272	158,385	-	(13,918)	71,500	1,641,239
Total comprehensive loss	-	-	-	4,918	(29,710)	(24,792)
At 31 December 2016	1,425,272	158,385	-	(9,000)	41,790	1,616,447

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

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation				
- Continuing operations	9,158	(26,302)	10,080	(29,710)
- Discontinued operations	(1,543)	(1,955)	-	-
	7,615	(28,257)	10,080	(29,710)
Adjustments for:				
Impairment allowances on financing, advances and other receivables (Note 29)	12,075	78,442	12,075	78,442
Amortisation of premium less accretion of discounts (Notes 27 and 28)	5,675	5,263	5,675	5,261
Finance cost (Note 35)	33,704	12,693	33,704	12,693
Depreciation of property and equipment (Notes 34 and 36)	5,534	9,267	5,471	9,156
Amortisation of intangible assets (Notes 34 and 36)	3,085	2,689	2,970	2,466
Property and equipment written off (Notes 15 and 34)	192	-	192	-
Reversal of provision on property restoration (Note 28)	(113)	-	(113)	-
Gain on disposal of property and equipment (Notes 28 and 36)	(3)	(41)	-	(41)
Net gains on sale of securities available-for-sale (Notes 27 and 28)	(28,209)	(7,436)	(28,210)	(7,498)
Net gains on sale of securities held-for-trading (Notes 27 and 28)	(330)	(1,330)	(330)	(1,330)
Impairment allowance/(writeback) on securities available-for-sale (Note 30)	17,029	(289)	10,212	765
Impairment on subsidiaries (Note 30)	-	-	1,085	3,566
Writeback from a subsidiary previously liquidated (Note 30)	(220)	(45)	-	-
Unrealised (gain)/loss on foreign translations (Note 28)	(12,955)	6,170	(12,917)	6,178
Unrealised loss on revaluation of securities held-for-trading, and Ijarah rental swap (net) (Note 28)	3,416	3,178	3,416	3,178
Operating profit before working capital changes	46,495	80,304	43,310	83,126
Decrease in operating assets	873,678	530,861	897,960	530,128
Deposits and placements with banks and other financial institutions	(35,170)	39,472	(7,078)	39,298
Financing, advances and other receivables	885,546	429,433	885,546	429,433
Other assets	35,902	20,956	32,092	20,397
Statutory deposit with Bank Negara Malaysia	(12,600)	41,000	(12,600)	41,000

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
(Cont'd.)				
(Decrease)/Increase in operating liabilities	(1,691,570)	125,732	(1,691,903)	176,953
Deposits from customers	369,836	689,335	121,824	738,788
Investment account due to customers	(345)	1,073	(345)	1,073
Deposits and placements of banks and other financial institutions	(1,998,508)	(587,939)	(1,751,123)	(586,118)
Other liabilities	(62,553)	23,263	(62,259)	23,210
Cash (used in)/generated from operations	(771,397)	736,897	(750,633)	790,207
Tax paid	(20)	(20)	-	-
Net cash (used in)/generated from operating activities	(771,417)	736,877	(750,633)	790,207
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from (purchases)/sales of securities	(1,125,900)	62,334	(1,125,280)	11,074
Proceeds from disposal of property and equipment	26	53	-	53
Purchase of property and equipment (Note 15)	(16,538)	(9,307)	(16,516)	(9,041)
Purchase of computer software (Note 16)	(951)	(1,431)	(928)	(1,309)
Net cash (used in)/generated from investing activities	(1,143,363)	51,649	(1,142,724)	777
Net (decrease)/increase in cash and cash equivalents	(1,914,780)	788,526	(1,893,357)	790,984
Cash and cash equivalents at beginning of year	2,372,621	1,577,005	2,367,991	1,577,007
Exchange differences on translation of opening balances	3,178	7,090	-	-
Cash and cash equivalents at end of year	461,019	2,372,621	474,634	2,367,991

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STATEMENTS OF CASH FLOWS

Group		Bank	
2017	2016	2017	2016
RM'000	RM'000	RM'000	RM'000

Cash and cash equivalents comprises:

Cash and short-term funds (Note 4)
 Deposits and placements with banks
 and other financial institutions (Note 5)

Less: Deposit with contractual maturity more
 than 3 months

Cash and cash equivalents

429,575	2,341,840	458,403	2,341,840
214,806	179,636	214,806	207,728
644,381	2,521,476	673,209	2,549,568
(183,362)	(148,855)	(198,575)	(181,577)
461,019	2,372,621	474,634	2,367,991

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

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1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in the provisions of Islamic banking business as allowed under the Islamic Financial Services Act, 2013. The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund management and asset management. During the financial year, the Bank's subsidiary involved in fund management and asset management activities surrendered its licence to the Securities Commission and commenced member's voluntary liquidation.

The Bank is a licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 26, Menara Prestige, No. 1, Jalan Pinang, P.O.Box 10103, 50450 Kuala Lumpur, Malaysia.

The holding company of the Bank is Kuwait Finance House K.S.P.C., a Kuwaiti Shareholding Public Company, incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait. The registered office of Kuwait Finance House K.S.P.C. is located at Al-Qebala, Block 10, Abdullah Al-Mubarak Street, Building # 4, P.O. Box: 24989, Safat 13110, State of Kuwait.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 19 January 2018.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

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

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery of settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 49.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the Group and the Bank have been prepared on the historical cost basis unless otherwise disclosed in the accounting policies below.

(b) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

In the Bank's separate financial statements, investment in subsidiaries is stated at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceeds and their carrying amount is included in income statements.

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3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

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

(ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the Bank.

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

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

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(ii) Basis of Consolidation (Cont'd.)

- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

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

(c) Fair value measurement

The Group measures financial instruments such as security available-for-sale and hedging financial instruments at fair value at each reporting date.

Financial instruments such as those categorized as securities held-to-maturity and financing, advances and other receivables are measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group does not have any non-financial instruments that are measured at fair value as at reporting date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 45.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets

Financial assets are recognised in the statements of financial position when the Group and the Bank become a party to the contractual provisions of the financial instruments.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Classification of financial assets are determined at initial recognition, which is described below.

(i) Financing, advances and other receivables

Financing, advances and other receivables consist of Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai', Murabahah, Mudharabah, Musyarakah, Qard and Istisna' contracts. These contracts are recognised when cash is disbursed to customers. They are initially stated at fair value including any direct transaction cost and are subsequently measured at amortised cost using the effective yield rate method less impairment losses. Gains and losses are recognised in income statement when the financing, advances and other receivables are derecognised or impaired, and through the amortisation process.

The Group and the Bank assess at each reporting date whether there is any objective evidence that financing, advances and other receivables are impaired. Financing, advances and other receivables are classified as impaired when:

- (i) where the principal or profit or both is past due for more than 90 days or 3 months;
- (ii) where the amount is past due for 3 months or less, the financing exhibits certain credit weaknesses;
- (iii) where repayments are scheduled on intervals of 3 months or longer, the financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness; and
- (iv) rescheduled and restructured facilities can only be reclassified as non-impaired when repayments based on the revised or restructured terms have been observed continuously for a minimum period of six months.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

(i) Financing, advances and other receivables (Cont'd.)

To determine whether there is objective evidence that an impairment loss has been incurred, the Group and the Bank consider factors such as significant financial difficulties of the customer and default or significant delay in repayments.

The amount of impairment loss is measured as the difference between the carrying amount of the financing and the present value of estimated future cash flows discounted at the financing's original effective yield rate. The impairment loss is recognised in income statements.

The carrying amount of the financial asset is directly reduced by the impairment loss through the use of an impairment allowance account. When a financing becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in income statements.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

(ii) Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold the investment to maturity. These investments are measured at amortised cost using the effective yield rate method less impairment losses. A gain or loss is recognised in income statements when the securities are derecognised or impaired, and through the amortisation process.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

(iii) Securities available-for-sale

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity investments and are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or where the revaluation technique generates a wide range of possible fair values and the probability of various outcomes cannot be estimated are stated at cost less impairment. Any gain or loss arising from a change in the fair value are recognised in other comprehensive income, except for impairment losses, foreign exchange gains or losses and profit calculated using the effective yield rate method are recognised in income statements.

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

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

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

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

- where the net book value of the restructured financing is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the income statements in the current reporting period.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

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

- where the fair value of the debt or equity instruments is higher than the net book value of the restructured financing, the gain from the conversion scheme is transferred to the "Impairment loss" account, which would be netted off from the "Securities" account in the statements of financial position.

The estimated fair values for securities available-for-sale are based on quoted and observable market prices at the reporting date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the reporting date.

A financial asset is derecognised when the contractual right to receive the cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in income statements.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Bank commit to purchase or sell the asset.

(e) Financial liabilities

Financial liabilities are recognised in the statements of financial position when the Group and the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective yield method.

Deposits from customers and deposits and placements of banks and financial institutions consist of non-mudharabah deposits, mudharabah deposits and murabahah deposits.

Deposits from customers, deposits and placements of banks and financial institutions and Subordinated Murabahah Tawarruq are measured at amortised cost. With the exception of hedging financial instruments, the Group and the Bank do not have any financial liabilities classified at fair value through profit and loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Property and Equipment, and Depreciation

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

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

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

Renovation	5 years
Furniture and fittings	5 years
Office equipment	5 years
Computer hardware*	3 - 15 years
Motor vehicles	5 years

* Computer hardware includes:

Data Centre Structure	15 years
Computer equipment	3 - 4 years
Automated Teller Machine (ATM)	7 years
Core banking system	8 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in income statements.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(g) Computer software

Computer software acquired separately are measured initially at cost. The cost of computer software acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or infinite. Computer software with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

(h) Other Assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the reporting date.

(i) Musyarakah Capital Investment and Musyarakah Financing

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

(j) Provision for Liabilities

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Provision for Liabilities (Cont'd.)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

(k) Income Tax

(i) Current tax

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

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

(ii) Deferred tax

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(k) Income Tax (Cont'd)

(ii) Deferred tax (Cont'd.)

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Bank and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

(i) Finance Income Recognition

Finance income is recognised on an effective yield basis. Income on cash line, house and term financing are accounted for by reference to the rest periods as stipulated in the financing agreement, which are either daily or monthly. Income on Musyarakah and Mudharabah financing are recognised based on estimated internal rate of return.

Murabahah

Murabahah income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'

Ijarah income is recognised on effective profit rate basis over the lease term.

Customers' accounts are classified as impaired where repayments are in arrears for more than three months from the first day of default for financing and one month after maturity date for trade bills and other instruments of similar nature.

(ii) Fee and Other Income Recognition

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Revenue Recognition (Cont'd.)

(ii) Fee and Other Income Recognition (Cont'd.)

Dividend income from subsidiary and other investments are recognised when the Group's and the Bank's right to receive payment is established.

(m) Profit Expense Recognition

Attributable profit expense on deposits and financing of the Group and the Bank under non-mudharabah, mudharabah and murabahah deposits are recognised on an accrual basis.

(n) Foreign Currencies

(i) Functional and Presentational Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in income statement for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations. These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Bank's net investment in foreign operation are recognised in profit or loss in the Bank's separate financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign Operations

The results and financial position of the subsidiaries that have functional currencies different from the presentation currency ("RM") of the consolidated financial statements are translated into RM as follows:

- (a) Assets and liabilities for each statement of financial position presented are translated at the closing rates prevailing at the reporting date;
- (b) Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and
- (c) All resulting exchange differences are taken to the foreign currency translation reserve in other comprehensive income.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(o) Hedging financial instruments

The initial recognition of hedging financial instruments is at fair value, and subsequently remeasured at fair value with the resulting gain or loss recognised in income statements. Hedging financial instruments with positive fair values are classified as financial assets and as financial liabilities when their fair values are negative.

(i) Foreign Exchange Contracts

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

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

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

(iii) Fair value hedge

Where a financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss. For the foreign exchange contracts which are designated as the hedging instrument in the fair value hedge, the forward rate method is applied. This is when the hedged item is alternatively measured at the forward rate instead of the spot rate. The hedge is to manage the foreign currency risk arising from the Bank receiving fund in USD for its business which operates in MYR, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using the Critical Terms Method, whereby the critical terms of both the hedging instrument and the hedged item are identical. All hedging relationships were sufficiently effective as of the reporting date.

The list of the fair value for all derivatives and fair value hedge entered by the Bank is disclosed in Note 11.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(p) Employee Benefits

(i) Short-Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group and the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plan

Defined contribution plan is a post-employment benefit plan under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss when incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(q) Zakat

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(r) Impairment of Non-Financial Assets

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

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

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in income statements in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

(s) Financial Instruments

Financial instruments are recognised in the statements of financial position when the Group and the Bank have become a party to the contractual provisions of the financial instrument. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(s) Financial Instruments (Cont'd.)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Profits, dividends and gains or losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Bank have a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(t) Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances and short-term deposits with contractual maturities of less than three months.

(u) Financial Risk Management Objective and Policies

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

(v) Operating Lease

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

(w) Investment Accounts

The KFH Mudharabah Plus Account-i (the "Account(s)") is a demand investment account which is classified under the Unrestricted Investment Account ("URIA") where the customer provides the Bank with mandate to make the ultimate investment decision without specifying any particular restrictions or conditions. The KFH Mudharabah Plus Account-i is classified under the "Investment Account" classification of Islamic Financial Services Act 2013.

The reference to "Mudharabah" shall mean the Islamic contract of Mudharabah on an unrestricted profit sharing between the Customer(s) as owner of the capital ("Rabbul Mal") and the Bank as the entrepreneur ("Mudharib"), whereby the Customer(s) shall place a specified sum of money with the Bank, and the Bank is entrusted to utilise the capital for investment and business relating to Shariah compliant investment and business without any specification and intervention from the Customer(s), to generate income which will be distributed according to the profit sharing ratio ("PSR").

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2017, the Group and the Bank adopted the following new and amended MFRSs for annual financial periods beginning on or after 1 January 2017.

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRS Standards 2014 – 2016 Cycle - Amendments to MFRS 12 Disclosure of Interests In Other Entities: Clarification of the scope of disclosure requirements in MFRS 12	1 January 2017
MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
MFRS 107 Disclosure Initiative (Amendments to MFRS 107)	1 January 2017

The adoption of the MFRSs and amendments to MFRSs above did not have any material impact on the financial statements of the Group and Bank in the current financial year.

3.3 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRS Standard 2014 - 2016 Cycle	1 January 2018
MFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfer of Investment Property (Amendments to MFRS 140)	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS128 Investments in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
MFRS 16 Leases	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatment	1 January 2019
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

The adoption of the above standards are not expected to have a material impact on the financial statements of the Group and the Bank except as follows:

MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. During 2017, the Bank has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank adopts MFRS 9. Based on the analysis of the Bank's financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the directors of the Bank have assessed the impact of MFRS 9 to the Group's financial statements as follows:

(a) Classification and measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of MFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale (AFS) with gains and losses recorded in OCI will, instead be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The AFS reserve of RM6,648,000 related to those securities, which is currently presented in OCI will be reclassified to retained earnings. Debt securities are expected to be measured at fair value through OCI as the Bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Bank will apply the option to present fair value changes in OCI, and therefore, the application of MFRS 9 will not have a significant impact.

Financing and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 9 Financial Instruments (Cont'd.)

(b) Impairment

MFRS 9 requires the Bank to record expected credit losses on all of its debt securities, financing and trade receivables, either on a 12-month or lifetime basis. The guiding principle of the expected credit loss ("ECL") model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs to be recognised as a loss allowance or provision depends on the extent of the credit deterioration since initial recognition. The extent of credit deterioration helps define the credit stage of an obligor and hence the loss allowance.

Under MFRS 9, the Bank will use a three stage approach in recognising the increased credit risk at each higher stage:

Stage 1 refers to all accounts which have not shown any sign of deterioration since origination. All accounts which have been identified as Low Credit Risk ("LCR") (under low credit risk expedient) shall be classified as Stage 1 without periodic check for significant increase in credit risk.

Stage 2 refers to all accounts which have shown a significant deterioration in credit quality since origination. The definition of a significant deterioration is subject to assessment on an ad-hoc/annual basis. Lifetime losses are computed for all accounts classified under Stage 2.

Stage 3 refers to all impaired assets (purchased impaired and original credit impaired assets). Lifetime losses are computed for all accounts classified as Stage 3.

MFRS 9 requires 12 month expected credit loss provision for all accounts in Stage 1 and lifetime expected credit losses for all other accounts. The 12 month credit loss refers to the portion of expected credit loss resulting from possible default events within 12 months after reporting date. Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date. The lifetime refers to the financing tenure of the financial instrument.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 9 Financial Instruments (Cont'd.)

(c) Hedge accounting

The Bank determined that all existing hedge relationships that are currently designated as effective will continue to qualify for hedge accounting under MFRS 9. As MFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of MFRS 9 will not have a significant impact on the Bank's financial statements.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

3.4 Significant Accounting Estimates and Judgments

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Impairment of financial investments ("AFS") and ("HTM")

The Group and the Bank review financial investments classified as AFS and HTM at each reporting date to assess whether these are impaired. This requires similar judgment as applied to the individual assessment of financing.

The Group and the Bank also record impairment charges on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group and the Bank evaluate, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(b) Impairment losses on financing, advances and other receivables

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in income statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

(c) Deferred tax

Deferred tax assets are recognised for all unutilised tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Management's judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Impairment losses on financing, advances and other receivables

Financing and advances that have been assessed individually but for which no impairment is required and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether allowances should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgements on the effects of concentrations of risks (such as the performance of different individual groups).

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

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

(c) Deferred tax and income taxes

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

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

(d) Income recognition on Musyarakah and Mudharabah financing

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

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	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
4 CASH AND SHORT-TERM FUNDS				
Cash and balances with banks and other financial institutions	64,436	127,452	64,436	127,452
Money at call and interbank placements with remaining maturity less than one month	365,139	2,214,388	393,967	2,214,388
	429,575	2,341,840	458,403	2,341,840
5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS				
Licensed Islamic banks	148,000	-	148,000	-
Bank Negara Malaysia ^	8,218	8,563	8,218	8,563
Other financial institutions	58,588	171,073	58,588	199,165
	214,806	179,636	214,806	207,728

^ The placement with Bank Negara Malaysia are funded by investment accounts of customers as disclosed in Note 20.

6 Gold depository

Gold depository account relates to physical gold kept and maintained at Kuveyt Turk Participation Bank in Turkey, for gold investments purchased when customer place deposit in gold saving account.

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7 SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<u>At fair value</u>				
Unquoted securities				
Islamic private debt securities/ sukuk	344,701	444,691	332,714	431,467
Government guaranteed sukuk	1,879,396	573,686	1,879,396	573,686
	2,224,097	1,018,377	2,212,110	1,005,153
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	28,827	28,085	-	-
Collective Investment Scheme	20,165	28,785	20,165	28,785
	85,092	92,970	56,265	64,885
Less:				
Accumulated impairment loss	(26,913)	(18,945)	(12,844)	(10,500)
	58,179	74,025	43,421	54,385
	2,282,276	1,092,402	2,255,531	1,059,538

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<u>Movement in impairment loss on AFS securities</u>				
At 1 January	18,945	10,500	10,500	10,500
Impairment charged during the year	7,968	8,445	2,344	-
At 31 December	26,913	18,945	12,844	10,500

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8 SECURITIES HELD-TO-MATURITY

At amortised cost

Unquoted securities:

Islamic private debt securities/ sukuk

Group and Bank	
2017	2016
RM'000	RM'000
5,064	61,251

9 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	
2017	2016
RM'000	RM'000
946,670	762,988
1,172,038	1,212,692
17,319	50,117
276,530	331,139
11,865	6,053
679,081	541,130
2,865,532	3,947,681
13,707	11,578
5,982,742	6,863,378
(122,221)	(139,421)
(263,872)	(229,687)
5,596,649	6,494,270

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
(ii) By contract		
Ijarah Muntahia Bittamlik/AI-Ijarah Thumma Al-Bai' (lease ended with ownership)	2,160,107	2,053,752
Murabahah (cost-plus)	3,711,313	4,499,057
Mudharabah (profit sharing)	61,024	71,378
Qard (benevolent financing) (Note 9(x))	931	1,043
Musyarakah (profit and loss sharing)	48,098	236,813
Istisna'	1,269	1,335
	5,982,742	6,863,378
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	554,265	595,133
- Others	2,592,970	3,615,471
Individuals	2,831,795	2,533,727
Foreign entities	-	14,299
Domestic non-bank financial institutions	3,712	104,748
	5,982,742	6,863,378
(iv) By residual contractual maturity		
Maturity within one year	2,609,787	3,879,579
More than one year to three years	122,852	225,908
More than three years to five years	216,249	139,689
More than five years	3,033,854	2,618,202
	5,982,742	6,863,378
(v) By geographical distribution		
Malaysia	5,972,156	6,846,625
Middle East	4,647	5,170
Other countries	5,939	11,583
	5,982,742	6,863,378

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	7,712	7,550
- Hire purchase receivables	679,081	541,130
- Syndicated financing	276,530	331,139
- Term financing	1,299,375	1,593,095
Variable		
- House financing	943,794	760,197
- Term financing	2,776,250	3,630,267
	5,982,742	6,863,378
(vii) By sector		
Construction	647,838	616,724
Electricity, gas and water	124,148	157,686
Finance, insurance and business services	129,875	321,489
Household	2,831,795	2,533,727
Manufacturing	512,982	794,955
Agriculture, hunting, forestry & fishing	203,680	336,615
Real Estate	911,310	1,317,458
Transports, storage and communication	181,565	238,021
Wholesale & retail trade and restaurants & hotels	388,456	477,180
Others	51,093	69,523
	5,982,742	6,863,378
(viii) By economic purpose		
Purchase of securities	4,878	219,242
Purchase of transport vehicles	682,572	544,890
Purchase of landed properties		
- residential	974,066	798,690
- non-residential	782,258	949,149
Purchase of fixed assets	45,217	86,632
Working capital	1,582,570	1,852,617
Construction	207,679	467,263
Personal use	1,196,969	1,230,718
Other purposes	506,533	714,177
	5,982,742	6,863,378

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

(ix) Financing by types and Shariah contract

	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
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	922,913	88	-	22,400	-	1,269	946,670
Personal financing	-	1,171,530	-	-	508	-	1,172,038
Leasing financing	-	-	17,319	-	-	-	17,319
Syndicated financing	55,370	221,160	-	-	-	-	276,530
Cashline financing	-	11,865	-	-	-	-	11,865
Hire purchase receivables	679,081	-	-	-	-	-	679,081
Other term financing	492,501	2,303,826	43,705	25,500	-	-	2,865,532
Staff financing	10,242	2,844	-	198	423	-	13,707
	2,160,107	3,711,313	61,024	48,098	931	1,269	5,982,742

	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
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	735,129	93	-	26,432	-	1,335	762,989
Personal financing	-	1,212,205	-	-	487	-	1,212,692
Leasing financing	-	22,443	27,673	-	-	-	50,116
Syndicated financing	62,901	268,239	-	-	-	-	331,140
Cashline financing	-	6,053	-	-	-	-	6,053
Hire purchase receivables	533,921	-	-	7,209	-	-	541,130
Other term financing	711,504	2,989,509	43,705	202,962	-	-	3,947,680
Staff financing	10,297	515	-	210	556	-	11,578
	2,053,752	4,499,057	71,378	236,813	1,043	1,335	6,863,378

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
(x) Purpose and Source of Qard financing		
As at 1 January	1,043	1,147
Source of Qard fund:	1,347	1,104
- Depositors' Fund	1,104	915
- Shareholders' Fund	243	189
Uses of Qard fund:	(1,459)	(1,208)
- Financing for asset purchase	(1,197)	(1,001)
- Staff Benevolent	(262)	(207)
As at 31 December (Note 9(ii))	931	1,043
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	478,060	550,898
- Impaired during the year	127,884	223,973
- Reclassified to performing during the year	(3,440)	(7,316)
- Amount recovered	(175,736)	(149,115)
- Amount written off	(8,290)	(140,380)
At 31 December	418,478	478,060
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment allowance	2.70%	3.74%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Collective assessment		
At 1 January	139,421	92,212
Allowance (written back)/made during the year (Note 29)	(17,200)	47,209
At 31 December	122,221	139,421
As % of total gross financing, advances and other receivables less individual impairment allowance	2.14%	2.10%

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

		Group and Bank	
		2017	2016
		RM'000	RM'000
(xii) Movements in impairment allowances on financing, advances and other receivables (Cont'd.)			
Individual assessment			
At 1 January		229,687	320,664
Allowance made during the year (Note 29)		42,475	49,403
<i>Allowance charged during the year</i>		110,693	151,157
<i>Allowance written-back during the year</i>		(68,218)	(101,754)
Amount written off		(8,290)	(140,380)
At 31 December		263,872	229,687
(xiii) Impaired financing by sector			
Electricity, gas and water		79	79
Finance, insurance and business services		168	9,337
Household		61,971	46,392
Manufacturing		158,820	191,926
Real Estate		193,020	217,688
Transport, storage and communication		-	7,209
Wholesale & retail trade and restaurants & hotels		4,420	5,429
		418,478	478,060

10 OTHER ASSETS

		Group		Bank	
		2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
		8,845	8,222	8,711	7,991
		-	-	4	4
		53,936	51,561	53,936	51,561
		795	742	795	742
		2,252	2,895	2,246	2,728
		65,828	63,420	65,692	63,026

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10 OTHER ASSETS (Cont'd.)

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

11 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2017			
Forward foreign exchange related contracts	646,620	120	14,938
- in connection with fair value hedges	622,899	-	14,833
- other derivatives without a hedging relationship	23,721	120	105
Ijarah rental swap related contracts	124,610	1,594	43
- other derivatives without a hedging relationship	124,610	1,594	43
Total	771,230	1,714	14,981
2016			
Forward foreign exchange related contracts	84,293	994	1,113
- other derivatives without a hedging relationship	84,293	994	1,113
Ijarah rental swap related contracts	199,152	4,962	50
- other derivatives without a hedging relationship	199,152	4,962	50
Total	283,445	5,956	1,163

The Bank's derivatives designated for fair value hedges consists of forward foreign exchange related contracts that are used to protect against exposures to variability in foreign currency exchange rates. This hedging strategy is applied towards interbank borrowings from holding company and one of the subsidiary. The changes in the fair value of the forward foreign exchange contract and interbank borrowings are recognised in the income statements. The measurement of the hedged item results in a gain of RM14,833,290 recorded in unrealised gain/loss on revaluation of foreign exchange.

12 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The statutory deposit is maintained with Bank Negara Malaysia in compliance with Paragraph 100(r) of the Central Bank of Malaysia Act, 2009, the amount of which is determined at set percentages of total eligible liabilities.

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13 MUSYARAKAH CAPITAL INVESTMENT

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

14 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost
- in Malaysia
Impairment on investment in subsidiaries

Bank	
2017	2016
RM'000	RM'000
30,200	30,200
(16,468)	(15,131)
13,732	15,069

Details of the subsidiaries are as follows:

Company		Country of Incorporation	Equity interest held (%)	
			2017	2016
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100
KFH Asset Management Sdn. Bhd. (In member's voluntary liquidation as at 29 November 2017)	Asset management	Malaysia	100	100

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15 PROPERTY AND EQUIPMENT

Group 2017	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	28,532	12,028	13,077	28,893	2,602	5,408	90,540
Additions	13	13	15	721	-	15,776	16,538
Disposals	(3)	(126)	-	(27)	-	-	(156)
Write-offs	(523)	(244)	(76)	(90)	-	-	(933)
Transfers	-	-	-	505	-	(2,619)	(2,114)
Exchange difference	(9)	(3)	(2)	(12)	-	(26)	(52)
At 31 December	28,010	11,668	13,014	29,990	2,602	18,539	103,823
<u>Accumulated depreciation</u>							
At 1 January	25,960	10,965	12,265	25,870	1,847	-	76,907
Charge for the year (Notes 34 and 36)	2,164	936	652	1,526	256	-	5,534
Disposals	(3)	(126)	-	(4)	-	-	(133)
Write-offs	(372)	(216)	(67)	(86)	-	-	(741)
Exchange difference	(9)	(3)	(2)	(11)	-	-	(25)
At 31 December	27,740	11,556	12,848	27,295	2,103	-	81,542
<u>Net book value</u>							
At 31 December	270	112	166	2,695	499	18,539	22,281
Bank 2017							
<u>Cost</u>							
At 1 January	27,896	11,827	12,987	28,609	2,602	5,142	89,063
Additions	13	3	15	709	-	15,776	16,516
Write-offs	(523)	(245)	(76)	(90)	-	-	(934)
Transfers	-	-	-	504	-	(2,613)	(2,109)
At 31 December	27,386	11,585	12,926	29,732	2,602	18,305	102,536
<u>Accumulated depreciation</u>							
At 1 January	25,353	10,779	12,181	25,627	1,847	-	75,787
Charge for the year (Note 34)	2,134	920	647	1,514	256	-	5,471
Write-offs	(372)	(217)	(68)	(85)	-	-	(742)
At 31 December	27,115	11,482	12,760	27,056	2,103	-	80,516
<u>Net book value</u>							
At 31 December	271	103	166	2,676	499	18,305	22,020

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15 PROPERTY AND EQUIPMENT (Cont'd.)

Group 2016	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	27,991	11,883	13,620	29,102	1,981	2,907	87,484
Additions	94	144	47	314	621	8,087	9,307
Disposals	-	-	(634)	(1,349)	-	-	(1,983)
Transfers	442	-	42	822	-	(5,586)	(4,280)
Exchange difference	5	1	2	4	-	-	12
At 31 December	28,532	12,028	13,077	28,893	2,602	5,408	90,540
<u>Accumulated depreciation</u>							
At 1 January	22,074	9,128	11,615	25,098	1,684	-	69,599
Charge for the year (Notes 34 and 36)	3,881	1,836	1,271	2,116	163	-	9,267
Disposals	-	-	(623)	(1,348)	-	-	(1,971)
Exchange difference	5	1	2	4	-	-	12
At 31 December	25,960	10,965	12,265	25,870	1,847	-	76,907
<u>Net book value</u>							
At 31 December	2,572	1,063	812	3,023	755	5,408	13,633
Bank 2016							
<u>Cost</u>							
At 1 January	27,360	11,683	13,533	28,840	1,981	2,888	86,285
Additions	94	144	46	296	621	7,840	9,041
Disposals	-	-	(634)	(1,349)	-	-	(1,983)
Transfers	442	-	42	822	-	(5,586)	(4,280)
At 31 December	27,896	11,827	12,987	28,609	2,602	5,142	89,063
<u>Accumulated depreciation</u>							
At 1 January	21,531	8,973	11,541	24,873	1,684	-	68,602
Charge for the year (Note 34)	3,822	1,806	1,263	2,102	163	-	9,156
Disposals	-	-	(623)	(1,348)	-	-	(1,971)
At 31 December	25,353	10,779	12,181	25,627	1,847	-	75,787
<u>Net book value</u>							
At 31 December	2,543	1,048	806	2,982	755	5,142	13,276

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16 COMPUTER SOFTWARE

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<u>Cost</u>				
At 1 January	69,787	64,066	68,056	62,467
Additions	951	1,431	928	1,309
Reclass	(51)	-	(51)	-
Disposal	(16)	-	-	-
Write off	(3)	-	(3)	-
Transfers from property and equipment	2,114	4,280	2,109	4,280
Exchange difference	(179)	10	-	-
At 31 December	72,603	69,787	71,039	68,056
<u>Accumulated amortisation</u>				
At 1 January	59,068	56,303	57,693	55,227
Amortisation for the year (Notes 34 and 36)	3,085	2,689	2,970	2,466
Reclass	-	-	-	-
Disposal	(2)	-	-	-
Write off	(3)	-	(3)	-
Exchange difference	(146)	76	-	-
At 31 December	62,002	59,068	60,660	57,693
<u>Carrying amount</u>				
At 31 December	10,601	10,719	10,379	10,363

17 DEFERRED TAXATION

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At 1 January	198,329	198,141	198,329	198,141
Recognised in other comprehensive income	477	322	477	322
Recognised in profit and loss	(2,031)	(134)	(2,031)	(134)
At 31 December	196,775	198,329	196,775	198,329
Presented after appropriate offsetting as follows:				
Deferred tax assets	198,606	200,184	198,606	200,184
Deferred tax liabilities	(1,831)	(1,855)	(1,831)	(1,855)
Deferred tax assets (net)	196,775	198,329	196,775	198,329

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17 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group and Bank:	Unrealised loss on securities available-for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
2017				
At 1 January	1,601	191,633	6,950	200,184
Recognised in profit or loss	-	(2,859)	804	(2,055)
Recognised in other comprehensive income	477	-	-	477
At 31 December	2,078	188,774	7,754	198,606
2016				
At 1 January	1,279	196,584	3,601	201,464
Recognised in profit or loss	-	(4,951)	3,349	(1,602)
Recognised in other comprehensive income	322	-	-	322
At 31 December	1,601	191,633	6,950	200,184

Deferred tax liabilities of the Group and Bank:	Accelerated capital allowances RM'000	Total RM'000
2017		
At 1 January	1,855	1,855
Recognised in profit or loss	(24)	(24)
At 31 December	1,831	1,831
2016		
At 1 January	3,323	3,323
Recognised in profit or loss	(1,468)	(1,468)
At 31 December	1,855	1,855

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17 DEFERRED TAXATION (Cont'd.)

Unutilised tax losses

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

	Group	
	2017	2016
	RM'000	RM'000
Unutilised tax losses	786,558	798,471
	786,558	798,471

The deferred tax assets have been recognised as at 31 December 2017 as the directors are of the view that it is probable for the Group to realise the deferred tax asset.

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

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

	Group	
	2017	2016
	RM'000	RM'000
Unutilised tax losses	210,007	210,007
Unabsorbed capital allowance	-	6,415

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

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

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18 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(i) By type of deposit				
Qard				
- Demand deposits	473,933	686,580	394,620	652,831
- Gold deposits	102,061	127,209	102,061	127,210
Wakalah	202,946	498	-	-
Murabahah				
- Term placement	3,833,900	3,462,211	3,833,900	3,462,210
- Savings deposits	86,338	52,844	86,338	52,844
	4,699,178	4,329,342	4,416,919	4,295,095

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
(ii) By type of customer				
Business enterprises	1,807,400	1,760,948	1,477,482	1,602,031
Individuals	335,578	385,418	335,578	385,418
Subsidiaries	-	-	47,659	124,670
Government and statutory bodies	2,063,351	1,249,020	2,063,351	1,249,020
Others	492,849	933,956	492,849	933,956
	4,699,178	4,329,342	4,416,919	4,295,095
(iii) By contractual maturity				
Due within six months	3,928,810	4,014,438	3,646,550	3,980,191
More than six months to one year	656,716	312,324	656,716	312,324
More than one year to three years	113,652	2,580	113,653	2,580
	4,699,178	4,329,342	4,416,919	4,295,095

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19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	50,000	452,014	50,000	452,014
Other financial institutions	2,212,903	3,809,397	2,534,891	3,884,000
	2,262,903	4,261,411	2,584,891	4,336,014

20 INVESTMENT ACCOUNTS OF CUSTOMERS

	Group and Bank	
	2017 RM'000	2016 RM'000
As at 1 January	8,563	7,490
Net (withdrawal)/placement during the year	(524)	919
Income from investment	300	258
Profit distributed to mudarib	(121)	(104)
As at 31 December	8,218	8,563
Investment asset: Wadiah placement with BNM (Note 5)	8,218	8,563

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder			
	Average profit sharing ratio		Average rate of return	
	Group and Bank			
	2017 (%)	2016 (%)	2017 (%)	2016 (%)
Unrestricted investment accounts:				
Less than 3 months	60	60	1.78	1.84

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20 INVESTMENT ACCOUNTS OF CUSTOMER (Cont'd.)

	Group and Bank	
	2017 RM'000	2016 RM'000
Business enterprises	1,193	2,789
Individuals	6,477	4,529
Other enterprises	548	1,245
	8,218	8,563

21 OTHER LIABILITIES

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Sundry creditors	(i)	49,071	53,041	48,954	53,006
Accrued restoration cost		5,707	5,857	5,600	5,750
Other provisions and accruals		38,986	30,701	38,708	30,008
Undistributed charity funds	(ii)	2,760	7,377	2,760	7,377
		96,524	96,976	96,022	96,141

(i) Included in sundry creditors is an amount payable to holding company of RM0.5 million (2016: RM0.4 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

	Group and Bank	
	2017 RM'000	2016 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	7,377	5,587
Penalty charges on late payment	5,672	1,946
Total sources of funds during the year	13,050	7,533
Uses of charity funds:		
Compensation of late payment charges (Note 28)	(10,000)	-
Contribution to non profit organisations	(195)	(108)
Aid to needy family	(95)	(48)
Total uses of funds during the year	(10,290)	(156)
Undistributed charity funds as at 31 December	2,760	7,377

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22 PROVISION FOR ZAKAT

In 2017, zakat is calculated based on opening reserve method of Kuwait Finance House (Malaysia) Berhad and paid by Kuwait Finance House K.S.C who is the main shareholder of the Bank.

23 SUBORDINATED MURABAHAH TAWARRUQ

The subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD101,214,583 or equivalent RM409,716,633 (2016: USD100,550,495 or equivalent RM451,069,519) is unsecured with maturity on 23 September 2026 and forms part of the Bank's Tier-2 capital. The profit rate charged on the principal is at a fixed rate of 8.25% starting from 7 February 2017 with a revolving maturity of 3 months.

24 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2017 Units'000	2016 Units'000	2017 RM'000	2016 RM'000
Issued and fully paid:				
At 1 January/ At 31 December	1,425,272	1,425,272	1,425,272	1,425,272

25 RESERVES

	Note	Group		Bank	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Non-distributable					
Statutory reserve	(i)	162,216	158,385	162,216	158,385
Exchange fluctuation reserve	(ii)	3,178	7,090	-	-
Available-for-sale reserve	(iii)	(6,825)	(9,254)	(6,648)	(9,000)
		158,569	156,221	155,568	149,385
Distributable					
Retained earnings		66,650	65,285	45,620	41,790
		225,219	221,506	201,188	191,175

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25 RESERVES (Cont'd.)

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

(i) Statutory reserve

The statutory reserve is maintained in compliance with Capital Funds for Islamic Banks Guideline issued on 1 July 2013 and is not distributable as cash dividends.

(ii) Exchange fluctuation reserve

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

(iii) Available-for-sale reserve

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

Movements of the available-for-sale reserve are as follows:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
At 1 January	(9,254)	(14,450)	(9,000)	(13,918)
Net unrealised (loss)/gain on securities available-for-sale financial investments	(47)	4,632	(124)	4,029
Net realised loss/(gain) on securities available-for-sale financial investments reclassified to the income statements	2,476	564	2,476	889
At 31 December	(6,825)	(9,254)	(6,648)	(9,000)

26 OPERATING REVENUE

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

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

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27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income derived from investment of other deposits				
	408,186	399,607	408,391	399,316
	408,186	399,607	408,391	399,316
Finance income from financing, advances and other receivables	290,485	315,064	290,964	315,376
Finance income from impaired financing	576	279	576	279
Securities				
- Held-for-trading	21	3	21	3
- Available-for-sale	54,970	31,091	54,855	30,577
- Held-to-maturity	1,620	2,599	1,622	2,601
Money-at-call and deposits with financial institutions	30,466	36,038	30,645	36,221
	378,138	385,074	378,683	385,057
Amortisation of premium less accretion of discount	(4,725)	(4,367)	(4,733)	(4,370)
Total finance income and hibah	373,413	380,707	373,950	380,687
Gain arising from sale of securities				
- Held-for-trading	274	1,107	275	1,108
- Available-for-sale	23,100	6,102	23,121	6,163
Foreign exchange gain - realised	8,847	8,395	8,488	8,059
Gain on Ijarah rental swap obligations	2,552	3,295	2,556	3,299
	408,186	399,607	408,391	399,316

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28 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Finance income from financing, advances and other receivables	58,337	64,674	57,858	64,361
Finance income from impaired financing	108	59	108	59
Securities				
- Held-for-trading	4	1	4	1
- Available-for-sale	11,136	6,407	11,008	6,267
- Held-to-maturity	319	535	316	532
Money-at-call and deposits with financial institutions	6,021	7,189	5,995	7,183
	75,925	78,865	75,289	78,403
Amortisation of premium less accretion of discount	(950)	(896)	(942)	(891)
Total finance income and hibah	74,975	77,969	74,347	77,512
Fee income				
- Commissions	2,606	2,240	2,607	2,245
- Fund management fee	119	1,738	-	-
- Other fee income	6,253	5,504	6,253	5,498
- Compensation of late payment charges	10,000	-	10,000	-
Gain arising from sale of securities				
- Held-for-trading	56	223	55	222
- Available-for-sale	5,109	1,334	5,089	1,335
Unrealised loss on revaluation of ljarah rental swap (net)	(3,416)	(3,178)	(3,416)	(3,178)
Foreign exchange related contract gain/(loss)				
- Realised	(12,691)	1,782	(12,781)	1,703
- Unrealised	12,955	(6,177)	12,917	(6,178)

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28 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY (Cont'd.)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gain on Ijarah rental swap obligations	510	675	506	673
Gross dividend from property funds (securities available-for-sale)	-	897	-	-
Reversal of provision on property restoration	113	-	113	-
Gain on disposal of property, plant and equipment	-	41	-	41
Other income	4,268	5,527	-	-
Gross dividend from subsidiary	-	-	-	8,940
Management fee	95	526	213	646
	100,952	89,101	95,903	89,459

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

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Allowances for (Note 9(xii)):				
- Collective assessment	(17,200)	47,209	(17,200)	47,209
- Individual assessment:	42,475	49,403	42,475	49,403
Allowances charged during the year	110,693	151,157	110,693	151,157
Allowances written-back during the year	(68,218)	(101,754)	(68,218)	(101,754)
Bad debt recovered on financing	(13,200)	(18,170)	(13,200)	(18,170)
	12,075	78,442	12,075	78,442

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30 IMPAIRMENT (ALLOWANCES)/WRITEBACK ON INVESTMENTS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Securities available-for-sale	(17,029)	289	(10,212)	(765)
Other impairment loss	220	45	(1,085)	(3,566)
	(16,809)	334	(11,297)	(4,331)

31 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits from customers				
- Murabahah	135,023	129,777	135,023	129,777
- Wakalah	97	203	-	-
- Others	2,730	2,833	2,730	2,833
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	115,450	125,707	116,714	126,696
	253,300	258,520	254,467	259,306

32 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income derived from investment of investment account funds	300	258	300	258
Profit distributed to mudarib	(121)	(104)	(121)	(104)
	179	154	179	154

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33 PERSONNEL EXPENSES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries and wages	54,214	47,605	53,973	47,799
Social security costs	377	325	373	321
Pension costs - defined contribution plan	9,783	9,350	9,761	9,267
Other staff related costs	30,455	23,545	30,052	22,774
	94,829	80,825	94,159	80,161

Included in personnel expenses of the Group and the Bank during the financial year are the remuneration attributable to the Chief Executive Officer of the Bank as follow:

Name	Position	Salary and other remuneration*	Bonus	Employees Provident Fund	Benefit in kinds	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
2017						
David Raymond Power	Chief Executive Officer	2,823	-	-	175	2,998
	Total	2,823	-	-	175	2,998
2016						
Ahmad S A A AlKharji	Chief Executive Officer & Managing Director	1,143	243	176	43	1,605
David Raymond Power	Chief Executive Officer	902	-	-	65	967
	Total	2,045	243	176	108	2,572

* includes leave encashment, gratuity, income tax, home passage and housing allowances.

* Fixed remuneration in cash-based and non-deferred in nature.

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34 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Promotion				
Advertisement and publicity	5,008	942	5,003	938
Establishment				
Rental	16,161	16,637	16,123	16,608
Depreciation of property and equipment (Note 15)	5,485	9,168	5,471	9,156
Amortisation of intangible assets (Note 16)	3,084	2,688	2,970	2,466
IT expenses	9,867	9,435	9,866	9,433
Hire of equipment	518	692	482	683
	40,123	39,562	39,915	39,284

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
General expenses				
Auditors remuneration				
- Statutory audit:	353	334	333	317
- Non-audit services:	316	336	316	312
- Review engagements and regulatory-related services	254	206	254	206
- Other services	62	130	62	106
Professional fees	1,707	1,826	1,692	1,817
Directors' remuneration (Note 37)	2,338	2,230	2,321	2,218
Shariah Committee's remuneration (Note 37)	804	752	804	752
Murabahah agent fees	1	35	1	35
Communication expenses	2,991	3,351	2,925	3,282
Other fees	16,326	16,845	16,326	16,852
Write-off of property and equipment (Note 15)	192	-	192	-
Others	24,233	19,697	23,808	18,787
	49,261	45,406	48,718	44,372
Total overheads and expenditures	89,384	84,968	88,633	83,656

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35 FINANCE COST

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Subordinated Murabahah Tawarruq	33,704	12,693	33,704	12,693

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36 DISCONTINUED OPERATIONS

On 27 January 2017, the board of directors of the Bank resolved to liquidate the subsidiary, KFHAM Asset Management Sdn. Bhd. ("KFHAM") by way of member's voluntary liquidation. KFHAM has commenced the liquidation with effect from 29 November 2017 upon the appointment of the liquidator. At 31 December 2017, KFHAM was classified as a discontinued operation. The results of KFHAM for the year are presented below:

	Note	Group	
		2017 RM'000	2016 RM'000
Income derived from investment of shareholder's equity	(i)	299	1,654
Total gross income		299	1,654
Total net income		299	1,654
Personnel expenses	(ii)	(1,126)	(2,451)
Other overheads and expenditures	(iii)	(716)	(1,158)
Loss before taxation		(1,543)	(1,955)
Taxation		-	-
Net loss for the year from discontinued operations		(1,543)	(1,955)
(i) Income derived from investment of shareholder's equity			
Fee income			
- Fund management fee		295	1,646
- Other fee income		1	-
Foreign exchange gain/(loss)			
- Unrealised		-	7
Gain on disposal of property, plant and equipment		3	-
Other income		-	1
		299	1,654

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36 DISCONTINUED OPERATIONS (Cont'd.)

	Group	
	2017 RM'000	2016 RM'000
(ii) Personnel expenses		
Salaries and wages	927	2,130
Social security costs	4	6
Pension costs - defined contribution plan	195	315
Other staff related costs	-	-
	1,126	2,451
(iii) Other overheads and expenditures		
Promotion		
Advertisement and publicity	7	15
Establishment		
Rental	108	478
Depreciation of property and equipment (Note 15)	49	99
Amortisation of intangible assets (Note 16)	1	1
IT expenses	-	2
Hire of equipment	5	7
	170	602

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36 DISCONTINUED OPERATIONS (Cont'd.)

	Group	
	2017 RM'000	2016 RM'000
(iii) Other overheads and expenditures (Cont'd.)		
General expenses		
Auditors remuneration		
- Statutory audit:	29	25
- Non-audit services:	25	-
- Review engagements and regulatory-related services	25	-
Professional fees	110	63
Directors' remuneration (Note 37)	143	216
Communication expenses	-	10
Other fees	-	7
Others	239	235
	546	556
Total overheads and expenditures	716	1,158

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37 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors of the Bank				
Fees	1,286	1,238	1,286	1,238
Other remuneration	1,035	980	1,035	980
Benefits-in-kind				
	2,321	2,218	2,321	2,218
Directors of subsidiary company				
Fees	146	214	-	-
Other remuneration	14	14	-	-
	160	228	-	-
Total Directors Remuneration*	2,481	2,446	2,321	2,218
Shariah Committee				
Fees	624	624	624	624
Other remuneration	180	128	180	128
Total Shariah Committee Remuneration	804	752	804	752

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

	Bank	
	Number of directors	
	2017	2016
Directors		
RM1,000 - RM100,000	1	-
RM100,001 - RM150,000	1	1
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	1	1
RM300,001 - RM400,000	3	4
RM400,001 - RM500,000	2	1
Total	8	8

* Fixed remuneration in cash-based and non-deferred in nature.

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

The list of directors together with their remuneration during the financial year is as follow:

Name of Directors	Position	Board of Directors Fee	Board Audit Committee Fee	Board Risk Management Committee Fee	Board Nominating And Remuneration Committee Fee	Board Credit & Committee Fee	Investment Committee *	Board Corporate Governance Committee Fee	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017 Group									
Muad S M M AIOsaimi	Chairman	262	-	-	-	-	-	52	314
Mohammad Nasser AlFouzan	Non-independent non-executive director	252	1	60	45	-	-	60	418
Ahmad S A A AlKharji	Non-independent executive director	180	43	-	60	-	-	-	283
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	64	18	17	17	16	-	-	132
Khalid Sufat	Independent non-executive director	180	60	-	60	60	2	-	362
Md Adnan Md Zain	Independent non-executive director	239	4	44	61	60	2	60	470
Abdul Khalil Abdul Hamid	Independent non-executive director	180	60	60	60	44	-	-	404
Noorur Rahman Abbas Ali Abid	Independent non-executive director	75	13	-	10	-	-	-	98
Total		1,432	199	181	313	180	4	172	2,481

* Related to Investment Committee fee received from KFH Asset Management Sdn Bhd in January and May 2017.

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

The list of directors together with their remuneration during the financial year is as follow:

Name of Directors	Position	Board of Directors Fee	Audit Committee Fee	Board Risk Management Committee Fee	Nominating And Remuneration Committee Fee	Board Credit & Investment Committee Fee	Board Credit Investment & Recovery Committee	Corporate Governance Committee Fee	Total
2016		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group									
Hamad A H D AlMarzouq	Chairman	250	-	-	-	-	-	50	300
Mohammad Nasser AlFouzan	Non-independent non-executive director	276	1	60	1	-	-	60	398
Ahmad S A A AlKharji	Non-independent executive director	88	-	-	29	-	-	-	117
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	240	61	60	61	-	60	-	482
Khalid Sufat	Independent non-executive director	180	60	-	60	4	60	-	364
Gopala Krishnan a/l K.Sundran	Independent non-executive director	80	27	27	26	-	-	-	160
Md Adnan Md Zain	Independent non-executive director	237	2	-	60	4	60	60	423
Abdul Khalil Abdul Hamid	Independent non-executive director	101	33	34	34	-	-	-	202
Total		1,452	184	181	271	8	180	170	2,446

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

The list of directors together with their remuneration during the financial year is as follow:

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'001	Board Credit & Committee Fee RM'002	Board Credit Investment & Recovery Committee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
2017		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank									
Muad S M M AIOsaimi	Chairman	262	-	-	-	-	-	52	314
Mohammad Nasser AlFouzan	Non-independent non- executive director	180	-	60	44	-	-	60	344
Ahmad S A A AlKharji	Non-independent executive director	180	43	-	60	-	-	-	283
Mohamed Zaheer Mohamed Azreen	Non-independent non- executive director	49	17	17	16	16	-	-	115
Khalid Sufat	Independent non- executive director	180	60	-	60	60	-	-	360
Md Adnan Md Zain	Independent non- executive director	180	-	43	60	60	-	60	403
Abdul Khalil Abdul Hamid	Independent non- executive director	180	60	60	60	44	-	-	404
Noorur Rahman Abbas Ali Abid	Independent non- executive director	75	13	-	10	-	-	-	98
Total		1,286	193	180	310	180	-	172	2,321

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

The list of directors together with their remuneration during the financial year is as follow:

Name of Directors	Position	Directors Fee RM'000	Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Nominating And Remuneration Committee Fee RM'001	Board Credit & Investment Committee Fee RM'002	Board Credit Investment Committee Fee RM'000	Board Recovery Committee Fee RM'000	Total RM'000
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016									
Bank									
Hamad A H D AlMarzouq	Chairman	250	-	-	-	-	-	50	300
Mohammad Nasser AlFouzan	Non-independent non- executive director	180	-	60	-	-	-	60	300
Ahmad S A A AlKharji	Non-independent executive director	88	-	-	29	-	-	-	117
Mohamed Zaheer Mohamed Azreen	Non-independent non- executive director	180	60	60	60	-	60	-	420
Khalid Sufat	Independent non- executive director	180	60	-	60	-	60	-	360
Gopala Krishnan a/l K.Sundran	Independent non- executive director	80	27	27	26	-	-	-	160
Md Adnan Md Zain	Independent non- executive director	180	-	-	60	-	60	60	360
Abdul Khalil Abdul Hamid	Independent non- executive director	100	33	34	34	-	-	-	201
Total		1,238	180	181	269	-	180	170	2,218

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

Name of Shariah Committee Member	TOTAL RM '000	Fee RM '000	Allowances RM '000
2017			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	195	144	51
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	165	120	45
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	147	120	27
Sheikh Isa Abdulla Yusuf Dowaishan	128	120	8
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	169	120	49
	804	624	180
2016			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	179	144	62
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	151	120	54
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	141	120	35
Sheikh Isa Abdulla Yusuf Dowaishan	127	120	7
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	154	120	61
	752	624	219

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38 TAXATION

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Malaysian income tax				
- Current year	-	20	-	-
Deferred tax:				
- Relating to origination and reversal of temporary differences	1,283	(5,638)	1,283	(5,638)
- Relating to reduction in Malaysian income tax rate	-	7,962	-	7,962
- Under/(over) provision in prior years	1,136	(2,191)	1,136	(2,191)
- Relating to effect of temporary differences in income statement in prior year	-	(133)	-	(133)
	2,419	20	2,419	-

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2017 have reflected these changes.

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

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

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit/(loss) before zakat and taxation				
- Continuing operations	9,158	(26,302)	10,080	(29,710)
- Discontinued operations	(1,543)	(1,955)	-	-
	7,615	(28,257)	10,080	(29,710)
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	1,828	(6,782)	2,419	(7,130)
Income subject to different tax rates	-	(1,913)	-	-
Income not subject to tax	(71)	(1,299)	-	(2,668)
Expenses not deductible for tax purposes	2,206	1,612	1,544	1,396
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	-	2,631	-	2,631
Effect on opening deferred tax of reduction in Malaysian income tax rate	-	7,962	-	7,962
Under/(over) provision of deferred tax in prior year	1,136	(2,191)	1,136	(2,191)
Utilisation of previously unrecognised unabsorbed capital allowances	(2,680)	-	(2,680)	-
Tax expense for the year	2,419	20	2,419	-

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39 EARNINGS PER SHARE

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

	Group	
	2017	2016
Net profit/(loss) for the year (RM'000)	5,196	(28,277)
Weighted average number of ordinary shares in issue ('000)	1,425,272	1,425,272
Basic/diluted earnings/(loss) per share (sen)	0.36	(1.98)

40 RELATED PARTY TRANSACTIONS

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

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

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

Holding Company

Details of holding company are disclosed in Note 48.

Subsidiaries

Details of subsidiaries are disclosed in Note 14.

Subsidiaries of holding company

Subsidiaries of the holding company are KFH (Bahrain) B.S.C., Saudi Kuwaiti Finance House S.S.C., Liquidity Management House K.S.C.C., KFH Research Limited, International Turnkey System, and Kuveyt Turk Participation K.S.C.

Key management personnel

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

Directors

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

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2017						
(i) Income						
- Management fees	-	188	-	-	-	-
- Other fee	39	-	-	-	-	-
- Profit income on placements	158	160	-	-	-	-
- Profit income on financing	-	-	15,987	57	-	-
	197	348	15,987	57	-	-
(ii) Expenditure						
- Profit expense on deposits	6,657	1,264	229	-	-	-
- Other fees	-	-	16,582	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	33,704	-	-	-	-	-
	40,361	1,264	16,811	-	-	-

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

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

The significant transactions and outstanding balances of the Bank with its related parties are as follows: (Cont'd.)

2017 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	409,717	-	-	-	-	-
- Deposits from customers	-	47,659	7,164	3,229	-	397
- Deposits and placements of banks and other FIs	474,347	321,988	-	-	-	-
- Sundry creditors (Note 20)	538	-	-	-	-	-
	884,602	369,647	7,164	3,229	-	397
(iv) Amount due from related parties						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	352,628	1,333	-	-
- Deposits and placements with banks and other FIs	-	28,825	-	-	-	-
- Other assets	-	4	53,975	-	-	-
	-	28,829	442,703	1,333	-	-
(v) Others						
- Purchases of intangible assets	-	-	4,175	-	-	-
	-	-	4,175	-	-	-

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2016						
(i) Income						
- Management fees	-	9,276	-	-	-	-
- Other fee	310	-	-	-	-	-
- Profit income on placements	-	177	-	-	-	-
- Profit income on financing	-	-	15,997	30	-	-
	310	9,453	15,997	30	-	-
(ii) Expenditure						
- Profit expense on deposits	2,117	989	60	-	-	-
- Other fees	-	-	17,217	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	12,693	-	-	-	-	-
	14,810	989	17,277	-	-	-

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

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

The significant transactions and outstanding balances of the Bank with its related parties are as follows: (Cont'd.)

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2016 (Cont'd.)						
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	451,070	-	-	-	-	-
- Deposits from customers	-	124,670	6,875	1,739	-	358
- Deposits and placements of banks and other FIs	91,030	74,603	-	-	-	-
- Sundry creditors (Note 20)	367	-	-	-	-	-
	542,467	199,273	6,875	1,739	-	358
(iv) Amount due from related parties						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	352,452	1,005	-	-
- Deposits and placements with banks and other FIs	-	28,091	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	-	28,095	440,152	1,005	-	-
(v) Others						
- Purchases of intangible assets	-	-	4,490	-	-	-
	-	-	4,490	-	-	-

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Short-term employee benefits				
- Salary and other remuneration	13,416	10,523	12,969	9,623
- Benefits-in-kind	748	605	746	454
	14,164	11,128	13,715	10,077

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 33.

(c) Credit transactions and exposures with connected parties

	2017			
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	406,897	3	406,325	-
Equities and Islamic Private Debt Securities held	36,100	1	36,100	-
Off-balance sheet exposures	600	1	600	-
	443,597	5	443,025	-
Total exposure to connected parties as % capital base			23.6%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.3%	0.0%

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40 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	2016			Total non-performing credit exposure RM'000
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	
Financing, credit facility and leasing (except guarantee)	404,108	2	403,669	-
Equities and Islamic Private Debt Securities held	36,100	1	36,100	-
Off-balance sheet exposures	570	1	600	-
	440,778	4	440,369	-
Total exposure to connected parties as % capital base			22.9%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.4%	0.0%

* Included total outstanding and unutilised limit.

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

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

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility of planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

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

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41 COMMITMENTS AND CONTINGENCIES

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

	2017			2016		
	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	2,287	2,287	2,287	6,987	6,987	6,887
Transaction related contingencies	100,027	50,014	40,901	117,263	58,632	50,555
Trade related contingencies	19,113	3,822	3,822	9,374	1,875	1,875
Irrevocable commitments to extend credit						
- maturity less than one year	126,793	25,359	24,757	299,227	59,845	65,442
- maturity more than one year	319,868	159,934	147,384	178,657	89,329	76,982
Foreign exchange related contracts *						
- less than one year	646,620	9,582	2,053	85,225	2,048	1,558
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	124,610	1,810	1,525	199,152	6,823	5,775
	1,339,318	252,808	222,729	895,885	225,539	209,074
			Note 43 (d)			Note 43 (d)
			Note 43 (d)			Note 43 (d)

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

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41 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2017, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM1,714,497 (2016: RM5,955,302). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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42 CAPITAL COMMITMENTS

Capital expenditure :
 Authorised and contracted for

- computer hardware
- computer software
- capital renovation

Authorised but not contracted for

- computer software

Group and Bank	
2017	2016
RM'000	RM'000
5,165	675
13,883	8,894
1,443	106
32,100	8,550
52,591	18,225

43 CAPITAL ADEQUACY

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

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

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

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

	Group		Bank	
	2017	2016	2017	2016
CET 1/ Tier 1 capital ratio				
Credit risk	24.208%	21.724%	23.324%	20.863%
Credit, market, operational and large exposure risks	22.500%	20.275%	21.716%	19.505%
Total capital ratio/ Risk-weighted capital ratio				
Credit risk	32.199%	29.702%	31.320%	28.857%
Credit, market, operational and large exposure risks	29.927%	27.722%	29.162%	26.979%

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43 CAPITAL ADEQUACY (Cont'd.)

(b) The Tier I and Tier II capital of the Group and the Bank as at 31 December, are as follows:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<u>CET 1/Tier I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	162,216	158,385	162,216	158,385
Other reserves	63,003	63,121	38,972	32,790
	1,650,491	1,646,778	1,626,460	1,616,447
Less: Deferred tax assets (net)	(196,775)	(198,329)	(196,775)	(198,329)
Less: Investment in subsidiaries *	-	-	(30,200)	(30,200)
Total CET 1/ Tier I capital	1,453,716	1,448,449	1,399,485	1,387,918
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	404,800	448,625	404,800	448,625
Collective impairment on financing	75,065	83,345	75,003	83,157
Total Tier II capital	479,865	531,970	479,803	531,782
Capital base	1,933,581	1,980,419	1,879,288	1,919,700

* Investment in subsidiaries include investment in KFH Asset Management Sdn Bhd which was under voluntary liquidation as at 29 November 2017.

(c) The Core Capital Ratio and the Risk-Weighted Capital Ratio of the Group and the Bank as at 31 December, are as follows:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Computation of Total Risk-Weighted Assets ("RWA")				
Total credit RWA	6,005,122	6,667,598	6,000,188	6,652,557
Total market RWA	23,226	16,750	23,226	16,750
Total operational RWA	415,610	439,447	403,858	426,170
Large exposure risk RWA for equity holdings	17,108	20,048	17,108	20,048
Total Risk-Weighted Assets (ii)	6,461,066	7,143,843	6,444,380	7,115,525
Computation of Capital Ratios				
Core capital (iii)	1,453,716	1,448,449	1,399,485	1,387,918
Capital base (i)	1,933,581	1,980,419	1,879,288	1,919,700
CET 1/Tier 1 capital ratio	22.500%	20.275%	21.716%	19.505%
Total capital ratio	29.927%	27.722%	29.162%	26.979%

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43 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2017					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,662,909	1,662,909	44,090	44,090	3,527
Banks, Development Financial Institutions & MDBs	493,412	493,412	160,953	160,953	12,876
Corporates	3,572,005	3,572,005	3,137,676	3,137,676	251,014
Regulatory Retail	2,009,719	2,009,719	1,504,584	1,504,584	120,367
Residential Mortgages	737,234	737,234	416,125	416,125	33,290
Higher Risk Assets ¹	60,757	60,757	91,136	91,136	7,291
Other Assets	289,872	289,872	135,653	135,653	10,852
Defaulted Exposures ²	239,835	239,835	292,176	292,176	23,375
	9,065,743	9,065,743	5,782,393	5,782,393	462,592
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	11,392	11,392	3,577	3,577	286
Off-balance sheet exposures other than OTC hedging financial instruments	241,416	241,416	219,152	219,152	17,532
	252,808	252,808	222,729	222,729	17,818
Total On and Off-Balance Sheet Exposures	9,318,551	9,318,551	6,005,122	6,005,122	480,410

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43 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017 (Cont'd.)						
(ii) Large Exposures Risk Requirement		36,118	36,118	17,108	17,108	1,369
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	111,583	110,084	1,499	1,709	1,709	137
Foreign Currency Risk ⁴	1,450	21,191	(19,741)	21,517	21,517	1,721
			(18,242)	23,226	23,226	1,858
(iv) Operational Risk				415,610	415,610	33,249
(v) Total RWA and Capital Requirements				6,461,066	6,461,066	516,886

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section B.2.2 : Definition of Exposures of CAFIB guidelines issued by Bank Negara Malaysia.

² Defaulted exposures are classified based on Appendix 3 'Definition of Default' of CAFIB guidelines issued by Bank Negara Malaysia.

³ Credit equivalent amount for the OTC derivative positions are calculated based on 'current-exposure method' stipulated in CAFIB guidelines - Appendix VI issued by Bank Negara Malaysia.

⁴ Computation is as per Part D - Market Risk of CAFIB guidelines issued by Bank Negara Malaysia.

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43 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2016					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,765,858	2,765,858	48,895	48,895	3,912
Banks, Development Financial Institutions & MDBs	433,307	433,307	148,408	148,408	11,873
Corporates	4,127,921	4,127,921	3,592,653	3,592,653	287,412
Regulatory Retail	1,893,397	1,893,397	1,415,536	1,415,536	113,243
Residential Mortgages	578,131	578,131	247,843	247,843	19,827
Higher Risk Assets ¹	259,408	259,408	389,112	389,112	31,129
Other Assets	303,827	303,827	124,840	124,840	9,987
Defaulted Exposures ²	368,590	368,590	491,237	491,237	39,299
	10,730,439	10,730,439	6,458,524	6,458,524	516,682
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	8,871	8,871	7,333	7,333	587
Off-balance sheet exposures other than OTC hedging financial instruments	216,668	216,668	201,741	201,741	16,139
	225,539	225,539	209,074	209,074	16,726
Total On and Off-Balance Sheet Exposures	10,955,978	10,955,978	6,667,598	6,667,598	533,408

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43 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2016 (Cont'd.)						
(ii) Large Exposures Risk Requirement		41,998	41,998	20,048	20,048	1,604
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	157,835	153,004	4,831	8,208	8,208	657
Foreign Currency Risk ⁴	8,281	4,531	3,750	8,542	8,542	683
			8,581	16,750	16,750	1,340
(iv) Operational Risk				439,447	439,447	35,156
(v) Total RWA and Capital Requirements				7,143,843	7,143,843	571,508

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section B.2.2 : Definition of Exposures of CAFIB guidelines issued by Bank Negara Malaysia.

² Defaulted exposures are classified based on Appendix 3 'Definition of Default' of CAFIB guidelines issued by Bank Negara Malaysia.

³ Credit equivalent amount for the OTC derivative positions are calculated based on 'current-exposure method' stipulated in CAFIB guidelines - Appendix VI issued by Bank Negara Malaysia.

⁴ Computation is as per Part D - Market Risk of CAFIB guidelines issued by Bank Negara Malaysia.

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43 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2017	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,650,923	1,650,923	44,090	44,090	3,527
Banks, Development Financial Institutions & MDBs	522,240	522,240	167,864	167,864	13,429
Corporates	3,586,068	3,586,068	3,151,740	3,151,740	252,139
Regulatory Retail	2,009,719	2,009,719	1,504,584	1,504,584	120,367
Residential Mortgages	737,234	737,234	416,125	416,125	33,290
Higher Risk Assets ¹	60,757	60,757	91,136	91,136	7,291
Other Assets	263,964	263,964	109,745	109,745	8,780
Defaulted Exposures ²	239,834	239,834	292,175	292,175	23,374
	9,070,739	9,070,739	5,777,459	5,777,459	462,197
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	11,392	11,392	3,577	3,577	286
Off-balance sheet exposures other than OTC hedging financial instruments	241,416	241,416	219,152	219,152	17,532
	252,808	252,808	222,729	222,729	17,818
Total On and Off-Balance Sheet Exposures	9,323,547	9,323,547	6,000,188	6,000,188	480,015

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43 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2017 (Cont'd.)						
(ii) Large Exposures Risk Requirement		36,118	36,118	17,108	17,108	1,369
	Long	Short				
(iii) Market Risk						
Benchmark Rate Risk	111,583	110,084	1,499	1,709	1,709	137
Foreign Currency Risk ⁴	1,450	21,191	(19,741)	21,517	21,517	1,721
			(18,242)	23,226	23,226	1,858
(iv) Operational Risk				403,858	403,858	32,309
(v) Total RWA and Capital Requirements				6,444,380	6,444,380	515,551

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section B.2.2 : Definition of Exposures of CAFIB guidelines issued by Bank Negara Malaysia.

² Defaulted exposures are classified based on Appendix 3 'Definition of Default' of CAFIB guidelines issued by Bank Negara Malaysia.

³ Credit equivalent amount for the OTC derivative positions are calculated based on 'current-exposure method' stipulated in CAFIB guidelines - Appendix VI issued by Bank Negara Malaysia.

⁴ Computation is as per Part D - Market Risk of CAFIB guidelines issued by Bank Negara Malaysia.

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43 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2016	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,752,633	2,752,633	48,895	48,895	3,912
Banks, Development Financial Institutions & MDBs	461,398	461,398	154,114	154,114	12,329
Corporates	4,136,357	4,136,357	3,601,089	3,601,089	288,087
Regulatory Retail	1,893,397	1,893,397	1,415,535	1,415,535	113,243
Residential Mortgages	578,131	578,131	247,843	247,843	19,827
Higher Risk Assets ¹	259,408	259,408	389,112	389,112	31,129
Other Assets	274,644	274,644	95,658	95,658	7,653
Defaulted Exposures ²	368,590	368,590	491,237	491,237	39,299
	10,724,558	10,724,558	6,443,483	6,443,483	515,479
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	8,871	8,871	7,333	7,333	587
Off-balance sheet exposures other than OTC hedging financial instruments	216,668	216,668	201,741	201,741	16,139
	225,539	225,539	209,074	209,074	16,726
Total On and Off-Balance Sheet Exposures	10,950,097	10,950,097	6,652,557	6,652,557	532,205

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43 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2016 (Cont'd.)						
(ii) Large Exposures Risk Requirement		41,998	41,998	20,048	20,048	1,604
	Long	Short				
(iii) Market Risk						
Benchmark Rate Risk	157,835	153,004	4,831	8,208	8,208	657
Foreign Currency Risk ⁴	8,281	4,531	3,750	8,542	8,542	683
			8,581	16,750	16,750	1,340
(iv) Operational Risk				426,170	426,170	34,094
(v) Total RWA and Capital Requirements				7,115,525	7,115,525	569,243

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

¹ Higher risk assets are defined in section B.2.2 : Definition of Exposures of CAFIB guidelines issued by Bank Negara Malaysia.

² Defaulted exposures are classified based on Appendix 3 'Definition of Default' of CAFIB guidelines issued by Bank Negara Malaysia.

³ Credit equivalent amount for the OTC derivative positions are calculated based on 'current-exposure method' stipulated in CAFIB guidelines - Appendix VI issued by Bank Negara Malaysia.

⁴ Computation is as per Part D - Market Risk of CAFIB guidelines issued by Bank Negara Malaysia.

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43 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2017	Group Risk-Weights									
	0%	1,442,458	39,337	338,651	4,630	3,944	-	121,733	1,950,753	-
	20%	220,451	230,050	106,492	-	-	-	40,608	597,601	119,520
	35%	-	-	-	-	356,649	-	-	356,649	124,827
	50%	-	233,794	110,519	(41)	178,051	-	-	522,323	261,162
	75%	-	-	-	2,051,961	-	-	-	2,051,961	1,538,971
	100%	-	-	3,250,191	133	218,650	-	127,531	3,596,505	3,596,505
	150%	-	-	123,495	2,428	-	116,835	-	242,758	364,136
		1,662,909	503,181	3,929,348	2,059,112	757,294	116,835	289,872	9,318,550	6,005,122

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43 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total		
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank Risk-Weights	0%	1,430,472	39,337	338,651	4,630	3,943	-	121,733	1,938,766	-
	20%	220,451	255,059	106,492	-	-	-	40,608	622,610	124,522
	35%	-	-	-	-	356,649	-	-	356,649	124,827
	50%	-	237,613	110,519	(41)	178,052	-	-	526,143	263,072
	75%	-	-	-	2,051,961	-	-	-	2,051,961	1,538,971
	100%	-	-	3,264,254	133	218,650	-	101,623	3,584,660	3,584,660
	150%	-	-	123,495	2,428	-	116,835	-	242,758	364,136
			1,650,923	532,009	3,943,411	2,059,112	757,294	116,835	263,964	9,323,547

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43 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2016	Group Risk-Weights									
	0%	2,521,383	39,749	292,834	6,250	4,757	-	143,025	3,007,998	-
	20%	244,475	163,158	264,281	-	-	-	44,952	716,866	143,373
	35%	-	-	-	-	431,213	-	-	431,213	150,924
	50%	-	232,323	123,051	(202)	94,451	-	-	449,623	224,811
	75%	-	-	-	1,936,233	-	-	-	1,936,233	1,452,175
	100%	-	-	3,666,372	379	66,906	-	115,849	3,849,506	3,849,506
	150%	-	-	224,404	5,148	-	334,987	-	564,539	846,809
		2,765,858	435,230	4,570,942	1,947,808	597,327	334,987	303,826	10,955,978	6,667,598

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43 CAPITAL ADEQUACY (Cont'd.)

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

2016 (Cont'd.)	Exposures after Netting and Credit Risk Mitigation						Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			RM'000
Bank Risk-Weights									
0%	2,508,159	39,749	292,834	6,250	4,757	-	143,025	2,994,774	-
20%	244,475	190,957	264,281	-	-	-	44,952	744,665	148,933
35%	-	-	-	-	431,213	-	-	431,213	150,925
50%	-	232,615	123,051	(202)	94,451	-	-	449,915	224,957
75%	-	-	-	1,936,233	-	-	-	1,936,233	1,452,175
100%	-	-	3,674,808	379	66,905	-	86,667	3,828,759	3,828,759
150%	-	-	224,404	5,148	-	334,986	-	564,538	846,808
	2,752,634	463,321	4,579,378	1,947,808	597,326	334,986	274,644	10,950,097	6,652,557

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43 CAPITAL ADEQUACY (Cont'd.)

(f) The breakdown of risk-weighted assets by risk-weights are as follows:

	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
2017				
0%	1,950,753	-	1,938,766	-
20%	597,601	119,520	622,610	124,522
35%	356,649	124,827	356,649	124,827
50%	522,323	261,163	526,143	263,072
75%	2,051,961	1,538,971	2,051,961	1,538,971
100%	3,596,505	3,596,505	3,584,660	3,584,660
150%	242,758	364,136	242,758	364,136
Risk-weighted assets for credit risk	9,318,550	6,005,122	9,323,547	6,000,188
Risk-weighted assets for market risk		23,226		23,226
Risk-weighted assets for operational risk		415,610		403,858
Large exposure risk-weighted assets for equity holdings		17,108		17,108
Total risk-weighted assets		6,461,066		6,444,380
2016				
0%	3,007,998	-	2,994,774	-
20%	716,866	143,373	744,665	148,933
35%	431,213	150,924	431,213	150,925
50%	449,623	224,811	449,915	224,957
75%	1,936,233	1,452,175	1,936,233	1,452,175
100%	3,849,506	3,849,506	3,828,759	3,828,759
150%	564,539	846,809	564,538	846,808
Risk-weighted assets for credit risk	10,955,978	6,667,598	10,950,097	6,652,557
Risk-weighted assets for market risk		16,750		16,750
Risk-weighted assets for operational risk		439,447		426,170
Large exposure risk-weighted assets for equity holdings		20,048		20,048
Total risk-weighted assets		7,143,843		7,115,525

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43 CAPITAL ADEQUACY (Cont'd.)

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

	2017		2016	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Group and Bank				
Benchmark Rate Risk	1,709	137	8,208	657
Foreign Exchange Risk	21,517	1,721	8,542	683
Total	23,226	1,858	16,750	1,340

44 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

The primary format, the business segment information, is prepared based on internal management reports, which are used by senior management for decision making and performance management. The amounts for each business segment are shown after the allocation of certain centralised cost, funding income and the applicable transfer pricing where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation. All inter-segment transactions are conducted at arm's length basis on normal commercial terms that are not more favourable than those generally available to public.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure comprises additions to property and equipment.

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44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market

The treasury and capital market operations are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading and Ijarah rental swap.

(ii) Corporate and Investment Banking

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

(iii) Commercial Banking

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

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44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment (Cont'd.)

Group 2017	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	113,773	170,149	53,197	172,618	-	509,737
Revenue from other segments	206,309	882	4,766	65,590	(277,547)	-
Total Revenue	320,082	171,031	57,963	238,208	(277,547)	509,737
Segment results	(3,357)	(32,131)	79,368	62,130		106,010
Unallocated expenses						(98,395)
Income from operations						7,615
Taxation						(2,419)
Net profit for the year						5,196
Other information						
Segment assets	3,221,491	2,238,530	635,002	2,944,626	(412,210)	8,627,439
Unallocated corporate assets						514,572
Total assets						9,142,011
Segment liabilities	5,510,569	3,352,137	648,312	8,910,549	(398,477)	18,023,090
Unallocated corporate Liabilities						(10,531,570)
Total liabilities						7,491,520
Other segment items						
Purchase of property and equipment				16,538		
Purchase of intangible assets				951		
Depreciation of property and equipment				-		
Amortisation of intangible assets				3,085		
Other non-cash expense other than depreciation	(16,183)	(75,220)	57,752	4,767	-	(28,884)

(b) Secondary Segment - By Geographical Locations

Group 2017	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	509,737	7,615	9,142,011
	509,737	7,615	9,142,011

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44 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment (Cont'd.)

Group 2016	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	93,473	178,803	63,827	154,517		490,620
Revenue from other segments	206,948	1,330	6,041	60,358	(274,677)	-
Total Revenue	300,421	180,133	69,868	214,875	(274,677)	490,620
Segment results	2,687	16,287	37,757	(549)		56,183
Unallocated expenses						(84,439)
Income from operations						(28,257)
Taxation						(20)
Net loss for the year						(28,277)
Other information						
Segment assets	3,715,110	3,421,013	737,198	2,691,439	(242,438)	10,322,323
Unallocated corporate assets						472,980
Total assets						10,795,303
Segment liabilities	6,958,054	80,474	179,358	1,652,627	(227,401)	8,643,112
Unallocated corporate liabilities						505,413
Total liabilities						9,148,525
Other segment items						
Purchase of property and equipment				(9,307)		
Purchase of intangible assets				(1,431)		
Depreciation of property and equipment				9,267		
Amortisation of intangible assets				2,689		
Other non-cash expense other than depreciation	289	(26,042)	12,657	(65,012)	-	(78,108)

(b) Secondary Segment - By Geographical Locations

Group 2016	Operating Revenue RM'000	Loss Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	490,620	(28,257)	10,795,303
	490,620	(28,257)	10,795,303

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45 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Group	Level 2	Level 3	Total
2017	RM'000	RM'000	RM'000
Financial assets			
Securities available-for-sale	2,224,097	-	2,224,097
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,742,052	4,078,290	7,820,342
Financial liability			
Deposits from customers	4,694,762	-	4,694,762
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
Total	4,709,743	404,676	5,114,419
2016			
Financial assets			
Securities available-for-sale	1,018,377	-	1,018,377
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
Total	2,311,214	5,265,769	7,576,983
Financial liability			
Deposits from customers	4,329,342	-	4,329,342
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
Total	4,330,505	448,509	4,779,014

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45 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			
2017			
Financial assets			
Securities available-for-sale	2,212,110	-	2,212,110
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,730,065	4,078,290	7,808,355
Financial liabilities			
Deposits from customers	4,412,237	-	4,412,237
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
Total	4,427,218	404,676	4,831,894
2016			
Financial assets			
Securities available-for-sale	1,005,153	-	1,005,153
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
Total	2,297,990	5,265,769	7,563,759
Financial liabilities			
Deposits from customers	4,295,095	-	4,295,095
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
Total	4,296,258	448,509	4,744,767

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	5.0% - 6.0%

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

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

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

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

	Group			
	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	5,064	5,006	61,251	60,334
Financing, advances and other receivables	5,596,649	5,589,525	6,494,270	6,492,316
	5,601,713	5,594,531	6,555,521	6,552,650
Financial Liabilities				
Deposits from customers	4,699,178	4,694,762	4,329,342	4,329,342
Subordinated Murabahah Tawarruq	409,716	404,676	451,070	448,509
	5,108,894	5,099,438	4,780,412	4,777,851

	Bank			
	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	5,064	5,006	61,251	60,334
Financing, advances and other receivables	5,596,649	5,589,525	6,494,270	6,492,316
	5,601,713	5,594,531	6,555,521	6,552,650
Financial Liabilities				
Deposits from customers	4,416,919	4,412,237	4,295,095	4,295,095
Subordinated Murabahah Tawarruq	409,716	404,676	451,070	448,509
	4,826,635	4,816,913	4,746,165	4,743,604

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45 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 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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45 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 customers with similar credit profiles. In respect of impaired financing, 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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46 OPERATING LEASES

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

	Group	
	2017	2016
	RM'000	RM'000
Within one year	16,412	18,038
Between one and five years	24,617	23,146
	41,029	41,184

	Bank	
	2017	2016
	RM'000	RM'000
Within one year	16,343	17,634
Between one and five years	24,514	22,495
	40,857	40,129

47 EVENTS OCCURRING AFTER THE REPORTING DATE

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

48 HOLDING COMPANY

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

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49 MATURITY ANALYSIS

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

Group	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
2017			
Assets			
Cash and short-term funds	429,575	-	429,575
Deposits and placements with banks and other financial institutions	214,806	-	214,806
Securities available-for-sale	132,875	2,149,401	2,282,276
Securities held-to-maturity	-	5,064	5,064
Financing, advances and receivables	2,382,573	3,214,076	5,596,649
Musarakah capital investment	18	-	18
Other assets	613,623	-	613,623
Total Assets	3,773,470	5,368,541	9,142,011
Liabilities			
Deposits from customers	4,646,561	52,617	4,699,178
Investment accounts of customers	8,218	-	8,218
Deposits and placements of banks and other financial institutions	2,262,903	-	2,262,903
Subordinated Murabahah Tawarruq	-	409,716	409,716
Other liabilities	111,505	-	111,505
Total Liabilities	7,029,186	462,333	7,491,520
Net	(3,255,716)	4,906,208	1,650,491

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49 MATURITY ANALYSIS (Cont'd.)

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

Group	Less than	Over	Total
	12 months	12 months	
	RM'000	RM'000	RM'000
2016			
Assets			
Cash and short-term funds	2,341,840	-	2,341,840
Deposits and placements with banks and other financial institutions	171,073	-	171,073
Investment accounts due from designated financial institutions	8,563	-	8,563
Securities available-for-sale	168,627	923,775	1,092,402
Securities held-to-maturity	56,186	5,065	61,251
Financing, advances and receivables	3,567,247	2,927,023	6,494,270
Musarakah capital investment	5,898	-	5,898
Other assets	620,006	-	620,006
Total Assets	6,939,440	3,855,863	10,795,303
Liabilities			
Deposits from customers	4,329,337	5	4,329,342
Investment accounts of customers	8,563	-	8,563
Deposits and placements of banks and other financial institutions	4,261,411	-	4,261,411
Subordinated Murabahah Tawarruq	-	451,070	451,070
Other liabilities	98,139	-	98,139
Total Liabilities	8,697,450	451,075	9,148,525
Net	(1,758,010)	3,404,788	1,646,778

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49 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
Bank 2017			
Assets			
Cash and short-term funds	458,403	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	214,806
Securities available-for-sale	118,117	2,137,414	2,255,531
Securities held-to-maturity	-	5,064	5,064
Financing, advances and receivables	2,382,573	3,214,076	5,596,649
Musarakah capital investment	18	-	18
Other assets	626,735	-	626,735
Total Assets	3,800,652	5,356,554	9,157,207
Liabilities			
Deposits from customers	4,364,302	52,617	4,416,919
Investment accounts of customers	8,218	-	8,218
Deposits and placements of banks and other financial institutions	2,584,891	-	2,584,891
Subordinated Murabahah Tawarruq	-	409,716	409,716
Other liabilities	111,002	-	111,002
Total Liabilities	7,068,413	462,333	7,530,747
Net	(3,267,761)	4,894,221	1,626,460

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49 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
Bank			
2016			
Assets			
Cash and short-term funds	2,341,840	-	2,341,840
Deposits and placements with banks and other financial institutions	199,165	-	199,165
Investment accounts due from designated financial institutions	8,563	-	8,563
Securities available-for-sale	135,763	923,775	1,059,538
Securities held-to-maturity	56,186	5,065	61,251
Financing, advances and receivables	3,567,256	2,927,014	6,494,270
Musarakah capital investment	5,898	-	5,898
Other assets	633,968	-	633,968
Total Assets	6,948,639	3,855,854	10,804,493
Liabilities			
Deposits from customers	4,295,090	5	4,295,095
Investment accounts of customers	8,563	-	8,563
Deposits and placements of banks and other financial institutions	4,336,014	-	4,336,014
Subordinated Murabahah Tawarruq	-	451,070	451,070
Other liabilities	97,304	-	97,304
Total Liabilities	8,736,971	451,075	9,188,046
Net	(1,788,332)	3,404,779	1,616,447

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50 FINANCIAL RISK MANAGEMENT

As an Islamic Bank with diverse financial product offerings, the Group and the Bank are exposed to different types of financial risks arising from financial instruments. Financial risks encompass credit risks, liquidity risks, operational risks and market risks. Due to these, risk management is integral to the Bank's operation.

The main financial risks affecting the Group and the Bank are discussed further as follow:

(a) CREDIT RISK

(i) Maximum exposure to credit risk without taking account of any collateral.

The following tables show the maximum exposure to credit risk for the components of the statements of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements.

For on-balance sheet financial assests, the exposure to credit risk equals to their carrying amount. For off-balance sheet, exposures, the maximum exposure to credit risk are maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers/borrowers.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

2017

Cash and short-term funds	
Deposits and placements with banks and other financial institutions	
Securities available-for-sale	
Securities held-to-maturity	
Financing, advances and other receivables	
Other assets	
Statutory deposits with Bank Negara Malaysia	
Hedging financial instruments	
- Ijarah rental swap	
Total On-Balance Sheet	
Financial guarantees	
Contingent liabilities	
Commitments *	
Total Off-Balance Sheet	
Total On and Off-Balance Sheet	

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
429,575	458,403
214,806	214,806
2,224,097	2,212,110
5,064	5,064
5,596,649	5,596,649
65,828	65,692
213,600	213,600
1,714	1,714
8,751,333	8,768,038
2,287	2,287
119,141	119,141
446,661	446,661
568,089	568,089
9,319,422	9,336,127

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

2016

Cash and short-term funds
 Deposits and placements with banks and other financial institutions
 Securities available-for-sale
 Securities held-to-maturity
 Financing, advances and other receivables
 Other assets
 Statutory deposits with Bank Negara Malaysia
 Hedging financial instruments
 - Ijarah rental swap

Total On-Balance Sheet

Financial guarantees
 Contingent liabilities
 Commitments *

Total Off-Balance Sheet

Total On and Off-Balance Sheet

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
2,341,840	2,341,840
171,073	199,165
1,018,377	1,005,153
61,251	61,251
6,494,270	6,494,270
190,369	189,975
201,000	201,000
5,956	5,956
10,484,135	10,498,609
6,987	6,987
126,637	126,637
477,884	477,884
611,508	611,508
11,095,644	11,110,118

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
2017 Group	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	299,244	12,256	118,075	-	429,575
Deposits and placements with banks and other financial institutions	38,269	-	176,538	-	214,806
Securities available-for-sale					
- Unquoted	2,105,618	106,492	11,987	-	2,224,097
Securities held-to-maturity					
- Unquoted	5,064	-	-	-	5,064
Financing, advances and other receivables	5,709,146	4,647	5,077	(122,221)	5,596,649
Other assets	(30,787)	96,615	-	-	65,828
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	213,600
Hedging financial instruments					
- Ijarah rental swap	1,714	-	-	-	1,714
Total On-Balance Sheet	8,341,869	220,009	311,676	(122,221)	8,751,333
Financial guarantees	2,287	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	119,141
Commitments *	446,526	135	-	-	446,661
Total Off-Balance Sheet	567,954	135	-	-	568,089
Total On and Off-Balance Sheet	8,909,823	220,144	311,676	(122,221)	9,319,422

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle East RM'000	Others RM'000	Collective assessment RM'000	
2016 Group					
Cash and short-term funds	2,119,410	4,100	218,330	-	2,341,840
Deposits and placements with banks and other financial institutions	-	-	171,073	-	171,073
Securities available-for-sale					
- Unquoted	875,881	129,272	13,224	-	1,018,377
Securities held-to-maturity					
- Unquoted	10,113	-	51,138	-	61,251
Financing, advances and other receivables	6,617,689	5,170	10,832	(139,421)	6,494,270
Other assets	69,411	120,958	-	-	190,369
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	201,000
Hedging financial instruments					
- Ijarah rental swap	5,956	-	-	-	5,956
Total On-Balance Sheet	9,899,460	259,500	464,597	(139,421)	10,484,136
Financial guarantees	6,987	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	126,637
Commitments *	477,749	135	-	-	477,884
Total Off-Balance Sheet	611,373	135	-	-	611,508
Total On and Off-Balance Sheet	10,510,833	259,635	464,597	(139,421)	11,095,644

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
2017	RM'000	RM'000	RM'000	RM'000	RM'000
Bank					
Cash and short-term funds	328,072	12,256	118,075	-	458,403
Deposits and placements with banks and other financial institutions	38,269	-	176,538	-	214,806
Securities available-for-sale					
- Unquoted	2,105,618	106,492	-	-	2,212,110
Securities held-to-maturity					
- Unquoted	5,064	-	-	-	5,064
Financing, advances and other receivables	5,709,146	4,647	5,077	(122,221)	5,596,649
Other assets	(30,923)	96,615	-	-	65,692
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	213,600
Hedging financial instruments					
- Ijarah rental swap	1,714	-	-	-	1,714
Total On-Balance Sheet	8,370,561	220,009	299,689	(122,221)	8,768,038
Financial guarantees	2,287	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	119,141
Commitments *	446,526	135	-	-	446,661
Total Off-Balance Sheet	567,954	135	-	-	568,089
Total On and Off-Balance Sheet	8,938,515	220,144	299,689	(122,221)	9,336,127

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle East RM'000	Others RM'000	Collective assessment RM'000	
2016					
Bank					
Cash and short-term funds	2,119,410	4,100	218,330	-	2,341,840
Deposits and placements with banks and other financial institutions	28,092		171,073	-	199,165
Securities available-for-sale					
- Unquoted	875,881	129,272	-	-	1,005,153
Securities held-to-maturity					
- Unquoted	10,113	-	51,138	-	61,251
Financing, advances and other receivables	6,617,689	5,170	10,832	(139,421)	6,494,270
Other assets	69,017	120,958	-	-	189,975
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	201,000
Hedging financial instruments					
- Ijarah rental swap	5,956	-	-	-	5,956
Total On-Balance Sheet	9,927,157	259,500	451,373	(139,421)	10,498,610
Financial guarantees	6,987	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	126,637
Commitments *	477,749	135	-	-	477,884
Total Off-Balance Sheet	611,373	135	-	-	611,508
Total On and Off-Balance Sheet	10,538,531	259,635	451,373	(139,421)	11,110,118

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By industry sector: (Cont'd.)

2017 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	429,575	-	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	-	214,806	-	-	-	-	-	214,806
Securities available-for-sale	-	95,790	15,333	-	1,851,235	261,739	-	2,224,097
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	810,004	129,875	1,422,206	181,565	-	3,175,220	(122,221)	5,596,649
Other assets	-	-	-	-	-	65,828	-	65,828
Statutory deposits with Bank Negara Malaysia	-	213,600	-	-	-	-	-	213,600
Hedging financial instruments	-	1,714	-	-	-	-	-	1,714
Total On-Balance Sheet	810,004	1,085,361	1,437,539	186,629	1,851,235	3,502,787	(122,221)	8,751,333
Financial guarantees	-	-	600	-	-	1,687	-	2,287
Contingent liabilities	2,527	-	8,382	2,861	-	105,371	-	119,141
Commitments *	11,669	-	260,087	5,013	-	169,892	-	446,661
Total Off-Balance Sheet	14,196	-	269,069	7,874	-	276,950	-	568,089
Total On and Off-Balance Sheet	824,199	1,085,361	1,706,608	194,503	1,851,235	3,779,737	(122,221)	9,319,422

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By industry sector: (Cont'd.)

2016 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	2,341,840	-	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	171,073	-	-	-	-	-	171,073
Securities available-for-sale	-	129,625	34,999	-	547,161	306,592	-	1,018,377
Securities held-to-maturity	-	56,186	-	5,065	-	-	-	61,251
Financing, advances and other receivables	1,149,326	312,318	1,867,336	238,021	-	3,066,690	(139,421)	6,494,270
Other assets	-	-	-	-	-	190,369	-	190,369
Statutory deposits with Bank Negara Malaysia	-	201,000	-	-	-	-	-	201,000
Hedging financial instruments	-	-	-	5,956	-	-	-	5,956
Total On-Balance Sheet	1,149,326	3,212,042	1,902,335	249,042	547,161	3,563,651	(139,421)	10,484,136
Financial guarantees	400	-	4,000	2,000	-	587	-	6,987
Contingent liabilities	64	-	23,027	11,910	-	91,636	-	126,637
Commitments *	105,487	-	98,973	25,796	-	247,628	-	477,884
Total Off-Balance Sheet	105,951	-	126,000	39,706	-	339,851	-	611,508
Total On and Off-Balance Sheet	1,255,277	3,212,042	2,028,335	288,748	547,161	3,903,502	(139,421)	11,095,644

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By industry sector: (Cont'd.)

	Industry						Collective assessment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
Cash and short-term funds	-	458,403	-	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	-	214,806	-	-	-	-	-	214,806
Securities available-for-sale	-	95,790	15,333	-	1,839,249	261,738	-	2,212,110
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	810,004	129,875	1,422,206	181,565	-	3,175,220	(122,221)	5,596,649
Other assets	-	-	-	-	-	65,692	-	65,692
Statutory deposits with Bank Negara Malaysia	-	213,600	-	-	-	-	-	213,600
Hedging financial instruments	-	1,714	-	-	-	-	-	1,714
Total On-Balance Sheet	810,004	1,114,189	1,437,539	186,629	1,839,249	3,502,650	(122,221)	8,768,038
Financial guarantees	-	-	600	-	-	1,687	-	2,287
Contingent liabilities	2,527	-	8,382	2,860	-	105,371	-	119,141
Commitments *	11,669	-	260,087	5,013	-	169,892	-	446,661
Total Off-Balance Sheet	14,196	-	269,069	7,873	-	276,951	-	568,089
Total On and Off-Balance Sheet	824,199	1,114,189	1,706,608	194,502	1,839,249	3,779,601	(122,221)	9,336,127

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

By industry sector: (Cont'd.)

2016	Industry						Collective assessment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	2,341,840	-	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	199,165	-	-	-	-	-	199,165
Securities available-for-sale	-	129,625	34,999	-	533,937	306,592	-	1,005,153
Securities held-to-maturity	-	56,186	-	5,065	-	-	-	61,251
Financing, advances and other receivables	1,149,326	312,318	1,867,336	238,021	-	3,066,690	(139,421)	6,494,270
Other assets	-	-	-	-	-	189,975	-	189,975
Statutory deposits with Bank Negara Malaysia	-	201,000	-	-	-	-	-	201,000
Hedging financial instruments	-	5,956	-	-	-	-	-	5,956
Total On-Balance Sheet	1,149,326	3,246,090	1,902,335	243,086	533,937	3,563,257	(139,421)	10,498,610
Financial guarantees	400	-	4,000	2,000	-	587	-	6,987
Contingent liabilities	64	-	23,027	11,910	-	91,636	-	126,637
Commitments *	105,487	-	98,973	25,796	-	247,628	-	477,884
Total Off-Balance Sheet	105,951	-	126,000	39,706	-	339,851	-	611,508
Total On and Off-Balance Sheet	1,255,277	3,246,090	2,028,335	282,792	533,937	3,903,108	(139,421)	11,110,118

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry residual maturity analysis of the Bank's financial assets, before taking into account collateral held is as follows: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
2017 Group							
Cash and short-term funds	429,575	-	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	-	214,806
Securities available-for-sale	59,661	15,035	1,027,093	1,122,308	-	-	2,224,097
Securities held-to-maturity	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	2,327,402	51,669	329,624	3,010,175	-	(122,221)	5,596,649
Other assets	-	-	-	-	65,828	-	65,828
Statutory deposits with Bank Negara Malaysia	-	-	-	-	213,600	-	213,600
Hedging financial instruments	-	-	1,714	-	-	-	1,714
Total On-Balance Sheet	3,031,444	66,704	1,363,496	4,132,483	279,428	(122,221)	8,751,333
Financial guarantees	1,087	-	-	-	1,200	-	2,287
Contingent liabilities	95,359	3,211	12,938	-	7,632	-	119,141
Commitments *	45,215	63,519	67,965	249,746	20,216	-	446,661
Total Off-Balance Sheet	141,661	66,731	80,903	249,746	29,048	-	568,089
Total On and Off-Balance Sheet	3,173,105	133,434	1,444,399	4,382,229	308,476	(122,221)	9,319,422

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry residual maturity analysis of the Bank's financial assets, before taking into account collateral held is as follows: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
2016 Group							
Cash and short-term funds	2,341,840	-	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	171,073	-	-	-	-	-	171,073
Securities available-for-sale	19,692	74,910	549,931	373,844	-	-	1,018,377
Securities held-to-maturity	-	56,186	5,065	-	-	-	61,251
Financing, advances and other receivables	3,650,411	32,670	356,289	2,594,321	-	(139,421)	6,494,270
Other assets	-	-	-	-	190,369	-	190,369
Statutory deposits with Bank Negara Malaysia	-	-	-	-	201,000	-	201,000
Hedging financial instruments	-	-	5,956	-	-	-	5,956
Total On-Balance Sheet	6,183,016	163,766	917,241	2,968,165	391,369	(139,421)	10,484,136
Financial guarantees	987	4,000	-	-	2,000	-	6,987
Contingent liabilities	81,440	4,536	17,598	-	23,063	-	126,637
Commitments *	82,996	21,395	78,658	97,968	196,867	-	477,884
Total Off-Balance Sheet	165,423	29,931	96,256	97,968	221,930	-	611,508
Total On and Off-Balance Sheet	6,348,439	193,697	1,013,497	3,066,133	613,299	(139,421)	11,095,644

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry residual maturity analysis of the Bank's financial assets, before taking into account collateral held is as follows: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
2017 Bank							
Cash and short-term funds	458,403	-	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	-	214,806
Securities available-for-sale	59,661	15,035	1,015,107	1,122,307	-	-	2,212,110
Securities held-to-maturity	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	2,327,402	51,669	329,624	3,010,175	-	(122,221)	5,596,649
Other assets	-	-	-	-	65,692	-	65,692
Statutory deposits with Bank Negara Malaysia	-	-	-	-	213,600	-	213,600
Hedging financial instruments	-	-	1,714	-	-	-	1,714
Total On-Balance Sheet	3,060,273	66,704	1,351,509	4,132,482	279,292	(122,221)	8,768,038
Financial guarantees	1,087	-	-	-	1,200	-	2,287
Contingent liabilities	95,359	3,211	12,938	-	7,632	-	119,141
Commitments *	45,215	63,519	67,965	249,746	20,216	-	446,661
Total Off-Balance Sheet	141,661	66,730	80,903	249,746	29,048	-	568,089
Total On and Off-Balance Sheet	3,201,933	133,434	1,432,413	4,382,228	308,340	(122,221)	9,336,127

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(i) Maximum exposure to credit risk without taking account of any collateral (Cont'd.)

An industry residual maturity analysis of the Bank's financial assets, before taking into account collateral held is as follows: (Cont'd.)

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank							
Cash and short-term funds	2,341,840	-	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	199,165	-	-	-	-	-	199,165
Securities available-for-sale	19,692	74,910	536,707	373,844	-	-	1,005,153
Securities held-to-maturity	-	56,186	5,065	-	-	-	61,251
Financing, advances and other receivables	3,650,411	32,670	356,289	2,594,321	-	(139,421)	6,494,270
Other assets	-	-	-	-	189,975	-	189,975
Statutory deposits with Bank Negara Malaysia	-	-	-	-	201,000	-	201,000
Hedging financial instruments	-	-	5,956	-	-	-	5,956
Total On-Balance Sheet	6,211,108	163,766	904,017	2,968,165	390,975	(139,421)	10,498,610
Financial guarantees	987	4,000	-	-	2,000	-	6,987
Contingent liabilities	81,440	4,536	17,598	-	23,063	-	126,637
Commitments *	82,996	21,395	78,658	97,968	196,867	-	477,884
Total Off-Balance Sheet	165,423	29,931	96,256	97,968	221,930	-	611,508
Total On and Off-Balance Sheet	6,376,531	193,697	1,000,273	3,066,133	612,905	(139,421)	11,110,118

* Exclude ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount presented are gross of impairment allowances.

2017 Group	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	429,575	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	214,806
Securities available-for-sale	2,162,881	61,215	-	-	-	2,224,096
Securities held-to-maturity	5,064	-	-	-	-	5,064
Financing, advances and other receivables	2,696,702	2,464,770	374,923	27,869	418,478	5,982,742
Other assets	65,568	-	-	-	260	65,827
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
Total On-Balance Sheet	5,789,910	2,525,985	374,923	27,869	418,738	9,137,424
Financial guarantees	2,287	-	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	-	119,141
Commitments *	446,661	-	-	-	-	446,661
Total Off-Balance Sheet	568,089	-	-	-	-	568,089
Total On and Off-Balance Sheet	6,357,998	2,525,985	374,923	27,869	418,738	9,705,513

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount presented are gross of impairment allowances. (Cont'd.)

2016 Group	Performing rated	Performing Unrated	Past due but not impaired	Restructured & rescheduled	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	2,341,840	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	171,073	-	-	-	-	171,073
Securities available-for-sale	941,218	67,546	-	-	9,613	1,018,377
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	3,770,394	2,274,881	338,567	1,412	478,060	6,863,378
Other assets	190,109	-	-	-	260	190,369
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	-	201,000
Hedging financial instruments	5,956	-	-	-	-	5,956
Total On-Balance Sheet	7,682,841	2,342,427	338,567	1,412	487,998	10,853,244
Financial guarantees	6,987	-	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	-	126,637
Commitments *	477,884	-	-	-	-	477,884
Total Off-Balance Sheet	611,508	-	-	-	-	611,508
Total On and Off-Balance Sheet	8,294,349	2,342,427	338,567	1,412	487,998	11,464,752

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount presented are gross of impairment allowances. (Cont'd.)

2017	Performing	Performing	Past due but	Restructured &	Impaired	Total
Bank	rated	Unrated	not impaired	rescheduled	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	458,403	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	214,806
Securities available-for-sale	2,150,896	61,215	-	-	-	2,212,110
Securities held-to-maturity	5,064	-	-	-	-	5,064
Financing, advances and other receivables	2,696,701	2,464,770	374,923	27,869	418,478	5,982,742
Other assets	65,432	-	-	-	260	65,692
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
Total On-Balance Sheet	5,806,617	2,525,985	374,923	27,869	418,738	9,154,132
Financial guarantees	2,287	-	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	-	119,141
Commitments *	446,661	-	-	-	-	446,661
Total Off-Balance Sheet	568,089	-	-	-	-	568,089
Total On and Off-Balance Sheet	6,374,706	2,525,985	374,923	27,869	418,738	9,722,220

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amount presented are gross of impairment allowances. (Cont'd.)

2016	Performing	Performing	Past due but	Restructured &	Impaired	Total
Bank	rated	Unrated	not impaired	rescheduled	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	2,341,840	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	199,165	-	-	-	-	199,165
Securities available-for-sale	927,994	67,546	-	-	9,613	1,005,153
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	3,770,394	2,274,881	338,566	1,476	478,060	6,863,378
Other assets	189,715	-	-	-	260	189,975
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	-	201,000
Hedging financial instruments	5,956	-	-	-	-	5,956
Total On-Balance Sheet	7,697,314	2,342,427	338,566	1,412	487,998	10,867,717
Financial guarantees	6,987	-	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	-	126,637
Commitments *	477,884	-	-	-	-	477,884
Total Off-Balance Sheet	611,508	-	-	-	-	611,508
Total On and Off-Balance Sheet	8,308,822	2,342,427	338,566	1,412	487,998	11,479,225

* Exclude foreign exchange related contracts and ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

The principal objective of credit risk measurement for KFHM is to produce accurate quantitative assessment of the credit risk to which the Bank is exposed to. To determine the counterparty risk, KFHM has a risk rating system that enables the rank-ordering of the customers' risk profile to assess the credit quality of customers and assigns them an internal risk rating. The rating system is actively monitored and a monthly analysis of the corporate and commercial customers are provided to the senior management and the Board for oversight.

For retail banking, KFHM has in place a series of internal scorecards, which will assess the credit worthiness of the individual customers prior to approval. The main attributes of the credit assessment within the scorecard is mostly based on statistically derived default patterns within the customer profile and also credit bureau data. The performance of the scorecard is being reviewed to ensure that it continues to effectively discriminate between good and potentially bad customers.

2017 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	-
Very Strong	760
Strong	224,192
Good	669,440
Satisfactory	589,278
Weak	543,333
Special Mention	721,659
Impaired	127,884
Unrated *	2,842,324
	<u>5,718,870</u>
Less: Collective assessment	(122,221)
Total Corporate, Commercial and Retail	<u>5,596,649</u>

* Unrated segment includes retail credit exposures, which includes impaired retail credit exposures

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2016 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	125,403
Strong	2,027,143
Minimum	945,810
Pass with condition	657,498
Early care	28,303
Impaired	232,597
New/ Special Purpose Vehicle	49,912
Unrated	2,567,024
	<u>6,633,691</u>
Less: Collective assessment	(139,421)
Total Corporate, Commercial and Retail	<u>6,494,270</u>

* Unrated segment includes retail credit exposures, which includes impaired retail credit exposures

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2017

Securities

Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities available-for-sale	136,386	367,551	-	-	61,215	1,658,945	2,224,097
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
Bank							
Securities available-for-sale	124,399	367,551	-	-	61,215	1,658,945	2,212,110
Securities held-to-maturity	5,064	-	-	-	-	-	5,064

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2016

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moodys	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities available-for-sale	185,128	426,880	-	-	77,159	329,211	1,018,377
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Bank							
Securities available-for-sale	171,903	426,880	-	-	77,159	329,211	1,005,152
Securities held-to-maturity	61,251	-	-	-	-	-	61,251

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iv) Aging analysis of past due but not impaired financing by class of financial assets

2017

Group and Bank

Financing and advances to customers

Corporate financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
22,572	3,890	50	26,513
269,898	58,562	19,951	348,411
292,470	62,452	20,001	374,923

2016

Group and Bank

Financing and advances to customers

Corporate financing

Commercial financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
-	-	50	50
13,713	-	-	13,713
200,037	73,839	50,928	324,804
213,750	73,839	50,977	338,567

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iv) Aging analysis of past due but not impaired financing by class of financial assets (Cont'd.)

Impaired and past due financing by geographical regions

2017
Group and Bank

Malaysia
Middle East
Others
Total

Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
RM'000	RM'000	RM'000	RM'000	RM'000
415,272	373,385	263,010		8,290
0	851	-		-
3,206	687	863		-
418,478	374,923	263,873	122,221	8,290

2016
Group and Bank

Malaysia
Middle East
Others
Total

Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
RM'000	RM'000	RM'000	RM'000	RM'000
467,807	337,374	228,937		140,380
-	882	-		-
10,253	311	750		-
478,060	338,567	229,687	139,421	140,380

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iv) Aging analysis of past due but not impaired financing by class of financial assets (Cont'd.)

Impaired and past due financing by industry sector

2017

Group and Bank

Trading and manufacturing
Banks and financial institutions
Construction and real estate
Transportation, storage and
Others

Total

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Trading and manufacturing	163,242	4,369	91,435		-
Banks and financial institutions	-	22,093	-		-
Construction and real estate	193,020	742	136,942		-
Transportation, storage and	-	-	-		-
Others	62,217	347,719	35,496		8,290
Total	418,478	374,923	263,873	122,221	8,290

2016

Group and Bank

Trading and manufacturing
Banks and financial institutions
Construction and real estate
Transportation, storage and
Others

Total

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Trading and manufacturing	197,355	850	122,809		140,380
Banks and financial institutions	9,172	-	9,172		-
Construction and real estate	217,688	13,844	66,846		-
Transportation, storage and	7,209	-	-		-
Others	46,637	323,873	30,861		-
Total	478,060	338,567	229,687	139,421	140,380

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established clear guidelines that have been approved by the management and the Board on the types of acceptable collateral, valuation parameters and processes and secured margins to be taken.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Bank also obtains guarantees from parent companies for finance facilities extended to their subsidiaries. In line with the Bank's established credit guidelines, proper due diligence on the guarantor is conducted to ascertain their creditworthiness. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 80.5% as at 31 December 2017 (2016: 73.5%). The financial effect of collateral held for other financial assets is not significant.

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

In order to cater for the inherently higher credit risks associated to dealings in Musyarakah and Mudharabah contracts, the Bank has been maintaining an internal credit policy to cover the Bank's activities in such portfolio, in addition to complying with BNM's Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions. The internal policy, which sets stricter and more clearly defined guidelines, encompasses areas of managing risks associated to profit-sharing activities such as the business management, strategy, exit mechanisms, business monitoring/control, and trigger alerts for potential watchlist and impaired accounts. The credit policy is enhanced from time to time to cater for latest changes in the risk profile of the portfolio.

In terms of approval of new Musyarakah and Mudharabah contracts, the Bank has introduced greater control where all new proposals are tabled to Management Committee for approval and subsequently to Board Credit and Investment Committee for concurrence. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank uses the Bank Negara Malaysia's Liquidity Coverage Ratio Framework as a foundation in managing its liquidity.

The objective of liquidity risk management is to ensure that cash needs always can be met at reasonable cost, either by:

- (i) maturity or sale of assets, or
- (ii) the acquisition of deposits or additional funding from the Islamic money markets.

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

Contractual maturity of total assets and liabilities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheets assets and liabilities, commitments and counter-guarantees are important factors in assessing liquidity of the Group and the Bank.

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Group						
ASSETS						
Cash and short-term funds	373,357	-	-	-	64,436	437,793
Deposits and placements with banks and other financial institutions	100,253	106,335	-	-	-	206,588
Securities available-for-sale	59,661	15,035	1,027,093	1,122,308	58,179	2,282,276
Securities held-to-maturity	-	-	5,064	-	-	5,064
Financing, advances and receivables	2,330,496	52,077	751,263	2,462,813	-	5,596,649
Musyarakah capital investment	-	-	-	-	18	18
Other assets	-	-	-	-	613,623	613,623
Total Assets	2,863,767	173,447	1,783,420	3,585,121	736,257	9,142,011
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,355,108	710,660	51,731	886	580,793	4,699,178
Deposits and placements of banks and other financial institutions	1,989,840	273,063	-	-	8,218	2,271,121
Subordinated Murabahah Tawarruq	-	-	-	409,716	-	409,716
Other liabilities	-	-	-	-	111,505	111,505
Total Liabilities	5,344,948	983,723	51,731	410,602	700,517	7,491,520
Shareholder's equity	-	-	-	-	1,650,491	1,650,491
Total Liabilities and Shareholder's equity	5,344,948	983,723	51,731	410,602	2,351,007	9,142,011
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	141,661	66,731	80,903	249,746	29,048	568,089
Net maturity mismatch	(2,622,842)	(877,007)	1,650,786	2,924,773	(1,643,798)	(568,089)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2016 Group	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	2,222,951	-	-	-	127,452	2,350,403
Deposits and placements with banks and other financial institutions	31,204	139,869	-	-	-	171,073
Securities available-for-sale	10,079	74,910	549,931	373,844	83,638	1,092,402
Securities held-to-maturity	-	56,186	5,065	-	-	61,251
Financing, advances and receivables	3,534,357	32,890	758,981	2,168,042	-	6,494,270
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	620,006	620,006
Total Assets	5,798,591	303,855	1,313,977	2,541,886	836,994	10,795,303
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,370,257	303,751	5	-	655,329	4,329,342
Deposits and placements of banks and other financial institutions	4,191,458	69,953	-	-	8,563	4,269,974
Subordinated Murabahah Tawarruq	-	-	-	451,070	-	451,070
Other liabilities	-	-	-	-	98,139	98,139
Total Liabilities	7,561,715	373,704	5	451,070	762,031	9,148,525
Shareholder's equity	-	-	-	-	1,646,778	1,646,778
Total Liabilities and Shareholder's equity	7,561,715	373,704	5	451,070	2,408,809	10,795,303
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	165,423	29,931	96,256	97,968	221,930	611,508
Net maturity mismatch	(1,928,547)	(99,780)	1,217,716	1,992,848	(1,793,745)	(611,508)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Bank						
ASSETS						
Cash and short-term funds	402,185	-	-	-	64,436	466,621
Deposits and placements with banks and other financial institutions	100,253	106,335	-	-	-	206,588
Securities available-for-sale	59,661	15,035	1,015,106	1,122,308	43,421	2,255,530
Securities held-to-maturity	-	-	5,064	-	-	5,064
Financing, advances and receivables	2,330,496	52,077	751,263	2,462,813	-	5,596,649
Musarakah capital investment	-	-	-	-	18	18
Other assets	-	-	-	-	626,736	626,736
Total Assets	2,892,595	173,447	1,771,433	3,585,121	734,611	9,157,207
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,152,203	710,660	51,731	886	501,439	4,416,919
Deposits and placements of banks and other financial institutions	2,311,828	273,063	-	-	8,218	2,593,109
Subordinated Murabahah Tawarruq	-	-	-	409,716	-	409,716
Other liabilities	-	-	-	-	111,003	111,003
Total Liabilities	5,464,031	983,723	51,731	410,602	620,660	7,530,747
Shareholder's equity	-	-	-	-	1,626,460	1,626,460
Total Liabilities and Shareholder's equity	5,464,031	983,723	51,731	410,602	2,247,120	9,157,207
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	141,661	66,731	80,903	249,746	29,048	568,089
Net maturity mismatch	(2,713,098)	(877,007)	1,638,799	2,924,773	(1,541,557)	(568,089)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016						
Bank						
ASSETS						
Cash and short-term funds	2,222,951	-	-	-	127,452	2,350,403
Deposits and placements with banks and other financial institutions	59,296	139,869	-	-	-	199,165
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	10,080	74,910	549,931	373,844	50,773	1,059,538
Securities held-to-maturity	-	56,186	5,065	-	-	61,251
Financing, advances and receivables	3,534,366	32,890	758,981	2,168,033	-	6,494,270
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	633,968	633,968
Total Assets	5,826,693	303,855	1,313,977	2,541,877	818,091	10,804,493
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,211,339	303,751	5	-	780,000	4,295,095
Deposits and placements of banks and other financial institutions	4,266,061	69,953	-	-	8,563	4,344,577
Subordinated Murabahah Tawarruq	-	-	-	451,070	-	451,070
Other liabilities	-	-	-	-	97,304	97,304
Total Liabilities	7,477,400	373,704	5	451,070	885,867	9,188,046
Shareholder's equity	-	-	-	-	1,616,447	1,616,447
Total Liabilities and Shareholder's equity	7,477,400	373,704	5	451,070	2,502,314	10,804,493
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	165,423	29,931	96,256	97,968	221,930	611,508
Net maturity mismatch	(1,816,130)	(99,780)	1,217,716	1,992,839	(1,906,153)	(611,508)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis

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

Group	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Deposits from customers	3,405,379	726,692	56,560	1,028	580,793	4,770,452
Deposit and placements of banks and other financial institutions	2,024,931	280,318	-	-	8,218	2,313,467
Subordinated Murabahah Tawarruq	-	-	-	609,007	-	609,007
Other liabilities	-	-	-	-	111,505	111,505
Total	5,430,310	1,007,010	56,560	610,035	700,516	7,804,431
2016						
Deposits from customers	3,418,444	310,289	5	-	655,329	4,384,067
Deposit and placements of banks and other financial institutions	4,264,590	71,793	-	-	8,562	4,344,945
Subordinated Murabahah Tawarruq	-	-	-	539,102	-	539,102
Other liabilities	-	-	-	-	98,139	98,139
Total	7,683,034	382,081	5	539,102	762,030	9,366,253

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

Bank	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017						
Deposits from customers	3,202,429	727,712	56,878	1,037	501,439	4,489,495
Deposit and placements of banks and other financial institutions	2,347,557	279,418	-	-	8,218	2,635,193
Subordinated Murabahah Tawarruq	-	-	-	609,007	-	609,007
Other liabilities	-	-	-	-	111,003	111,003
Total	5,549,986	1,007,130	56,878	610,044	620,660	7,844,697
2016						
Deposits from customers	3,257,571	310,334	5	-	780,000	4,347,910
Deposit and placements of banks and other financial institutions	4,339,236	71,762	-	-	8,563	4,419,561
Subordinated Murabahah Tawarruq	-	-	-	539,103	-	539,103
Other liabilities	-	-	-	-	97,304	97,304
Total	7,596,807	382,096	5	539,103	885,867	9,403,878

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

- (i) The sum of assets to mature within a period of one week and liquefiable assets over the liabilities that will mature within a period of 1 week;
- (ii) The sum of assets to mature within a period of one month and liquefiable assets over the liabilities that will mature within a period of 1 month; and
- (iii) The sum of cash, bank balances, placements and deposits with banks and financial institutions, and liquefiable assets over the total deposits from the 10 largest depositors of the Bank.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

Trading

All positions, when the change in fair values will affect the current financial year net profit, are classified as trading positions. Limits on the trading exposures, annual loss and holding period are imposed to manage the potential impact of the trading positions on the Bank's profit and loss. Risk Management Division will review these limits regularly and will recommend to Board Risk Management Committee changes or additional limits, when necessary.

The capital requirement for the Bank's trading exposures is guided by Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank ("CAFIB").

Rate sensitive financial instruments are normally affected by general changes in the market profit rate, known as general risk. Changes in factor related to a specific issuer, in particular issuer's credit quality, which would affect the instrument, are known as specific risk. The Bank has adopted the maturity method as defined in CAFIB in computing the general risk charge of rate sensitive instruments.

The Bank's exposures to benchmark rate risk comprise of exposures in ijarah rental swap ("IRS") and forward foreign exchange related contracts. As at 31 December 2017, the total risk weighted assets for exposures with benchmark rate risk was RM17.64 million (2016: RM8.21 million) with a total capital charge of RM1.41 million (2016: 0.6 million).

All positions in IRS were fully squared (2016: Fully squared). The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities held-for-trading against the movement in market benchmark rates.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

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

Securities held-for-trading

Group and Bank	2017			2016		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
US Dollar (USD)	-	-	-	-	-	-

(ii) Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuation in foreign exchange rates.

As at 31 December 2017, the total risk weighted assets for exposures with foreign exchange rate risk was RM15.28 million (2016: RM16.75 million) with a total capital charge of RM1.22 million (2016: RM1.34 million).

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

(ii) Foreign exchange risk (cont'd.)

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2017. The analysis calculates the effect of a reasonably possible movement of the currencies' exchange rates against Ringgit Malaysia, with all other variables held constant, on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2017		2016	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
Group				
Singapore Dollar (SGD)	1	(76)	1	(48)
US Dollar (USD)	1	(14,181)	1	(1,930)
Euro (EUR)	1	(1,408)	1	(1,337)
Bank				
Singapore Dollar (SGD)	1	(76)	1	(48)
US Dollar (USD)	1	(27,215)	1	(5,050)
Euro (EUR)	1	(12)	1	(11)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

Non-Trading

All positions, when the change in fair values will affect the Bank's equity, are classified as non-trading positions. The Bank's exposures in securities available-for-sale are classified as non-trading market risk positions. At present, these exposures are not subject to market risk capital charge requirement.

The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities available-for-sale against the movement in market benchmark rates:

Securities available-for-sale

	2017			2016		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
Group						
Ringgit Malaysia	1,760,865	5.04	888,119	498,670	4.05	203,021
US Dollar	416,944	2.89	125,439	480,029	3.77	191,629
Bank						
Ringgit Malaysia	1,760,865	5.04	888,119	498,670	4.05	203,021
US Dollar	404,800	2.90	122,621	466,570	3.79	187,272

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK

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

Group 2017	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	373,357	-	-	-	-	64,436	-	437,793	2.67
Deposits and placements with banks and other financial institutions	-	30,051	176,537	-	-	-	-	206,588	1.66
Securities available-for-sale	-	40,608	34,088	1,027,093	1,122,308	58,179	-	2,282,276	3.97
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,795,962	1,960,488	5,778	496,242	1,338,179	-	-	5,596,649	4.80
Musyarakah capital investment	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	613,623	-	613,623	
TOTAL ASSETS	2,169,319	2,031,147	216,403	1,528,399	2,460,487	736,256	-	9,142,011	

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50 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				
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,607,213	651,081	1,808,360	51,731	-	580,793	-	4,699,178	3.02
Deposits and placements of banks and other financial institutions	954,341	775,015	533,548	-	-	8,218	-	2,271,122	3.56
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	111,504	-	111,504	
Total Liabilities	2,561,554	1,835,812	2,341,908	51,731	-	700,515	-	7,491,520	
Shareholder's equity	-	-	-	-	-	1,650,491	-	1,650,491	
Total Liabilities and Shareholder's equity	2,561,554	1,835,812	2,341,908	51,731	-	2,351,006	-	9,142,011	
On-balance sheet profit sensitivity gap	(392,235)	195,335	(2,125,505)	1,476,668	2,460,487	(1,614,750)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(392,235)	195,335	(2,125,505)	1,476,668	2,460,487	(1,614,750)	-	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2016	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	2,214,388	-	-	-	-	127,452	-	2,341,840	2.96
Deposits and placements with banks and other financial institutions	-	-	171,073	-	-	-	-	171,073	1.49
Securities available-for-sale	-	-	84,989	549,931	373,844	83,638	-	1,092,402	3.65
Securities held-to-maturity	-	-	56,187	5,064	-	-	-	61,251	5.21
Financing, advances and receivables	2,110,744	2,461,144	7,399	604,488	1,310,495	-	-	6,494,270	5.21
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	628,569	-	628,569	
TOTAL ASSETS	4,325,132	2,461,144	319,648	1,159,483	1,684,339	845,557	-	10,795,303	

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50 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				
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,417,501	450,664	805,801	5	-	655,371	-	4,329,342	2.88
Deposits and placements of banks and other financial institutions	3,108,080	800,853	352,478	-	-	8,563	-	4,269,974	3.52
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	-	451,070	3.63
Other liabilities	-	-	-	-	-	98,139	-	98,139	
Total Liabilities	5,525,581	1,702,587	1,158,279	5	-	762,073	-	9,148,525	
Shareholder's equity	-	-	-	-	-	1,646,778	-	1,646,778	
Total Liabilities and Shareholder's equity	5,525,581	1,702,587	1,158,279	5	-	2,408,851	-	10,795,303	
On-balance sheet profit sensitivity gap	(1,191,878)	758,558	(838,632)	1,159,478	1,684,340	(1,571,866)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,191,878)	758,558	(838,632)	1,159,478	1,684,340	(1,571,866)	-	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2017	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	402,185	-	-	-	-	64,436	-	466,621	2.50
Deposits and placements with banks and other financial institutions	-	30,051	176,537	-	-	-	-	206,588	1.32
Securities available-for-sale	-	40,608	34,088	1,015,106	1,122,308	43,421	-	2,255,531	4.00
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,795,962	1,960,488	5,778	496,242	1,338,180	-	-	5,596,649	4.80
Musyarakah capital investment	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	626,736	-	626,736	
TOTAL ASSETS	2,198,147	2,031,147	216,403	1,516,412	2,460,488	734,611	-	9,157,207	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,404,268	651,081	1,808,360	51,731	-	501,479	-	4,416,919	3.21
Deposits and placements of banks and other financial institutions	1,258,109	793,234	533,548	-	-	8,218	-	2,593,109	3.11
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	111,003	-	111,003	
Total Liabilities	2,662,377	1,854,031	2,341,908	51,731	-	620,700	-	7,530,747	
Shareholder's equity	-	-	-	-	-	1,626,460	-	1,626,460	
Total Liabilities and Shareholder's equity	2,662,377	1,854,031	2,341,908	51,731	-	2,247,160	-	9,157,207	
On-balance sheet profit sensitivity gap	(464,230)	177,116	(2,125,506)	1,464,681	2,460,488	(1,512,549)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(464,230)	177,116	(2,125,506)	1,464,681	2,460,488	(1,512,549)	-	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2016	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	2,214,388	-	-	-	-	127,452	-	2,341,840	2.96
Deposits and placements with banks and other financial institutions	-	28,092	171,073	-	-	-	-	199,165	1.36
Securities available-for-sale	-	-	84,990	549,931	373,844	50,773	-	1,059,538	3.76
Securities held-to-maturity	-	-	56,186	5,065	-	-	-	61,251	5.21
Financing, advances and receivables	2,110,752	2,461,144	7,400	604,487	1,310,487	-	-	6,494,270	5.21
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	642,531	-	642,531	
TOTAL ASSETS	4,325,140	2,489,236	319,649	1,159,483	1,684,331	826,654	-	10,804,493	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,258,584	450,664	805,801	5	-	780,041	-	4,295,095	2.90
Deposits and placements of banks and other financial institutions	3,182,682	800,853	352,479	-	-	8,563	-	4,344,577	3.46
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	-	451,070	3.63
Other liabilities	-	-	-	-	-	97,304	-	97,304	
Total Liabilities	5,441,266	1,702,587	1,158,280	5	-	885,908	-	9,188,046	
Shareholder's equity	-	-	-	-	-	1,616,447	-	1,616,447	-
Total Liabilities and Shareholder's equity	5,441,266	1,702,587	1,158,280	5	-	2,502,355	-	10,804,493	
On-balance sheet profit sensitivity gap	(1,107,563)	786,649	(838,632)	1,159,478	1,684,331	(1,684,263)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(1,107,563)	786,649	(838,632)	1,159,478	1,684,331	(1,684,263)	-	-	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and hedging financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Group and the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, US Dollar, Euro and Kuwait Dinar.

**Group
2017**

ASSETS

Cash and short-term funds
Deposits and placements with banks and other financial institutions
Securities available-for-sale
Securities held-to-maturity
Financing, advances and receivables
Musyarakah capital investment
Other assets
Total Assets

	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
Cash and short-term funds	343,587	61,790	32,416	-	-	-	437,793
Deposits and placements with banks and other financial institutions	30,051	176,537	-	-	-	-	206,588
Securities available-for-sale	1,839,399	-	442,877	-	-	-	2,282,276
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
Financing, advances and receivables	5,452,801	-	143,848	-	-	-	5,596,649
Musyarakah capital investment	18	-	-	-	-	-	18
Other assets	613,623	-	-	-	-	-	613,623
Total Assets	8,284,543	238,327	619,141	-	-	-	9,142,011

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group
2017 (Cont'd.)

**LIABILITIES AND
SHAREHOLDER'S EQUITY**

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

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

	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
Deposits from customers	4,378,730	240,845	75,510	-	-	4,093	4,699,178
Deposits and placements of banks and other financial institutions	1,757,822	-	484,231	29,069	-	-	2,271,122
Subordinated Murabahah Tawarruq	-	-	409,716	-	-	-	409,716
Other liabilities	111,504	-	-	-	-	-	111,504
Total Liabilities	6,248,056	240,845	969,457	29,069	-	4,093	7,491,520
Shareholder's equity	1,650,491	-	-	-	-	-	1,650,491
Total Liabilities and Shareholder's equity	7,898,547	240,845	969,457	29,069	-	4,093	9,142,011
On-balance sheet open position	385,996	(2,518)	(350,316)	(29,069)	-	(4,093)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	385,996	(2,518)	(350,316)	(29,069)	-	(4,093)	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2016	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,278,988	62,852	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	171,073	-	-	-	-	171,073
Securities available-for-sale	569,114	-	523,289	-	-	-	1,092,403
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,277,439	-	216,831	-	-	-	6,494,270
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	628,568	-	-	-	-	-	628,568
Total Assets	9,821,258	233,925	740,120	-	-	-	10,795,303
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,919,990	235,462	167,891	-	-	5,999	4,329,342
Deposits and placements of banks and other financial institutions	4,077,469	-	164,180	28,325	-	-	4,269,974
Subordinated Murabahah Tawarruq	-	-	451,070	-	-	-	451,070
Other liabilities	98,139	-	-	-	-	-	98,139
Total Liabilities	8,095,598	235,462	783,141	28,325	-	5,999	9,148,525
Shareholder's equity	1,646,778	-	-	-	-	-	1,646,778
Total Liabilities and Shareholder's equity	9,742,376	235,462	783,141	28,325	-	5,999	10,795,303
On-balance sheet open position	78,881	(1,537)	(43,021)	(28,325)	-	(5,999)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	78,881	(1,537)	(43,021)	(28,325)	-	(5,999)	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2017	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	343,587	61,790	32,416	28,828	-	-	466,621
Deposits and placements with banks and other financial institutions	30,051	176,537	-	-	-	-	206,588
Securities available-for-sale	1,812,655	-	442,876	-	-	-	2,255,531
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
Financing, advances and receivables	5,452,795	-	143,854	-	-	-	5,596,649
Musyarakah capital investment	18	-	-	-	-	-	18
Other assets	626,736	-	-	-	-	-	626,736
Total Assets	8,270,906	238,327	619,146	28,828	-	-	9,157,207
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,096,471	240,845	75,510	-	-	4,093	4,416,919
Deposits and placements of banks and other financial institutions	1,757,821	-	806,219	29,069	-	-	2,593,109
Subordinated Murabahah Tawarruq	-	-	409,716	-	-	-	409,716
Other liabilities	111,003	-	-	-	-	-	111,003
Total Liabilities	5,965,295	240,845	1,291,445	29,069	-	4,093	7,530,747
Shareholder's equity	1,626,460	-	-	-	-	-	1,626,460
Total Liabilities and Shareholder's equity	7,591,755	240,845	1,291,445	29,069	-	4,093	9,157,207
On-balance sheet open position	679,151	(2,518)	(672,299)	(241)	-	(4,093)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	679,151	(2,518)	(672,299)	(241)	-	(4,093)	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2016	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	2,278,988	62,852	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	171,073	-	28,092	-	-	199,164
Securities available-for-sale	536,249	-	523,289	-	-	-	1,059,538
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,277,439	-	216,831	-	-	-	6,494,270
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	642,532	-	-	-	-	-	642,532
Total Assets	9,802,358	233,924	740,119	28,092	-	-	10,804,493
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,885,743	235,462	167,891	-	-	5,999	4,295,095
Deposits and placements of banks and other financial institutions	4,082,518	-	233,734	28,325	-	-	4,344,577
Subordinated Murabahah Tawarruq	-	-	451,070	-	-	-	451,070
Other liabilities	97,304	-	-	-	-	-	97,304
Total Liabilities	8,065,565	235,462	852,695	28,325	-	5,999	9,188,046
Shareholder's equity	1,616,447	-	-	-	-	-	1,616,447
Total Liabilities and Shareholder's equity	9,682,012	235,462	852,695	28,325	-	5,999	10,804,493
On-balance sheet open position	120,344	(1,537)	(112,575)	(234)	-	(5,999)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	120,344	(1,537)	(112,575)	(234)	-	(5,999)	-

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK

Profit rate risk refers to movements in profit rates that can expose the Bank to higher funding costs or lower investment and financing yields. Due to the nature of the Bank's business, changes in profit rates can adversely affect the Bank in the form of lower net revenue depending on the mix and form of assets and liabilities.

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

The primary aim of profit rate risk management is to maintain the Bank's profit rate risk exposure within acceptable parameters when there is a change in the market profit rate. Profit rate risk limits shall provide the means for achieving this objective. ALCO had set the limits for the following ratios:

- i) The total of non rate sensitive financing over the Bank's total financing; and
- ii) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2017. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

Exposures to profit rate risk

2017

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Group						
Rate sensitive assets	4,199	93	123	4,338	389	9,142
Rate sensitive liabilities	4,403	1,356	981	52	701	7,493
Monthly mismatch	(203)	(1,263)	(858)	4,287	(312)	
Cumulative mismatch	(1,317)	(3,057)	(12,420)	1,962	1,650	
Bank						
Rate sensitive assets	4,228	93	123	4,326	387	9,157
Rate sensitive liabilities	4,522	1,356	981	52	621	7,532
Monthly mismatch	(294)	(1,263)	(858)	4,275	(234)	
Cumulative mismatch	(1,588)	(3,328)	(12,961)	1,860	1,626	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Exposures to profit rate risk (Cont'd.)

2016

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Group						
Rate sensitive assets	6,822	47	272	3,161	493	10,795
Rate sensitive liabilities	7,230	783	373	-	762	9,148
Monthly mismatch	(408)	(736)	(101)	3,161	(269)	
Cumulative mismatch	(2,770)	(2,628)	(7,437)	1,915	1,647	
Bank						
Rate sensitive assets	6,822	47	272	3,161	503	10,804
Rate sensitive liabilities	7,146	783	373	-	886	9,188
Monthly mismatch	(323)	(736)	(101)	3,161	(384)	
Cumulative mismatch	(2,517)	(2,374)	(6,929)	2,000	1,616	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The following table indicates the sensitivity of the net revenue and the economic value of equity on over the rate of return upward and downward rate shocks.

Profit rate risk simulation sensitivity analysis (%)

2017

Group

Change in Net Revenue
Change in Economic Value of Equity

Bank

Change in Net Revenue
Change in Economic Value of Equity

	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	9.13	4.58	2.29	(4.61)	(9.23)	(18.45)
Change in Economic Value of Equity	38.06	18.10	8.83	(8.41)	(16.44)	(31.41)
Bank						
Change in Net Revenue	14.40	7.21	3.61	(3.81)	(7.63)	(15.25)
Change in Economic Value of Equity	38.03	18.08	8.82	(8.41)	(16.42)	(31.37)

2016

Group

Change in Net Revenue
Change in Economic Value of Equity

Bank

Change in Net Revenue
Change in Economic Value of Equity

	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	48.50	24.26	12.13	(4.99)	(9.97)	(19.94)
Change in Economic Value of Equity	30.70	14.51	7.06	(6.69)	(13.05)	(24.81)
Bank						
Change in Net Revenue	49.71	24.87	12.43	(4.28)	(8.56)	(17.12)
Change in Economic Value of Equity	30.70	14.51	7.06	(6.69)	(13.05)	(24.81)

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach

For the calculation of credit risk-weighted assets under the Standardised Approach for Capital Adequacy Framework for Islamic Bank ("CAFIB") issued by Bank Negara Malaysia ("BNM"), external credit assessments (or external ratings) on the obligor (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios in the banking book. The Bank captures all available external ratings of obligor or issues and adheres to the conditions stipulated in the BNM CAFIB to choose the applicable rating assessment for exposures with single or multiple external ratings. The Bank then assigns the appropriate risk weight to the banking book exposure that is equivalent to the standard risk-weights in CAFIB for issue-specific rating. The Bank also applies the principles stipulated in CAFIB to determine the applicable risk weights to the exposures that do not have issue-specific rating.

(i) Names of External Credit Assessment Institution ("ECAIs") used are:

Standard & Poor's Rating Services ("S&P")
Moody's Investor's Service ("Moody's")
Fitch Ratings ("Fitch")
Rating Agency Malaysia ("RAM")
Malaysian Rating Corporation Berhad ("MARC")

(ii) Types of exposures for which each ECAIs is used :

Exposures to Sovereign and Central Banks
Exposures to Non-Federal Government Public Sector Entities ("PSEs")
Exposures to Multilateral Banks ("MDB's")
Exposures to Banking Institutions and Corporates

(iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows:

2017

Exposure class	Rating of Corporates by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)		RM '000	RM '000	RM '000	RM '000	RM '000
Group Corporates		-	167,707	200,152	17,357	3,544,132

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2017 (Cont'd.)

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Bank Corporates	-	167,707	200,152	17,357	3,558,195	

2016

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Corporates	144,623	204,998	203,637	30,372	3,987,312	
Bank Corporates	144,623	204,998	203,637	30,372	3,995,749	

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2017 (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Sovereigns/Central Banks		11,986	1,427,920	-	-	-	223,003
Bank Sovereigns/Central Banks		-	1,427,920	-	-	-	223,003

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Banks, MDBs and FDIs		12,122	285,092	681	44	-	205,242
Bank Banks, MDBs and FDIs		12,122	313,919	681	44	-	205,242

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2016

Exposure class	Rating of Sovereigns and Central Banks by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Sovereigns/Central Banks		13,225	2,543,605	-	-	-	209,029
Bank Sovereigns/Central Banks		-	2,543,605	-	-	-	209,029

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Banks, MDBs and FDIs		16,704	323,421	51,768	55	-	43,282
Bank Banks, MDBs and FDIs		44,796	323,421	51,768	55	-	43,282

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2017

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,662,909	447,533	-
Banks, Development Financial Institutions & MDBs	493,412	39,337	-
Corporates	3,572,005	246,901	139,596
Regulatory Retail	2,009,719	-	6,250
Residential Mortgages	737,234	-	4,303
Higher Risk Assets ¹	60,757	-	-
Other Assets	289,872	-	-
Defaulted Exposures ²	239,835	-	3,360
Total On Balance Sheet Exposures	9,065,743	733,772	153,509
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	11,392	-	-
Off-balance sheet exposures other than OTC derivatives ²	241,416	-	-
Total Off-Balance Sheet Exposures	252,808	-	-
Total On and Off-Balance Sheet Exposures	9,318,551	733,772	153,509

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2016

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,765,858	139,130	-
Banks, Development Financial Institutions & MDBs	433,307	39,749	-
Corporates	4,127,921	150,332	139,596
Regulatory Retail	1,893,397	-	6,250
Residential Mortgages	578,131	-	4,303
Higher Risk Assets ¹	259,408	-	-
Other Assets	303,827	-	-
Defaulted Exposures ²	368,590	-	3,360
Total On Balance Sheet Exposures	10,730,439	329,211	153,509
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	8,871	-	-
Off-balance sheet exposures other than OTC derivatives ²	216,668	-	-
Total Off-Balance Sheet Exposures	225,539	-	-
Total On and Off-Balance Sheet Exposures	10,955,978	329,211	153,509

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2017

Bank

(i) Credit Risk

(a) On-Balance Sheet Exposures

Sovereigns/Central Banks
Banks, Development Financial Institutions & MDBs
Corporates
Regulatory Retail
Residential Mortgages
Higher Risk Assets¹
Other Assets
Defaulted Exposures²

Total On-Balance Sheet Exposures

(b) Off-Balance Sheet Exposures*

OTC Derivatives³
Off-balance sheet exposures other than OTC
derivatives²

Total Off Balance Sheet Exposures

Total On and Off-Balance Sheet Exposures

	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
	1,650,923	447,533	-
	522,240	39,337	-
	3,586,068	246,901	139,596
	2,009,719	-	6,250
	737,234	-	4,303
	60,757	-	-
	263,964	-	-
	239,834	-	3,360
	9,070,739	733,772	153,509
	11,392	-	-
	241,416	-	-
	252,808	-	-
	9,323,547	733,772	153,509

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2016

Bank

(i) Credit Risk

(a) On-Balance Sheet Exposures

Sovereigns/Central Banks
 Banks, Development Financial Institutions & MDBs
 Corporates
 Regulatory Retail
 Residential Mortgages
 Higher Risk Assets¹
 Other Assets
 Defaulted Exposures²
Total On-Balance Sheet Exposures

	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
	2,752,633	139,130	-
	461,398	39,749	-
	4,136,357	150,332	139,596
	1,893,397	-	6,250
	578,131	-	4,303
	259,408	-	-
	274,644	-	-
	368,590	-	3,360
	10,724,558	329,211	153,509

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2016 (Cont'd)

Bank

	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk (Cont'd)			
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	8,871	-	-
Off-balance sheet exposures other than OTC derivatives ²	216,668	-	-
Total Off Balance Sheet Exposures	225,539	-	-
Total On and Off-Balance Sheet Exposures	10,950,098	329,211	153,509

* Credit equivalent of off-balance sheet items

¹ Higher risk assets are defined in CAFIB guidelines issued by Bank Negara Malaysia which comprised of i) exposures structured as Musyarakah and Mudharabah contracts and ii) Investment in equity financial instruments that are non-publicly traded.

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

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

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank

2017

Direct credit substitutes
 Transaction related contingent items
 Short-term self liquidating trade related contingencies
 Foreign exchange related contracts
 - One year or less
 Profit rate related contracts
 - Over five years
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of over one year
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of up to one year

	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,287		2,287	2,287
Transaction related contingent items	100,027		50,014	40,901
Short-term self liquidating trade related contingencies	19,113		3,823	3,823
Foreign exchange related contracts				
- One year or less	646,620	-	9,582	2,053
Profit rate related contracts				
- Over five years	124,610	-	1,810	1,525
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	319,868		159,934	147,384
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	126,793		25,359	24,757
	1,339,319	-	252,808	222,728

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank

2016

Direct credit substitutes
 Transaction related contingent items
 Short-term self liquidating trade related contingencies
 Foreign exchange related contracts
 - One year or less
 Profit rate related contracts
 - Over five years
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of over one year
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of up to one year

	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	6,987		6,987	6,887
Transaction related contingent items	117,263		58,632	50,555
Short-term self liquidating trade related contingencies	9,374		1,875	1,875
Foreign exchange related contracts				
- One year or less	85,225	994	2,048	1,557
Profit rate related contracts				
- Over five years	199,152	4,831	6,823	5,775
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	178,657		89,329	76,982
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	299,227		59,845	65,442
	895,886	5,825	225,538	209,074

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50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions)

2017

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries	30,200	(16,468)	
Kuwait Finance House (Labuan) Berhad	10,200		Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-		Capital Deduction
KFH Asset Management Sdn. Bhd. *	20,000	(16,468)	Capital Deduction

* Investment in subsidiaries include investment in KFH Asset Management Sdn Bhd which was under voluntary liquidation as at 29 November 2017.

(b) Investment	56,266	(12,845)	65,131
Intrared Sdn Bhd	36,100	-	54,150
Al Faiz Fund 1	20,166	(12,845)	10,981
(c) Musyarakah Capital Investment	18	-	27

2016

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries	30,200	(15,131)	
Kuwait Finance House (Labuan) Berhad	10,200		Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-		Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(15,131)	Capital Deduction
(b) Investment	64,885	(10,500)	81,578
Intrared Sdn Bhd	36,100	-	54,150
Al Faiz Fund 1	28,785	(10,500)	27,428
(c) Musyarakah Capital Investment	5,898	-	8,847

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51 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

There was a non-Shariah compliant incident related to a disposal of debt-based Sukuk without commodity. The fees relating to the incident has been channelled to charity fund as determined by the Bank.

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

2017		2016	
Group and Bank		Group and Bank	
Number of events occur	Amount RM'000	Number of events occur	Amount RM'000
1	3	-	-
-	-	-	-