KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2018

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

CONTENTS **PAGE**

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

1 PERFORMANCE OVERVIEW

The Group and the Bank recorded a profit before zakat and taxation of RM32.2 million and RM28.1 million respectively for the year ended 31 December 2018

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2018 stood at 25.419% and 26.582% 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

<u>Board Composition and Balance</u>

The Board currently has eight (8) members, comprising six (6) independent non-executive directors and one (1) non-independent non-executive director and one (1) non-independent executive director.

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.

<u>Directors' Profile</u>

Muad S M M AlOsaimi
Chairman / Independent Non-Executive Director
(40 years of age - Kuwaiti)

Mr Muad S M M AlOsaimi ("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 ("INED") of KFHK on 23 March 2014 and has been appointed as a member of Board Executive Committee, Board Risk Committee, Board Investment Committee of KFHK and Board Merger Committee (KFHK-AUB).

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 2002 and completed an 18-month specialised 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Mohammad Nasser AlFouzan
Non-Independent Non-Executive Director
(56 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 has over 30 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.

Mr AlFouzan was appointed as a Non Independent Non-Executive Director (“NINED”) on 7 October 2014. He has resigned as the adviser to the Group Chief Executive Officer of KFHK on 30 September 2018 but remained as a NINED of the Bank. He is currently the Vice Chairman of Kuwait Finance House (Bahrain) B.S.C. and the Chairman of the Board Executive Committee of the said entity.

Ahmad S A A AlKharji
Non-Independent Executive Director
(46 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 was subsequently re-designated as Non-Independent Executive Director in 2017 to comply with the definition of Executive Director under BNM’s Corporate Governance Policy. He is currently a Board member of Kuveyt Turk Participation Bank Inc, a subsidiary of KFHK in Turkey.

Mr AlKharji is a seasoned banker with more than 20 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Khalid Sufat
Independent Non-Executive Director
(62 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 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
(61 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Abdul Khalil Abdul Hamid
Independent Non-Executive Director
(62 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 36 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
(66 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 36 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.

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
(66 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.

Khalid Mahmood Bhaimia
Independent Non-Executive Director
(74 years of age – British)

Mr Khalid Mahmood Bhaimia ("Mr Bhaimia") has been appointed as an INED of KFHMB on 5 April 2018. He holds a MBA from Institute of Business Administration, Karachi, Pakistan.

Mr Bhaimia has more than 40 years of experience with extensive exposure in both Islamic and conventional banking in multinational as well as Middle Eastern and Malaysian banks. He started his career with Citibank in 1971. He has held positions as Deputy General Manager of the Gulf Bank, Kuwait, Chief Executive Officer ("CEO") of Albaraka International Bank, UK during which he established the Albaraka Europe Group based in London. He oversaw the Albaraka Group's Islamic Banking activities in the South East Asia region. He was also previously the CEO / Managing Director of RHB Islamic Bank Berhad, Hong Leong Islamic Bank Berhad, Unicorn International Islamic Bank Berhad and Asian Finance Bank Berhad. He was responsible for the transformation of RHB Bank Berhad's Islamic window into a full service standalone bank.

He has held various directorships in listed and non-listed companies including in Bank Islam Malaysia Berhad, BIMB Holdings Berhad, Albaraka Islamic Bank, Bangladesh, MCB Islamic Bank Limited, Pakistan and in various subsidiaries of Dallah Albaraka Group. He is also a global consultant and trainer for Islamic Banking. During his career, he was involved in numerous incorporations, mergers, demergers and transformation of Islamic Banks.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2018, 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)	7/7	100%
Khalid Sufat	7/7	100%
Ahmed S. Al Kharji	7/7	100%
Mohammad Nasser AlFouzan	7/7	100%
Md Adnan Md Zain	7/7	100%
Abdul Khalil Abdul Hamid	7/7	100%
Noorur Rahman Abbas Ali Abid	7/7	100%
Khalid Mahmood Bhaimia^	5/5	100%

Notes:

^ Appointed with effect from 5 April 2018

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 two (2)) INEDs and one (1) NINED. Six (6) BAC meetings were held during the financial year. The members are as follows:

Noorur Rahman Abbas Ali Abid – Chairman
Khalid Sufat - Member
Mohammad Nasser AlFouzan – Member (Appointed as a Member on 1 December 2018)
Abdul Khalil Abdul Hamid - Member (Ceased as a Member on 1 December 2018)
Khalid Mahmood Bhaimia – Member (Appointed as a Member on 1 May 2018 and ceased as a Member on 1 December 2018)
Ahmed S. Al Kharji (Ceased as a Member on 20 January 2018)

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)	6/6	100%
Khalid Sufat	6/6	100%
Abdul Khalil Abdul Hamid #	6/6	100%
Khalid Mahmood Bhaimia^	4/4	100%
Mohammad Nasser AlFouzan*	-	-
Ahmed S. Al Kharji@	1/1	100%

Note:
@ Ceased as a Member on 20 January 2018
# Ceased as a Member 1 December 2018
^ Appointed with effect from 1 May 2018 and ceased as a Member on 1 December 2018
* Appointed with effect from 1 December 2018

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 three (3) 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
Khalid Mahmood Bhaimia - Member (Appointed on 1 May 2018)

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%
Md Adnan Md Zain	5/5	100%
Khalid Mahmood Bhaimia^	3/3	100%

Note:
^ Appointed with effect from 1 May 2018

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 four (4) 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
Noorur Rahman Abbas Ali Abid - Member
Khalid Mahmood Bhaimia - Member (Appointed as Member with effect on 1 May 2018)
Abdul Khalil Abdul Hamid - Member (Ceased as a Member on 20 January 2018)
Ahmed S. Al Kharji - Member (Ceased as Member on 20 January 2018)

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	8/8	100%
Mr Mohammad Nasser A AlFouzan	8/8	100%
Mr Noorur Rahman Abbas Ali Abid	8/8	100%
Khalid Mahmood Bhaimia**	8/8	100%
Mr Ahmed S. Al Kharji^	1/1	100%
En Abdul Khalil Abdul Hamid*	1/1	100%

<u>Note:</u>
^* Ceased as Members on 20 January 2018.
** Appointed with effect from 1 May 2018

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit Committee

The BCC consists of three (3) INEDs. Twelve(12) BCC meetings were held during the financial year. The members during the financial year were as follows:

Md Adnan Md Zain – Chairman
Abdul Khalil Abdul Hamid – Member
Khalid Mahmood Bhaimia - Member (Appointed on 1 December 2018)
Khalid Sufat - Member (Ceased as a Member 1 December 2018)

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 Credit Committee (changed name from Management Credit, Committee on in April 2019); 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 funtions. The BCC is also responsible in overseeing the performance of rescheduled and restructured accounts, to minimise 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)	12/12	100%
En. Khalid Sufat*	12/12	100%
En Abdul Khalil Abdul Hamid	12/12	100%
Mr Khalid Mahmood Bhaimia^	-	-

Note:
^ Appointed with effect from 1 December 2018
* Ceased as a Member on 1 December 2018

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Corporate Governance Committee

The Board Corporate Governance Committee ("BCGC") currently consists of four (4) INEDs. Two (2) BCGC meetings were 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 AlOsaimi – Chairman
Md Adnan Md Zain - Member
Abdul Khalil Abdul Hamid - Member (Appointed on 20 January 2018)
Khalid Sufat - Member (Appointed on 1 December 2018)
Mohammad Nasser AlFouzan - Member (Ceased as a Member on 1 December 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.

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

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Mr Muad S M M Alosaimi (Chairman)	2/2	100%
Mohammad Nasser AlFouzan*	2/2	100%
Md Adnan Md Zain	2/2	100%
Abdul Khalid Abdul Hamid#	2/2	100%
Khalid Sufat^	-	-

* Ceased as a Member on 1 December 2018

#^ Appointed as a Member on 20 January 2018 and 1 December 2018, respectively

Board Remuneration

A summary of the total remuneration of the Directors, in aggregate with categorisation into appropriate Board Committees for the financial year ended 31 December 2018 is disclosed in 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 have attended various training programmes and workshops on issues relevant to the industry.

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 2018 were as follows:-

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Muad S M M AlOsaimi	5 March 2018	Derivatives Overview for KFH BOD	Overview of the size and breakdown of global OTC derivatives market, illustration of principal applications, benefits of derivatives, some key risks and profitability measures.
	9 April 2018	Advanced Corporate Governance, Focus on Cyber Security (Master Class)	Be appraised of the latest trends and events in the corporate governance sphere, have a better understanding of corporate governance issues concerning Cyber Security and know how boards can deal with the issue of Cyber Security.
	17 April 2018	Advanced Corporate Governance - Focus on Cyber Security	-
	10 September 2018	Combating Money Laundering & Financing Terrorism	Overview of the developments in the AML / CFT Industry, high Risk Clients, sanctions recent trends and updates and Fin Tech – Crypto Currency updates.
	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
	12 November 2018	Credit Portfolio Managament	1. An introduction to Portfolio Risk Rating and the world of measuring ECLs 2. Explanation of how ECLs can multiply if the wrong risk rating methodology is adopted and Validation is not conducted 3. Why is it essential to detect Problems Early using: a. Cash Flows and the right Ratios b. Focusing on forward indicators such as Sensitizing Obligors, Stress Testing Portfolios (Macro and Micro), and avoiding the pit-falls of traditional ratio analysis. 4. How to mitigate the impact using: a. Managing the Probability of Default (PDs) through appropriate Target Market selection and Risk Acceptance Criteria to manage the constitution of the portfolio. b. Managing Loss Given Default (LGDs) through better structuring and matching facilities to obligor needs. c. Measuring and managing ELs through Portfolio Risk Ratings. d. Managing Pricing and Cross Sell to ensure positive RAROC. e. Appreciating Qualitative Analysis as a forward-looking assessment tool. f. Automating the Credit process using TMRACs and RAROCs g. Continuously validating the ratings
	10 December 2018	Risks in Islamic Banks and Political, Economics & Geopolitical Risks	Overview of the Global Economics & Recent Developments, Turkish Economy: Opportunities & Challenges, World & Regional Views on Gulf & Middle East Banking and Aramco IPO Case.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Abdul Khalil Abdul Hamid	22 January 2018	Dialogue: Managing Cyber Risks in Financial Institutions	Discussion on the following areas:- - What are the key cybersecurity issues and challenges faced by financial services industry today? - What are the expected roles and responsibilities of board members to ensure effective oversight on the implementation and enforcement of safeguards to mitigate cyber risks? - What role has BNM played in preventing and managing cybersecurity risks/threats? - what regulatory and supervisory measures/initiatives have been introduced to manage risks stemming from cybersecurity threats? What are the challenges?
	1 March 2018	Navigating the VUCA World: 1st Distinguished Board Leadership Series, by Professor Tan Sri Dato' Lin See-Yan	In an are area where business are not running as usual, navigating the VUCA landscape may be a daunting task for financial institution's Board of Directors and Management. Today's Boards deal with growing volatility, uncertainty, complexity and ambiguity in charting the right path for their financial institutions, prompting the right questions and putting forth new challenges and bold ideas, but at the same time, ensuring that the organisation stays on course to its strategic vision, mission and values.
	28 March 2018	Briefing Session - Bank Negara Malaysia Annual Report 2017/Financial Stability And Payment Systems Report 2017	-
	12 April 2018	1 Day Programme on: Risk Management for Islamic Financial Institutions	. Identify, measure and manage risk at financial product and balance sheet levels with a focus on market and liquidity risks. . Apply analytic methodologies for the risk-based pricing of Islamic banking assets. . Understand the IFSB standard for Islamic bank capital adequacy . Understand the key risk inherent in various types of Sukuk instruments.
	19 April 2018	5th BNM-FIDE FORUM Annual Dialogue	The briefing and dialogue session is organised as an exclusive event for our members to engage with senior officials of BNM to discuss substantive matters that concern financial institutions' Boards with respect to the current and future developments in the economy and financial services industry.
	4 May 2018	2018 SEACEN Policy Summit on "Cryptocurrencies and Central Banking	-

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

<u>Board Training (Cont'd.)</u>

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Abdul Khalil Abdul Hamid (Cont'd.)	3 July 2018	Understanding Fintech and Its Implications for Bank Programme	To update directors on the latest in fintech developments and its implications for the insurance industry. Directors will be provided with examples of fintech's disruptive technology both in the payments and crowfunding space, in record keeping and improvement of processes with the development of blockchain; and how it is changing the entire ecosystem of how business are done.
	10 July 2018	1st PIDM-FIDE FORUM Dialogue	- To better prepare potential and new directors for their role on the board, and provide Chairman and directors with a pragmatic coaching tool kit that is tailored to the context of a FI's Board. - Directors' role as catolyst in sparking positive change in their respective organisations.
	17 July 2018	Block chain in Financial Services Industry by IBM	The areas discussed in the dialogues among others:- - what are the key elements of blockchain technology - what are the key issues boards should consider to ensure effective oversight on blockchain strategy in your financial institution (FIs) - what are the opportunies, risks and implications of blockchain technology to the FIs - how are financial service players in various countries deploying blockchain technology
	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
	3 October 2018	Understanding Fintech & Its Implication for Insurance Companies	- Articulate the latest fintech developments and how it affects the insurance industry; - Explain the threat of fintech should insurance companies ignore these developments; - Explain the current regulatory framework for fintech under Bank Negara Malaysia; - Explain blockchain and its applications in insurance; - Consider the benefits of adopting fintech or partnering with fintech providers to improve insurance services or processes.
	22 October 2018	Emerging Risk The Future Board and Return on Compliance	Inform directors on key development and stimulate directors to prepare as a board member for futures challenges.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Abdul Khalil Abdul Hamid (Cont'd.)	30 October 2018	Dinner Talk: "The Director as Coach": An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE FORUM's "DNA of a Board Leader".	
	14-15 November 2018	Islamic Financial For Board of Directors	- Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business. - Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential. - Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.
Md Adnan Md Zain	12 April 2018	1 Day Programme on: Risk Management for Islamic Financial Instititions	. Identify, measure and manage risk at financial product and balance sheet levels with a focus on market and liquidity risks. . Apply analytic methodologies for the risk-based pricing of Islamic banking assets. . Understand the IFSB standard for Islamic bank capital adequacy . Understand the key risk inherent in various types of Sukuk instruments.
	19 July 2018	Emerging Risk the Future Board and Return on Compliance	Inform directors on key developments and stimulate directors to prepare as a board member for futures challenges.
	30 July 2018	Fundamentals And Application of IFRS 17	Understand the new accounting standard on insurance contracts and its implications.
	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Khalid Mahmood Bhaimia *(Appointed Director: 5.4.2018)*	Module A: 9-12 July 2018 & Module B: 16-19 July 2018	FIDE Core 2018	- 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
	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
Mohammed Nasser AlFouzan	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
Ahmed AlKharji	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
Khalid Sufat	27 March 2018	Audit Committee Conference 2018	Will focus on the emerging enablers, tools and killer apps that Audit Committee can use to enhance the internal audit process, transform risk management and corporate governance and improve capabilities and outcomes.
	18 April 2018	Sustainability And Intergrated Reporting	
	3 July 2018	Understanding Fintech and Its Implications for Bank Programme	To update directors on the latest in fintech developments and its implications for the banking industry. Directors will be provided with examples of fintech's disruptive technology both in the payments and crowfunding space, in record keeping and improvement of processes with the development of blockchain; and how it is changing the entire ecosystem of how business are done.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Khalid Sufat (Cont'd.)	17 July 2018	Blockchain in Financial Services Industry by IBM	The areas disussed in the dialigues among others:- - what are the key elements of blockchain technology - what are the key issues boards should consider to ensure effective oversight on blockchain strategy in your financial institution (FIs) - what are the opportunities, risks and implications of blockchain technology to the FIs - how are financial service players in various countries deploying blockchain technology
	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
	9 - 10 October 2018	Annual Accountants Conference 2018	- Review the importance of good governance and how it can contribute to sustainable growth. - Evaluate value creation strategies. - Leverage the insights from the world's leading speakers - Venture into new exciting areas and diversify your capabilities. - Address the latest and most pressing issues on business, accounting and finance - Network with finance leaders, corporate captains, senior government officials and through leaders - Transform mind sets to become successful business leaders
	29-30 October 2018	ACIIA Annual Conference 2018	In this day and age of rapid advancement in technology, the Internal Audit profession has the opportunity to be pro-active, productive and effective in mitigating the digital risks and staying current on innovative thinking and best practices. Internal audit also plays a key role in bringing technology awareness to the Board and Audit Committee.
Noorur Rahman Abbas Ali Abid	Module A: 5-8 February 2018 Module B: 16-19 July 2018	FIDE Core 2018	- 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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
Noorur Rahman Abbas Ali Abid (Cont'd.)	20 September 2018	Fintech And Its Impact On Banking	Overview of Fintech in Malaysia comprising, the five categories ie Payment & Remittance, Alternative finance, Digital banks, Regtechs, Insurtechs, Blockchain & Robo advisers/personal finance.
	5 March 2018	Derivatives Overview for KFH BOD	Overview of the size and breakdown of global OTC derivatives market, illustration of principal applications, benefits of derivatives, some key risks and profitability measures.
	9 April 2018	Advanced Corporate Governance, Focus on Cyber Security (Master Class)	Be appraised of the latest trends and events in the corporate governance sphere, have a better understanding of corporate governance issues concerning Cyber Security and know how boards can deal with the issue of Cyber Security.
	10 September 2018	Combating Money Laundering & Financing Terrorism	Overview of the developments in the AML / CFT Industry, high Risk Clients, sanctions recent trends and updates and Fin Tech – Crypto Currency updates.
	12 November 2018	Credit Portfolio Managament	1. An introduction to Portfolio Risk Rating and the world of measuring ECLs 2. Explanation of how ECLs can multiply if the wrong risk rating methodology is adopted and Validation is not conducted 3. Why is it essential to detect Problems Early using: a. Cash Flows and the right Ratios b. Focusing on forward indicators such as Sensitizing Obligors, Stress Testing Portfolios (Macro and Micro), and avoiding the pit-falls of traditional ratio analysis. 4. How to mitigate the impact using: a. Managing the Probability of Default (PDs) through appropriate Target Market selection and Risk Acceptance Criteria to manage the constitution of the portfolio. b. Managing Loss Given Default (LGDs) through better structuring and matching facilities to obligor needs. c. Measuring and managing ELs through Portfolio Risk Ratings. d. Managing Pricing and Cross Sell to ensure positive RAROC. e. Appreciating Qualitative Analysis as a forward-looking assessment tool. f. Automating the Credit process using TMRACs and RAROCs g. Continuously validating the ratings
	In house training	Sharia Training for Islamic Bankers	-
	In house training	IFRS Update	Implication and challenges in the implementation of MFRS 9.
	In house training	IFRS 9	Implication and challenges in the implementation of MFRS 9.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

<u>Remuneration</u>

The Board had approved the Bank's Rewards framework and Policy based on the recommendation of the BRNC (Board Remuneration and Nomination Committee) in July 2018.

This framework was developed with the purpose of fair and transparent in rewarding employee based on respective contributions to the Bank's performance and in line with the requirement of the governance regulations. The framework and the policy are review periodically that enable KFHMB to attract and retain talents, in line with the Bank's objectives and strategy.

The following factors are taken into account in the design and proposal of the remunerations programmes: -

a) The Bank's performance, both long-term and short-term;
b) Prudent risk-taking at the employee, divisional and organizational levels based on RMD's review and feedback;
c) External market conditions for talent and the Bank's attrition rate;
d) The Bank's ability to pay; and
e) Strong governance.

Components of Remunerations

The Bank's remunerations is structured in accordance with applicable laws and regulations and it consists of the followings:

a) Fixed Pay – consists of base salary and fixed allowances. It compensates for the respective level of expertise, skills and responsibility required for fulfilling a specific job, determined by the job grade. It is also taking into consideration of market competitive within the Financial Services sector.

b) Variable Remuneration – payable periodically by cash through specified time-line and objectives set by the management for achievement that enforcing pay-for-performance culture of the Bank.

c) Benefits – is part of total remuneration that provide employees with paid time off, medical and financial protection, financing product at preferential rates etc.

Measurement of Performance

The measurement of the Bank performance will focus on the Bank's strategy and its annual priorities in the balance scorecard such as financial, risk-related and non-financial drivers for sustainability of the organisation. Financial measures on the profitability, cost and asset management, shareholders' return, business growth etc. Risk-related and non-financial drivers' measures on mandatory compliance with audit, shariah and risk, key strategic initiatives, customer care / stakeholder management and employee engagement.

The control functions of Audit, Shariah and Risk will carry out an independent assessment for each business unit throughout the year and a final rating will be provided to the respective division as part of the divisional and individual performance measurements.

The management's key measurements are cascading to the respective parties as a team or individually via the KPIs in the balanced scorecard. KPIs in the balanced scorecard are categorised into 4 main components to ensure dedicated focus – Financials, Customers, Internal Business Process which includes KPI on mandatory compliance with audit, shariah and risk as well as Organisation and Learning Growth.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

<u>Remuneration (Cont'd.)</u>

The scorecard will be assessed at the end of the year to determine the performance of an individual along-side with the behavioural and leadership competencies assessment. Performance rating of each individual will be calibrated within the division and challenged at the EXCOM (Executive committee) to ensure fair assessment. This enforcement and conformance of this exercise put focus on performance culture and pay-for- performance

Determination of Variable Remuneration

The Bank’s performance measurements, qualifiers and threshold performance to qualify for the bonus are determined at the beginning of the performance year by the Board based on the recommendation of the BRNC.

At the end of the year, the approval of the Board is sought to trigger the bonus payout if the agreed qualifier and threshold performance is achieved. The bonus payout will only be made after the approval of the board and the audited accounts approved by the BNM.

The yearly performance Assessment and remuneration payout for the Identified Key Responsible Persons (KRPs) and Material Risk Takers (MRTs) in the Bank has to be approved by the Board upon recommendation by the BNRC and remuneration of the Heads control functions (Internal Audit, Risk Management, Compliance and Shariah) have to be approved by the respective independent Committees.

Variable remuneration for each individual will be determined based on individual performance rating and job grade according to the pre-approved bonus matrix, stated in the approved rewards policy.

(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.

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.

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:

- 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 to be 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 Architecture) 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.

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 47% of the Bank's financing asset portfolio while the consumer financing segment contributed 53% of the Bank's total financing assets in 2018.

Credit risk limit is further refined with the full implementation of the new Single Counterparty Exposure Limit ("SCEL") requirements. Moody's Rating System is used for corporate customers and more detailed asessment 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. KFH Malaysia Financing Transactions Golden Rules are adopted to optimise the asset allocation decisions by measuring the impact of all major transactions on KFH 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Market Risk Management

Market risk is the risk that movements in market variables, including rates of return, foreign exchange rates, credit spreads, and commodity prices, will reduce the earnings or capital of the Group.

The market risk exposure of the Group is identified into two types:

(i) Traded Market Risk

Primarily exists in the Group's trading book positions arising from customer driven transactions and banking book related activities.

(ii) Non-Traded Market Risk

Rate of return risk and foreign exchange risk arising mainly from the retail and commercial banking assets and liabilities, as well as financial investments designated as fair value through other comprehensive income and amortised cost.

The Asset Liabilitiy Management Committee ("ALCO") supports the Board Risk Management Committee ("BRMC") in market risk management oversight. The Bank adopted Group market risk policies, aligns market risk management with risk appetite and implements actions to ensure that the market risk remains within established risk tolerance level.

Liquidity Risk Management

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 ALCO supports the BRMC in liquidity risk management oversight. The Bank adopted the Group's liquidity risk policies, and implements necessary actions to ensure that the liquidity risk is well managed and within the established liquidity risk appetite and thresholds.

The Liquidity Risk Policy sets out the processes involved in identifying, assessing, measuring, controlling, mitigating and monitoring of the liquidity risk. The policy also addresses the regulatory requirements on Basel III Liquidity standards, including the BNM's Basel III Liquidity Coverage Ratio which is effective from 1 June 2015. Monitoring tools and liquidity/funding limits are established to manage liquidity and funding exposures within the Group. Liquidity and funding positions are reported to the ALCO on a monthly basis.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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.

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:

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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

- 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 ("FATAF") 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 KFHMB Group have shown strong commitment in ensuring compliance to the relevant AML legislations as well as to protect the Bank's integrity and reputation.

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.The Bank currently adopted the Pillar 1, 2 and 3 under BNM Capital Adequacy Framework for Islamic Banks ("CAFIB").

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

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.

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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

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, and the Group. The stress test results are computed 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 submitted to BNM on a semi-annually basis.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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 2018.

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 and nominees services.

In 2017, 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 17 to the financial statements.

RESULTS

	Group RM'000	Bank RM'000
Net profit for the year	20,908	16,863
Profit attributable to:		
Owners of the parent	20,908	16,863
Minority interests	-	-
	20,908	16,863

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.

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 AlOsaimi
Mohammad Nasser AlFouzan
Khalid Sufat
Md Adnan Md Zain
Abdul Khalil Abdul Hamid
Ahmad S A A AlKharji
Noorur Rahman Abbas Ali Abid
Khalid Mahmood Bhaimia (Appointed on 5 April 2018)

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:

Kuwait Finance House (Labuan) Bhd
Mohammad Nasser AlFouzan
Md Adnan Md Zain

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 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 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 2018.

ISSUE OF SHARES

There were no changes to the 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 4, 5, 7, 10, 11, 12, 17, 32 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.

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position and income statements of the Group and of 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.

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 2019

The Bank will continue to focus on achieving sustainable growth across its franchises, improving asset quality and driving down costs. The core business strategies will remain unchanged and the Bank will continue to organically grow its business through its identified target markets, offering new and innovative product offerings and deepening size of wallet.

The 2019 plan is centered on four strategic thrusts, financial performance, customer experience, process excellence and leadership. In order to support these initiatives, the Bank expects to build and strengthen its internal capability and capacity, by increasing its visibility and presence in the market. The Bank will also continue to focus on improving staff competency and efficiency by improving and upgrading the core infrastructure and internal processes. The Bank will continue to leverage its tailored-made IT capability securing the continuous development of new, differentiated and innovative product and services. Cost optimisation remains a core theme for 2019 to drive higher productivity and improve the overall performance of the Bank.

OUTLOOK FOR 2019

The Malaysian economy is expected to grow at 4.9% in 2019, from 4.8% forecasted in 2018, despite slowing global demand for the country’s exports as well as austerity measures on the public sector. Private consumption and investment will remain the main drivers of economic growth in 2019. The outlook for the economy remains resilient in the near term despite considerable external and domestic headwinds.

Nevertheless, the monetary policy is expected to remain supportive of economic growth whilst ensuring price stability in 2019. As the inflation outlook remains benign, it is anticipated that BNM will maintain its current and accommodative monetary stance going into 2019.

The ongoing trade tension is expected to disrupt global trade growth which will affect the Malaysian economy. Despite a challenging external environment, the Malaysian economy is likely to remain positive in 2019, spurred by robust private sector activity and moderate inflation.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	November 2018	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 twenty one (21) 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)

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 49 to the financial statements.

AUDITORS

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

Auditors' remuneration are disclosed in Note 36 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 January 2019.

Muad S M M AlOsaimi
Director

Noorur Rahman Abbas Ali Abid
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

We, Muad S M M AlOsaimi 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 45 to 270 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 2018 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 24 January 2019.

Muad S M M AlOsaimi
Director

Noorur Rahman Abbas Ali Abid
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

I, Mohd Hazran Abd Hadi, being the acting Chief Executive 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 45 to 270, 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
at Kuala Lumpur, in the Federal Territory
on 24 January 2019

Mohd Hazran Abd Hadi

BEFORE ME

PESURUHJAYA SUMPAH
No W533
Nama: YM TENGKU FARIDDUDIN
BIN TENGKU SULAIMAN
1 JAN 2019 - 31 DIS 2021
MALAYSIA

205, Bangunan Loke Yew
4, Jln Mahkamah Persekutuan
50050 Kuala Lumpur (W.P.)

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 (PBUH), 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 ("KFHMB"), it is our responsibility to form our independent opinion, based on our review of the operations of KFHMB, and to report to you.

We have reviewed and endorsed the policies, contracts, products, services and the activities that KFHMB and its subsidiaries ("the Group") had carried out during the year ended 31 December 2018. We have also conducted the necessary review to provide our opinion on KFHMB's compliance with Shariah rules and principles through the resolutions and recommendations that we have issued.

We have also obtained all information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that KFHMB and its subsidiaries had not violated the Shariah rules and principles in all transactions that had been presented to us.

To achieve this compliance assurance, the Shariah Committee held 7 meetings and issued 21 notes during the year 2018, in which the Shariah Committee had reviewed and endorsed the contracts and agreements after obtaining the necessary information to issue its opinion. The Shariah Division had conducted its Shariah review on randomly selected samples of all operations and transactions of KFHMB with the shareholders, investors and others in accordance with the Annual Shariah Review plan for all KFHMB's departments and its subsidiaries. The Shariah Committee has also received the periodic reports that the Shariah Review Department has prepared about the Shariah Review process and operations, site visits and the compliance status of the process and implementation of the resolutions and recommendations issued by KFHMB's Shariah Committee.

Through the process and steps that we followed to ascertain the compliance of KFHMB to the Shariah rules, we confirm the following:

(a) the contracts, transactions and dealings entered into by KFHMB and the Group during the year ended 31 December 2018 that we have reviewed are in compliance with Shariah rules, principles, resolutions and recommendations of KFHMB's Shariah Committee;

(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; and

(d) the calculation of Zakat is in compliance with Shariah rules and principles;

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

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

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

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

Date: 24 JAN 2019

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

Date: 24 JAN 2019

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

Date: 24 JAN 2019

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

Date: 24 JAN 2019

Sheikh Isa Abdulla Yusuf Dowaishan
Member
Signature:

Date: 24 JAN 2019

Date : 24 JAN 2019
Kuala Lumpur, Malaysia

EY
Building a better working world

Ernst & Young AF:0039
SST ID: W10-1808-31043558
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur Malaysia

Tel: +603 7495 8000
Fax: +603 2095 5332 (General line)
+603 2095 9076
+603 2095 9078
ey.com

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 2018 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 45 to 270.

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 2018, 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.

672174-T

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

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.

Building a better working world

672174-T

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.

Building a better
working world

672174-T

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

Muhammad Syarizal Bin Abdul Rahim
No. 03157/01/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
24 January 2019.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

	Note	Group 2018 RM'000	Group 2017 RM'000
ASSETS			
Cash and short-term funds	4	135,339	429,575
Deposits and placements with banks and other financial institutions	5	5,755	214,806
Gold Depository	6	96,409	102,824
Hedging financial instruments	14	3,780	1,714
Securities available-for-sale	7	-	2,282,276
Securities held-to-maturity	8	-	5,064
Financial assets at FVTPL	9	1,059	-
Equity instruments at FVOCI	11	18	-
Debt instruments at FVOCI	10	2,889,238	-
Financing, advances and other receivables	12	5,592,272	5,596,649
Other assets	13	133,425	65,828
Statutory deposit with Bank Negara Malaysia	15	211,800	213,600
Musyarakah capital investment	16	-	18
Property and equipment	18	21,580	22,281
Intangible assets	19	22,318	10,601
Deferred tax assets	20	181,806	196,775
TOTAL ASSETS		**9,294,799**	**9,142,011**
LIABILITIES			
Deposits from customers	21	4,578,999	4,699,178
Investment accounts of customers	23	5,755	8,218
Deposits and placements of banks and other financial institutions	22	2,906,741	2,262,903
Hedging financial instruments	14	4,506	14,981
Subordinated Murabahah Tawarruq	26	-	409,716
Other liabilities	24	101,247	96,524
TOTAL LIABILITIES		**7,597,248**	**7,491,520**
SHAREHOLDER'S EQUITY			
Share capital	27	1,425,272	1,425,272
Reserves	28	272,279	225,219
TOTAL SHAREHOLDER'S EQUITY		**1,697,551**	**1,650,491**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**9,294,799**	**9,142,011**

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Group	
		2018	**2017**
	Note	**RM'000**	**RM'000**
COMMITMENTS AND CONTINGENCIES	43	2,159,680	1,339,318
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	45	25.419%	22.500%
Total capital ratio	45	26.582%	29.927%
NET ASSETS PER SHARE (RM)		1.19	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	
		2018	**2017**
	Note	**RM'000**	**RM'000**
ASSETS			
Cash and short-term funds	4	135,339	458,403
Deposits and placements with banks			
and other financial institutions	5	5,755	214,806
Gold Depository	6	96,409	102,824
Hedging financial instruments	14	3,780	1,714
Securities available-for-sale	7	-	2,255,531
Securities held-to-maturity	8	-	5,064
Financial assets at FVTPL	9	1,059	-
Equity instruments at FVOCI	11	18	-
Debt instruments at FVOCI	10	2,876,991	-
Financing, advances and other receivables	12	5,592,272	5,596,649
Other assets	13	133,302	65,692
Statutory deposit with Bank Negara Malaysia	15	211,800	213,600
Musyarakah capital investment	16	-	18
Investment in subsidiaries	17	10,200	13,732
Property and equipment	18	21,554	22,020
Intangible assets	19	21,926	10,379
Deferred tax assets	20	181,806	196,775
TOTAL ASSETS		**9,292,211**	**9,157,207**
LIABILITIES			
Deposits from customers	21	4,475,640	4,416,919
Investment accounts of customers	23	5,755	8,218
Deposits and placements of banks			
and other financial institutions	22	3,036,586	2,584,891
Hedging financial instruments	14	4,506	14,981
Subordinated Murabahah Tawarruq	26	-	409,716
Other liabilities	24	101,046	96,022
TOTAL LIABILITIES		**7,623,533**	**7,530,747**
SHAREHOLDER'S EQUITY			
Share capital	27	1,425,272	1,425,272
Reserves	28	243,406	201,188
TOTAL SHAREHOLDER'S EQUITY		**1,668,678**	**1,626,460**
TOTAL LIABILITIES AND			
SHAREHOLDER'S EQUITY		**9,292,211**	**9,157,207**

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Bank	
		2018	**2017**
	Note	**RM'000**	**RM'000**
COMMITMENTS AND CONTINGENCIES	43	2,159,680	1,339,318
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	45	24.794%	21.716%
Total capital ratio	45	25.960%	29.162%
NET ASSETS PER SHARE (RM)		1.17	1.14

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INCOME STATEMENTS

		Group		Bank	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Continuing Operation					
Operating revenue	29	453,817	509,438	451,049	504,594
Income derived from investment of depositors' funds and others	30	367,760	408,186	366,868	408,391
Income derived from investment of investment account funds	34	226	300	226	300
Income derived from investment of shareholder's equity	31	85,831	100,952	83,955	95,903
Total gross income		453,817	509,438	451,049	504,594
Impairment allowance on financing, advances and other receivables	32	-	(12,075)	-	(12,075)
Impairment (allowances)/writeback on investments	32	-	(16,809)	-	(11,297)
Credit loss writeback on financial assets	32	33,206	-	32,846	-
Total distributable income		487,023	480,554	483,895	481,222
Income attributable to the depositors	33	(235,749)	(253,300)	(238,067)	(254,467)
Profit distributed to investment account holders	34	(134)	(179)	(134)	(179)
Total net income		251,140	227,075	245,694	226,576
Personnel expenses	35	(108,583)	(94,829)	(107,972)	(94,159)
Other overheads and expenditures	36	(84,516)	(89,384)	(83,746)	(88,633)
Finance cost	37	(25,871)	(33,704)	(25,871)	(33,704)
Profit before zakat and taxation		32,170	9,158	28,105	10,080
Taxation	40	(11,262)	(2,419)	(11,242)	(2,419)
Net profit for the year		**20,908**	**6,739**	**16,863**	**7,661**

INCOME STATEMENTS (CONT'D.)

	Note	Group 2018 RM'000	Group 2017 RM'000
Discontinued Operation			
Loss after tax for the year from discontinued operation	38	-	(1,543)
Profit for the year		**20,908**	**5,196**

	Note	Group 2018 RM'000	Group 2017 RM'000
Total net profit for the year		**20,908**	**5,196**
Attributable to:			
- Equity holder of the Bank		20,908	5,196
Earning per share (sen)			
- Basic/Diluted	41	1.47	0.36

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME

		Group		Bank	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Net profit for the year		20,908	5,196	16,863	7,661
Other comprehensive income/(loss):					
Items that may be reclassified subsequently to profit or loss:					
Securities available-for-sale:					
- Net unrealised (loss)		-	(524)	-	(601)
- Net realised loss reclassified to the income statements		-	2,476	-	2,476
Debt securities at FVOCI					
- Net unrealised gain		9,804	-	9,812	-
- Net realised income reclassified to the income statements		(172)	-	(172)	-
- Changes in allowance for expected credit losses		16,005		16,364	
Exchange differences on translation of foreign operations:					
- Net gain/(loss) taken to equity		812	(3,912)	-	-
Income tax relating to components of other comprehensive income	20	(3,727)	477	(3,727)	477
Other comprehensive income/(loss) for the year, net of tax		22,722	(1,483)	22,277	2,352
Total comprehensive profit for the year		43,630	3,713	39,140	10,013
Total comprehensive profit for the year attributable to equity holder of the Bank		43,630	3,713	39,140	10,013

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

		Non-distributable				Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available-For-Sale Reserve RM'000	FVOCI Reserve RM'000	Retained Earnings RM'000	Total RM'000
Group							
At 1 January 2018							
- As previously stated	1,425,272	162,216	3,178	(6,825)	-	66,650	1,650,491
- Effect of MFRS 9 adoption	-	-	-	6,825	(3,383)	(12)	3,430
As at 1 Jan 2018, as restated	1,425,272	162,216	3,178	-	(3,383)	66,638	1,653,921
Total comprehensive income	-	-	812	-	21,910	20,908	43,630
Transfer to statutory reserve	-	8,432	-	-	-	(8,432)	-
At 31 December 2018	1,425,272	170,648	3,990	-	18,527	79,114	1,697,551
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
Bank							
At 1 January 2018	1,425,272	162,216	-	(6,648)	-	45,620	1,626,460
- Effect of MFRS 9 adoption		-	-	6,648	(3,570)	-	3,078
As at 1 Jan 2018, as restated	1,425,272	162,216	-	-	(3,570)	45,620	1,629,538
Total comprehensive income	-	-	-	-	22,277	16,863	39,140
Transfer to statutory reserve	-	8,432	-	-	-	(8,432)	-
At 31 December 2018	1,425,272	170,648	-	-	18,707	54,051	1,668,678
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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before zakat and taxation				
- Continuing operations	32,170	9,158	28,105	10,080
- Discontinued operation	-	(1,543)	-	-
	32,170	7,615	28,105	10,080
Adjustments for:				
(Writeback)/impairment allowances on financing, advances and other receivables (Note 32)	(27,130)	12,075	(27,130)	12,075
Amortisation of premium less accretion of discounts (Notes 30 and 31)	5,745	5,675	5,745	5,675
Finance cost (Note 37)	25,871	33,704	25,871	33,704
Depreciation of property and equipment (Note 36)	2,721	5,534	2,708	5,471
Amortisation of intangible assets (Note 36)	4,635	3,085	4,517	2,970
Property and equipment written off (Note 18 and 36)	-	192	-	192
Reversal of provision on property restoration (Note 31)	-	(113)	-	(113)
Gain on disposal of property and equipment (Note 31)	(13)	(3)	(13)	-
Net gains on sale of securities available-for-sale (Notes 30 and 31)	-	(28,209)	-	(28,210)
Net gains on sale of financial assets at FVOCI (Notes 30 and 31)	(2,461)	-	(2,461)	-
Net gains on sale of securities held-for-trading (Notes 30 and 31)	-	(330)	-	(330)
Net gains on sale of financial assets at FVTPL (Notes 30 and 31)	(340)	-	(340)	-
Impairment allowance/(writeback) on securities available-for-sale (Note 32)	-	17,029	-	10,212
Impairment allowance/(writeback) on financial assets at FVOCI (Note 32)	3,535	-	3,895	-
(Writeback)/impairment on subsidiaries (Note 32)	-	(220)	-	1,085
Unrealised (gain)/loss on foreign translations (Note 31)	(3,927)	(12,955)	(3,735)	(12,917)
Unrealised loss on revaluation of securities held-for-trading, and Ijarah rental swap (net) (Note 31)	1,498	3,416	1,498	3,416
Operating profit before working capital changes	42,304	46,495	38,660	43,310
Decrease in operating assets	165,459	873,678	165,448	897,960
Deposits and placements with banks and other financial institutions	189,797	(35,170)	189,797	(7,078)
Financing, advances and other receivables	45,356	885,546	45,356	885,546
Other assets	(71,494)	35,902	(71,505)	32,092
Statutory deposit with Bank Negara Malaysia	1,800	(12,600)	1,800	(12,600)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
Increase/(decrease) in operating liabilities	79,932	(1,691,570)	83,148	(1,691,903)
Deposits from customers	(120,179)	369,836	58,721	121,824
Investment accounts due to customers	(2,463)	(345)	(2,463)	(345)
Deposits and placements of banks and other financial institutions	643,838	(1,998,508)	451,695	(1,751,123)
Other liabilities	(441,265)	(62,553)	(424,805)	(62,259)
Cash generated from/(used in) operations	287,693	(771,397)	287,256	(750,633)
Tax paid	-	(20)	-	-
Net cash generated from/(used in) operating activities	**287,693**	**(771,417)**	**287,256**	**(750,633)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from (purchases)/sales of securities	(592,888)	(1,125,900)	(602,505)	(1,125,280)
Proceeds from disposal of property and equipment	17	26	17	-
Purchase of property and equipment (Note 18)	(17,703)	(16,538)	(17,560)	(16,516)
Purchase of intangible assets (Note 19)	(1,034)	(951)	(748)	(928)
Net cash used in investing activities	**(611,608)**	**(1,143,363)**	**(620,796)**	**(1,142,724)**
Net increase/(decrease) in cash and cash equivalents	**(323,915)**	**(1,914,780)**	**(333,540)**	**(1,893,357)**
Cash and cash equivalents at beginning of year	461,019	2,372,621	474,634	2,367,991
Exchange differences on translation of opening balances	3,990	3,178	-	-
Cash and cash equivalents at end of year	**141,094**	**461,019**	**141,094**	**474,634**
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 4)	135,339	429,575	135,339	458,403
Deposits and placements with banks an(Debt Securities of FVOCI	5,755	214,806	5,755	214,806
	141,094	**644,381**	**141,094**	**673,209**
Less: Deposit with contractual maturity more than 3 months	-	(183,362)	-	(198,575)
Cash and cash equivalents	**141,094**	**461,019**	**141,094**	**474,634**

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

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 and nominees services. In 2017, 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-Qebla, 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 24 January 2019.

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 3.3.

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 51.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies

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

On 1 January 2018, the Group and the Bank adopted the following new and amended MFRSs for annual financial periods beginning on or after 1 January 2018.

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

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, except for the adoption of MFRS9. The impact of adoption of MFRS9 on the financial statements of the Group and Bank are discussed below.

(a) MFRS 9 Financial Instruments

The Group and the Bank has adopted MFRS 9 as issued by the MASB in November 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of MFRS 9 in previous periods.

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group and the Bank has also elected to apply the hedge accounting requirements of MFRS 139 on adoption of MFRS 9.

Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of MFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 9 Financial Instruments (Cont'd.)

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Group and the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) are described in more detail in Note 3.3.

(i) Classification of financial assets and financial liabilities

MFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). MFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing MFRS 139 categories of held-to-maturity, financing and receivables and available-for-sale. Under MFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities. However, although under MFRS 139 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under MFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

(ii) Impairment of financial assets

The adoption of MFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. MFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 9 Financial Instruments (Cont'd.)

(ii) Impairment of financial assets (Cont'd.)

Prior to 1 January 2018, under MFRS 139, collective assessment is performed on financing, advances and other receivable which are not individually significant based on the incurred loss approach. Financing, advances and other receivable which are individually assessed and where there is no objective evidence of impairment are also included in the group of financing, advances and other receivable for collective assessment. These financing, advances and other receivable are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of the historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing, advances and other receivable.

The collective assessment for impairment are estimated on the basis of reference to peers' historical loss experience data which publicly available in the Basel II-Pillar 3 disclosure. The historical loss experience described by Probability of Default (PD) and Loss Given Default (LGD) published by peers were mapped to the Bank's portfolio with reference to equivalent external mapping defined by the Bank and peers.

(iii) Hedge accounting

MFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity’s risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

- Hedge effectiveness – MFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under MFRS 139, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness. requirement.

- Hedge discontinuation - MFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under MFRS 139, the Bank may revoke the hedging relationship if it seems fit.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 9 Financial Instruments (Cont'd.)

The measurement category and the carrying amount of financial assets and liabilities in accordance with MFRS 139 and MFRS 9 as at 1 January 2018 are as follows:

	MFRS 139		*MFRS 9*	
Group	***Measurement category***	***Carrying Amount RM000***	***Measurement category***	***Carrying Amount RM000***
Cash and balances with banks and financial institutions		429,575		426,851
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,094
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,603,221
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVOCI	5,006
Investment securities: Debt	AFS (Available for sale)	2,224,097	FVOCI	2,224,097
Investment securities: Equity	AFS (Available for sale)	7,321	FVTPL	7,321
Investment securities: Equity	AFS (Available for sale)	14,758	FVTPL	14,758
Investment securities: Equity	AFS (Available for sale)	36,118	FVOCI	18
Derivative assets	FVTPL	1,714	FVTPL	1,714
Non Financial Assets		611,909		611,909
Total Financial Assets		9,142,011		9,108,989
Deposits from customers	Amortised cost	4,699,178	Amortised cost	4,699,178
Deposits and placements of banks and other financial institutions and investment account of customers	Amortised cost	2,271,122	Amortised cost	2,271,122
Other Financial Liabilities	Amortised cost	521,221	Amortised cost	521,221
Total Financial Liabilities		7,491,520		7,491,520

	MFRS 139		*MFRS 9*	
Bank	***Measurement category***	***Carrying Amount RM000***	***Measurement category***	***Carrying Amount RM000***
Cash and balances with banks and financial institutions		458,403		455,679
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,094
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,603,221
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVOCI	5,006
Investment securities: Debt	AFS (Available for sale)	2,212,110	FVOCI	2,212,110
Investment securities: Equity	AFS (Available for sale)	7,321	FVTPL	7,321
Investment securities: Equity	AFS (Available for sale)	36,118	FVOCI	18
Derivative assets	FVTPL	1,714	FVTPL	1,714
Non Financial Assets		625,021		625,021
Total Financial Assets		9,157,207		9,124,184
Deposits from customers	Amortised cost	4,416,919	Amortised cost	4,416,919
Deposits and placements of banks and other financial institutions and investment account of customers	Amortised cost	2,593,109	Amortised cost	2,593,109
Other Financial Liabilities	Amortised cost	520,719	Amortised cost	520,719
Total Financial Liabilities		7,530,747		7,530,747

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 9 Financial Instruments (Cont'd.)

(i) Reconciliation of statement of financial position balances from MFRS 139 to

The Bank performed a detailed analysis of its business models for managing financial assets and their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with MFRS 139 to their new measurement categories upon transition to MFRS 9 on 1 January 2018:

Group

RM'000		**MFRS139**			**Remeasurement**		**MFRS9**	
Financial Assets	**REF**	**Amount**	**Category**	**Re-classification**	**ECL**	**Other**	**Amount**	**Category**
Cash and short term funds		429,575	-	-	(2,724)	-	426,851	
Deposits and Placement due from designated Financial Institutions		214,806	-	-	(712)	-	214,094	
Financial Instruments - AFS								
To: Debt Instruments at FVOCI	A	2,224,097	AFS	(2,224,097)	-	-	-	
To: Equity Instruments at FVOCI	B	50,876	AFS	(50,876)	-	-	-	
To: Equity Instruments at FVTPL	C	7,321	AFS	(7,321)	-	-	-	
Debt Instruments at FVOCI								
From: Financial Instruments - AFS	A	-		2,224,097	-		2,224,097	FVOCI
From:Financial Instruments - HTM	D	-		5,064	-	(58)	5,006	FVOCI
Equity Instruments at FVOCI								
From: Financial Instruments - AFS	B	-		50,876	-	(36,100)	14,776	FVOCI
Equity Instruments - FVTPL								
From: Financial Instruments - AFS	C	-		7,321	-	-	7,321	FVTPL
Financial Instruments - HTM								
To: Debt Instruments at FVOCI	D	5,064	HTM	(5,064)	-	-	-	
Financial Instruments - F&R								
To: Debt Instruments at Amortised Cost	E	5,596,649	F&R	(5,596,649)	-	-	-	
Debt Instruments at Amortised Cost								
From:Financial Instruments - F&R	E	-		5,596,649	42,672	-	5,639,321	AC
Derivative assets		1,714		-	-	-	1,714	
Non Financial Assets		611,909		-	-	-	611,909	
Total Assets		**9,142,011**	**-**	**14,758**	**39,236**	**(36,158)**	**9,159,848**	**-**

* F&R = Financing, Advances and Receivable
* AC = Amortised Cost
* FVOCI = Fair Values Through Other Comprehensive Income
*FVTPL = Fair Values Through Profit & Loss

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(a) MFRS 9 Financial Instruments (Cont'd.)

(i) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

Bank

RM'000		**MFRS139**			**Remeasurement**		**MFRS9**	
Financial Assets	**REF**	**Amount**	**Category**	**Re-classification**	**ECL**	**Other**	**Amount**	**Category**
Cash and short term funds		458,403		-	(2,724)	-	455,679	
Deposits and Placement due from designated Financial Institutions		214,806		-	(712)	-	214,094	
Financial Instruments - AFS								
To: Debt Instruments at FVOCI	A	2,212,110	AFS	(2,212,110)	-	-	-	
To: Equity Instruments at FVOCI	B	36,118	AFS	(36,118)	-	-	-	
To: Equity Instruments at FVTPL	C	7,321	AFS	(7,321)	-	-	-	
Debt Instruments at FVOCI								
From: Financial Instruments - AFS	A	-		2,212,110	-	-	2,212,110	FVOCI
From:Financial Instruments - HTM	D	-		5,064	-	(58)	5,006	AC
Equity Instruments at FVOCI								
From: Financial Instruments - AFS	B	-		36,118	-	(36,100)	18	FVOCI
Equity Instruments - FVTPL								
From: Financial Instruments - AFS	C	-		7,321	-	-	7,321	FVTPL
Financial Instruments - HTM								
To: Debt Instruments at Amortised Cost	D	5,064	HTM	(5,064)	-	-	-	
Financial Instruments - F&R								
To: Debt Instruments at Amortised Cost	E	5,596,649	F&R	(5,596,649)	-	-	-	
Debt Instruments at Amortised Cost								
From:Financial Instruments - F&R	E	-		5,596,649	42,672	-	5,639,321	AC
Derivative assets		1,714		-	-	-	1,714	
Non Financial Assets		625,021		-	-	-	625,021	
Total Assets		**9,157,207**	**-**	**-**	**39,236**	**(36,158)**	**9,160,285**	

* F&R = Financing, Advances and Receivable
* AC = Amortised Cost
* FVOCI = Fair Values Through Other Comprehensive Income
*FVTPL = Fair Values Through Profit & Loss

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(a) MFRS 9 Financial Instruments (Cont'd.)

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

A : Designation of debt instruments at FVOCI
As of 1 January 2018, the Bank has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Bank concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.

B : Designation of equity instruments at FVOCI
The Bank has elected the option to irrevocably designate some if its previous AFS equity instruments as Equity instruments at FVOCI. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

C : Designation of equity instruments at FVTPL.
The Bank has elected the option to irrevocably designate its investments in unquoted funds as equity instruments at FVTPL.

Reclassification from retired categories
The following debt instruments have been reclassified to new categories under MFRS 9, as their previous categories under MFRS 139 were 'retired'.

D : Those previously classified as held to maturity and now classified as measured at FVOCI; with changes to their measurement basis.

E : Those previously classified as financing and receivables and now classified as measured at amortised cost, with no changes with their measurement basis.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(a) MFRS 9 Financial Instruments (Cont'd.)

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

The following table analyses the impact, net of tax, of transition to MFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Group	Bank
Fair value reserve	**RM'000**	**RM'000**
Closing balance under MFRS 139 (31 December 2017)	(6,825)	(6,648)
Effects on MFRS 9 adoption	3,442	3,078
Opening balance under MFRS 9 (1 January 2018)	(3,383)	(3,570)
Retained earnings		
Closing balance under MFRS 139 (31 December 2017)	66,650	45,620
Recognition of MFRS 9 ECLs including those measured at FVOCI (see below)	(12)	-
Opening balance under MFRS 9 (1 January 2018)	66,638	45,620

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(a) MFRS 9 Financial Instruments (Cont'd.)

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

The following table reconciles the prior period's closing impairment allowance measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

Group **RM'000**	**Financing loss provision/ Financial asset impairment under MFRS 139/MFRS 137 at 31 December 2017**	**Remeasurement/ Reclassification**	**ECLs under MFRS 9 at 1 January 2018**
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/financial assets at amortised cost under MFRS 9	386,093	(42,670)	343,423
Cash and short term funds	-	2,724	2,724
Deposits and placement with banks and other Financial Institutions	-	712	712
Available-for-sale investment securities per MFRS139/ Financial assets at FVTPL	26,913	(26,913)	-

Bank **RM'000**	**Financing loss provision/ Financial asset impairment under MFRS 139/MFRS 137 at 31 December 2017**	**Remeasurement/ Reclassification**	**ECLs under MFRS 9 at 1 January 2018**
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/Financial assets at amortised cost under MFRS 9	386,093	(42,670)	343,423
Cash and short term funds	-	2,724	2,724
Deposits and placement with banks and other Financial Institutions	-	712	712
Available-for-sale investment securities per MFRS139/Financial assets at FVTPL	12,844	(12,844)	-

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 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**
Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 11 Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 9 Financial Instruments (Prepayment Features with Negative Compensation)	1 January 2019
Amendments to MFRS 119 Employee Benefits (Plan Amendment, Curtailment or Settlement)	1 January 2019
Amendments to MFRS 128 Investment in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021

The adoption of these standards and intepretations when they become effective is not expected to have any material impact on the financial statements of the Group and the Bank, except as discussed below.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 16 Leases (Con't.d)

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.

The Group is currently assessing the impact of MFRS16 and plans to adopt the new standard on the required effective date.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Summary of Significant Accounting Policies

(a) 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.

3 SIGNIFICANT ACCOUNTING POLICIES

3.3 Summary of Significant Accounting Policies

(a) 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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(a) 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.

(b) Financial Assets

(i) Recognition and initial measurement

The Group and the Bank initially recognise all regular way purchases and sales of financial assets on the trade date, i.e. that the Group and the Bank commits\ to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Policies applicable before 1 January 2018

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

Policies applicable before 1 January 2018 (Cont'd.)

(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.

(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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification

Policies applicable from 1 January 2018

The Group and the Bank have applied MFRS 9 and classifiy their financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group and the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group and the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

Business model assessment
The Group and the Bank make an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group and the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and profit ("SPPP")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

Assessment whether contractual cash flows are solely payments of principal and profit (SPPP) (Cont'd.)

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group and the Bank consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group and the Bank consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group and the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group or the Bank changes its business model for managing financial assets.

(iii) Derecognition

A financial asset is derecognised when the contractual right to receive the cash flows from the asset has expired.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(iv) Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group and the Bank recalculate the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income.

(v) Impairment

Policies applicable before 1 January 2018

Financing, advances and other receivables

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

(i) where the principal or profit or both is past due for more than 90 days or 3 months;

(ii) where the amount is past due for 3 months or less, the financing exhibits certain credit weaknesses;

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

(iv) rescheduled and restructured facilities can only be reclassified as non-impaired when repayments based on the revised or restructured terms have been observed continuously for a minimum period of six months.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable before 1 January 2018 (Cont'd.)

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

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.

(ii) Securities held-to-maturity

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable before 1 January 2018 (Cont'd.)

(iii) Securities available-for-sale

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.

Policies applicable from 1 January 2018

MFRS 9 requires the Group and 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 Group and 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

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.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financing, advances and other receivables;
- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Group and the Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group or the Bank expect to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Group or the Bank if the commitment is drawn down and the cash flows that the Group or the Bank expect to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

Credit-impaired financial assets (Cont'd.)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing or advance by the Group or the Bank on terms that the Group or the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financing receivable that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group or the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Policies applicable from 1 January 2018 (Cont'd.)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost* : as a deduction from the gross carrying amount of the assets;
- *financing commitments and financial guarantee contracts* : generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the FVOCI reserve.

Write-off

Financing receivables and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group or the Bank's procedures for recovery of amounts due.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial liabilities

The Group and the Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

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.

(d) Fair value measurement

The Group measures financial instruments such as security carried at FVOCI, FVTPL and hedging financial instruments at fair value at each reporting date.

Financial instruments such as those categorized as securities 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 47.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(e) Property and Equipment, and Depreciation

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) 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.

(g) 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.

(h) Musyarakah Capital Investment and Musyarakah Financing

The Group and 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 fair value. Under the principle of Musyarakah, the Group and the Bank and their 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 Group and the Bank acting as financiers to the project, Musyarakah financing is carried as financing receivable in the financial statements of the Group and 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.

(i) Provision for Liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) 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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Income Tax (Cont'd)

(ii) Deferred tax (Cont'd.)

- 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.

(k) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(k) Revenue Recognition (Cont'd.)

(i) Finance Income Recognition (Cont'd.)

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.

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

(l) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(m) Foreign Currencies

(i) Functional and Presentational Currency

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

(ii) Foreign Currency Transactions

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in income statement for the period except for exchange differences arising on monetary items that form part of the Group’s net investment in foreign 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies (Cont'd.)

(iii) Foreign Operations

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

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rates prevailing at the reporting date;

(b) Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and

(c) All resulting exchange differences are taken to the foreign currency translation reserve in other comprehensive income.

(o) Derivatives and Hedging Activities

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, refer Note 3.3 (o), (iii), (iv).

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(o) Derivatives and Hedging Activities (Cont'd.)

(iii) Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Group and the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

(iv) 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 Group and 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(o) Derivatives and Hedging Activities (Cont'd.)

(iv) Fair value hedge (Cont'd.)

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 Group and the Bank is disclosed in Note 14.

(p) Financial Guarantees and Financing Commitments

Financial guarantees' are contracts that require the Group and the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Financing commitments' are firm commitments to provide credit under pre-specified terms and conditions.

The Group and the Bank has issued no financing commitment that are measured at FVTPL.

For other financing commitments:
- from 1 January 2018: the Bank recognises loss allowance
- before 1 January 2018: the Bank recognises a provision in accordance with MFRS 137

Liabilities arising from financial guarantees and financing commitments are included within provisions.

(q) Profit Income and Expense

Profit income and expense are recognised in profit or loss using the effective profit method.The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Profit Income and Expense (Cont'd.)

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance. (or impairment allowance before 1 January 2018).

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Presentation

Profit income and expense presented in the statement of profit or loss and OCI include:

- profit on financial assets and financial liabilities measured at amortised cost calculated on an effective profit basis;
- profit on debt instruments measured at FVOCI calculated on an effective profit basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in profit cash flows, in the same period as the hedged cash flows affect profit income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of profit rate risk.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Profit Income and Expense (Cont'd.)

Presentation (Cont'd.)

Profit income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Profit income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(r) Employee Benefits

(i) Short-Term Benefits

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

(ii) Defined Contribution Plan

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

(s) Zakat

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(t) 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.

(u) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(v) Financial Risk Management Objective and Policies

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

(w) Operating Lease

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

(x) 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").

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgments

(a) Significant Accounting Estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

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

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.

(ii) Deferred tax and income taxes

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

(b) Significant Accounting Judgments

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(i) Classification of investment securities

On acquisition of an investment security, the Bank decides whether it should be classified as fair value through profit or loss or fair value through other comprehensive income or financial assets to be measured at amortised cost. The Bank follows the guidance of MFRS 9 on classifying its investments.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Significant Accounting Judgments (Cont'd.)

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and debt instruments at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(iii) Business models and SPPP as significant judgments

As well as ECL, determining the appropriate business models and assessing the SPPP requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements.

(iv) Deferred tax and income taxes

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
4 CASH AND SHORT-TERM FUNDS				
Cash and balances with banks and other financial institutions	120,155	64,436	120,155	64,436
Money at call and interbank placements with remaining maturity less than one month	15,996	365,139	15,996	393,967
	136,151	429,575	136,151	458,403
Less : ECL Allowance	(812)	-	(812)	-
	135,339	429,575	135,339	458,403

4.1 Impairment allowance for cash and short term funds

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	136,151	-	-	136,151	429,575
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	136,151	-	-	136,151	429,575

	2018				2017
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	136,151	-	-	136,151	458,403
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	136,151	-	-	136,151	458,403

4 CASH AND SHORT-TERM FUNDS (Cont'd.)

4.1 Impairment allowance for cash and short term funds (Cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances are, as follows:

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	429,575	-	-	429,575
Net remeasurement of outstanding balance	(153,618)	-	-	(153,618)
New financial assets originated	4,558	-	-	4,558
Financial assets that have matured	(144,364)	-	-	(144,364)
Gross carrying amount as at 31 December 2018	136,151	-	-	136,151

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	2,724	-	-	2,724
ECL allowance as at 1 January 2018, as restated	2,724	-	-	2,724
Writeback made during the year (Note 32)	(1,912)	-	-	(1,912)
ECL allowance as at 31 December 2018	812	-	-	812
Net carrying amount (after ECL)	135,339	-	-	135,339

4 CASH AND SHORT-TERM FUNDS (Cont'd.)

4.1 Impairment allowance for cash and short term funds (Cont'd.)

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	458,403	-	-	458,403
Net remeasurement of outstanding balance	(153,618)	-	-	(153,618)
New financial assets originated	4,558	-	-	4,558
Financial assets that have matured	(173,192)	-	-	(173,192)
Gross carrying amount as at 31 December 2018	136,151	-	-	136,151

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	2,724	-	-	2,724
ECL allowance as at 1 January 2018, as restated	2,724	-	-	2,724
Writeback made during the year (Note 32)	(1,912)	-	-	(1,912)
ECL allowance as at 31 December 2018	812	-	-	812
Net carrying amount (after ECL)	135,339	-	-	135,339

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Licensed Islamic banks	-	148,000	-	148,000
Bank Negara Malaysia ^	5,755	8,218	5,755	8,218
Other financial institutions	-	58,588	-	58,588
	5,755	214,806	5,755	214,806

^ The placement with Bank Negara Malaysia are funded by investment accounts of customers as disclosed in Note 23.

5.1 Impairment allowance for deposits and placements with banks and other financial institutions

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	5,755	-	-	5,755	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	5,755	-	-	5,755	214,806

	2018				2017
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	5,755	-	-	5,755	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	5,755	-	-	5,755	214,806

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (Cont'd.)

5.1 Impairment allowance for deposits and placements with banks and other financial institutions (Cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances are, as follows:

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
Net remeasurement of outstanding balance	(8,218)	-	-	(8,218)
New financial assets originated	337,542	-	-	337,542
Financial assets that have matured	(544,130)	-	-	(544,130)
Gross carrying amount as at 31 December 2018	-	-	-	-

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	712	-	-	712
ECL allowance as at 1 January 2018, as restated	712	-	-	712
New financial assets originated	74	-	-	74
Financial assets that have matured	(786)	-	-	(786)
ECL allowance as at 31 December 2018	-	-	-	-
Net carrying amount (after ECL)	-	-	-	-

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (Cont'd.)

5.1 Impairment allowance for deposits and placements with banks and other financial institutions (Cont'd.)

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
Net remeasurement of outstanding balance	(8,218)	-	-	(8,218)
New financial assets originated	337,542	-	-	337,542
Financial assets that have matured	(544,130)	-	-	(544,130)
Gross carrying amount as at 31 December 2018	-	-	-	-

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	712	-	-	712
ECL allowance as at 1 January 2018, as restated	712	-	-	712
New financial assets originated	74	-	-	74
Financial assets that have matured	(786)	-	-	(786)
ECL allowance as at 31 December 2018	-	-	-	-
Net carrying amount (after ECL)	-	-	-	-

6 GOLD DEPOSITORY

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

7 SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At fair value				
Unquoted securities:				
Islamic private debt securities/ sukuk	-	344,701	-	332,714
Government guaranteed sukuk	-	1,879,396	-	1,879,396
	-	2,224,097	-	2,212,110
At cost				
Unquoted shares in Malaysia	-	36,100	-	36,100
Property funds	-	28,827	-	-
Collective Investment Scheme	-	20,165	-	20,165
	-	85,092	-	56,265
Less : Accumulated impairment loss	-	(26,913)	-	(12,844)
	-	2,282,276	-	2,255,531

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Movement in impairment loss on AFS securities at cost				
At 1 January	-	18,945	-	10,500
Impairment charged during the year	-	7,968	-	2,344
At 31 December	-	26,913	-	12,844

8 SECURITIES HELD-TO-MATURITY

	Group and Bank	
	2018 RM'000	2017 RM'000
At amortised cost		
Unquoted securities:		
Islamic private debt securities/ sukuk	-	5,064

9 FINANCIAL ASSETS AT FVTPL

	Group and Bank	
	2018 RM'000	2017 RM'000
At fair value		
Collective Investment Scheme	1,059	-

10 DEBT INSTRUMENTS MEASURED AT FVOCI

The table below shows the fair value of the Group's and Bank's debt instruments measured at FVOCI by credit risk, based on the Group's and Bank's internal credit rating system and year-end stage classification.

	2018			
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,889,238	-	-	2,889,238
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	2,889,238	-	-	2,889,238

	2018			
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,876,991	-	-	2,876,991
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	2,876,991	-	-	2,876,991

10 DEBT INSTRUMENTS MEASURED AT FVOCI (Cont'd.)

An analysis of changes in the fair value and the corresponding ECLs are, as follows:

	2018			
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fair value amount as at 31 December	**2,889,238**	**-**	**-**	**2,889,238**

	2018			
Group	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
ECL allowance as at 1 January, as previously stated	**-**	**-**	**-**	**-**
Effect of MFRS 9 adoption	3,500	-	-	3,500
ECL allowance as at 1 January, as restated	**3,500**	**-**	**-**	**3,500**
Allowance made during the year (Note 32)	16,005	-	-	16,005
ECL allowance as at 31 December	**19,505**	**-**	**-**	**19,505**

	2018			
Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fair value amount as at 31 December	**2,876,991**	**-**	**-**	**2,876,991**

10 DEBT INSTRUMENTS MEASURED AT FVOCI (Cont'd.)

An analysis of changes in the fair value and the corresponding ECLs are, as follows:

	2018			
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January, as previously stated	**-**	**-**	**-**	**-**
Effect of MFRS 9 adoption	3,136	-	-	3,136
ECL allowance as at 1 January, as restated	**3,136**	**-**	**-**	**3,136**
Allowance made during the year (Note 32)	16,364	-	-	16,364
ECL allowance as at 31 December	**19,500**	**-**	**-**	**19,500**

11 EQUITY INSTRUMENTS MEASURED AT FVOCI

The table below shows the fair value of the Bank's equity instruments measured at FVOCI by credit risk, based on the Bank's internal credit rating system and year-end stage classification.

	Group and Bank	
	2018 RM'000	2017 RM'000
Musyarakah Capital Investment	18	-

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 fair value. The Bank's participation in the entities involved is limited to safeguarding its interest under the Musyarakah financing.

12 FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group and Bank	
	2018 **RM'000**	**2017** **RM'000**
(i) At amortised cost		
Term financing		
- House financing	1,107,677	946,670
- Personal financing	1,168,414	1,172,038
- Leasing financing	-	17,319
- Syndicated financing	241,462	276,530
- Cashline financing	9,702	11,865
- Hire purchase receivables	775,243	679,081
- Other term financing	2,501,276	2,865,532
Credit card	266	-
Staff financing	22,751	13,707
	5,826,791	5,982,742
Less: Impairment allowances		
- Collective allowances	-	(122,221)
- Individual allowances	-	(263,872)
Less: Impairment allowances		
- Stage 1 Financing	(70,970)	-
- Stage 2 Financing	(15,681)	-
- Stage 3 Financing	(145,125)	-
Net financing and advances to customers	5,595,015	5,596,649
Less: Impairment allowances		
- Stage 1 Undrawn	(765)	-
- Stage 1 Trade facilities	(1,838)	-
- Stage 2 Trade facilities	(140)	-
Net financing, advances and other receivables	5,592,272	5,596,649

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

	Group and Bank	
	2018 RM'000	2017 RM'000
(ii) By contract		
Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	2,290,390	2,160,107
Murabahah (cost-plus)	3,448,334	3,711,313
Mudharabah (profit sharing)	43,705	61,024
Qard (benevolent financing) (Note 12(x))	1,375	931
Musyarakah (profit and loss sharing)	41,686	48,098
Istisna'	1,035	1,269
Ujrah	266	-
	5,826,791	5,982,742
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	474,457	554,265
- Others	2,252,739	2,592,970
Individuals	3,096,703	2,831,795
Foreign entities	-	-
Domestic non-bank financial institutions	2,892	3,712
	5,826,791	5,982,742
(iv) By residual contractual maturity		
Maturity within one year	2,313,351	2,609,787
More than one year to three years	107,006	122,852
More than three years to five years	378,512	216,249
More than five years	3,027,922	3,033,854
	5,826,791	5,982,742
(v) By geographical distribution		
Malaysia	5,820,106	5,972,156
Middle East	3,884	4,647
Other countries	2,801	5,939
	5,826,791	5,982,742
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	3,977	7,712
- Hire purchase receivables	775,243	679,081
- Syndicated financing	241,462	276,530
- Term financing	1,004,567	1,299,375
Variable		
- House financing	1,104,027	943,794
- Term financing	2,697,515	2,776,250
	5,826,791	5,982,742

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

	Group and Bank	
	2018 **RM'000**	**2017** **RM'000**
(vii) By sector		
Construction	606,867	647,838
Electricity, gas and water	111,710	124,148
Finance, insurance and business services	116,038	129,875
Household	3,095,326	2,831,795
Manufacturing	376,298	512,982
Mining and quarrying	104	-
Agriculture, hunting, forestry & fishing	310,657	203,680
Real Estate	528,265	911,310
Transports, storage and communication	149,340	181,565
Wholesale & retail trade and restaurants & hotels	497,634	388,456
Others	34,552	51,093
	5,826,791	5,982,742
(viii) By economic purpose		
Purchase of securities	-	4,878
Purchase of transport vehicles	779,041	682,572
Purchase of landed properties		
- residential	1,140,608	974,066
- non-residential	373,659	782,258
Purchase of fixed assets	18,572	45,217
Working capital	1,767,087	1,582,570
Construction	168,964	207,679
Personal use	1,193,098	1,196,969
Other purposes	385,762	506,533
	5,826,791	5,982,742

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

(ix) Financing by types and Shariah contract

	Group and Bank							
2018	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'	Ujrah	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	1,090,568	74	-	16,000	-	1,035	-	1,107,677
Personal financing	-	1,167,721	-	-	1,013	-	-	1,168,734
Syndicated financing	45,711	195,751	-	-	-	-	-	241,462
Cashline financing	-	9,702	-	-	-	-	-	9,702
Hire purchase receivables	775,243	-	-	-	-	-	-	775,243
Other term financing	361,876	2,069,874	43,705	25,500	-	-	-	2,500,955
Staff financing	16,992	5,212	-	186	362	-	-	22,751
Credit card	-	-	-	-	-	-	266	266
	2,290,390	3,448,334	43,705	41,686	1,375	1,035	266	5,826,791

	Group and Bank						
2017	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	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

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

	Group and Bank	
	2018 RM'000	**2017 RM'000**
(x) Purpose and Source of Qard financing		
As at 1 January	931	1,043
Source of Qard fund:	1,464	1,347
- Depositors' Fund	1,193	1,104
- Shareholders' Fund	271	243
Uses of Qard fund:	(1,020)	(1,459)
- Financing for asset purchase	(831)	(1,197)
- Staff Benevolent	(189)	(262)
As at 31 December (Note 12(ii))	1,375	931
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	418,478	478,060
- Impaired during the year	67,393	127,884
- Reclassified to performing during the year	(13,451)	(3,440)
- Amount recovered	(123,358)	(175,736)
- Amount written off	(81,774)	(8,290)
At 31 December	267,288	418,478
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less Stage 3 impairment (2017: Individual allowance)	2.15%	2.70%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Stage 1 and 2 impairment (2017: Collective allowance)		
Collective allowance as at 1 January 2018, as previously stated	122,221	
Effect on MFRS 9 adoption	(42,672)	
At 1 January	79,549	139,421
Allowance made during the year (Note 32)	9,845	(17,200)
At 31 December	89,394	122,221
As % of total gross financing, advances and other receivables less Stage 3 impairment (2017: Individual allowance)	1.57%	2.14%

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

(xii) Movements in impairment allowances on financing, advances and other receivables (Cont'd.)

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Stage 3 impairment (2017: Individual allowance)		
At 1 January	263,872	229,687
Allowance (writeback)/made during the year (Note 32)	(36,973)	42,475
Allowance charged during the year	*57,842*	*110,693*
Allowance written-back during the year	*(94,815)*	*(68,218)*
Amount written off	(81,774)	(8,290)
At 31 December	145,125	263,872

(xiii) Impaired financing by sector

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Agriculture, hunting, forestry and fishing	-	-
Electricity, gas and water	-	79
Finance, insurance and business services	8,954	168
Household	20,743	61,971
Manufacturing	113,524	158,820
Real Estate	111,833	193,020
Wholesale & retail trade and restaurants & hotels	12,234	4,420
	267,288	418,478

(xiv) Impairment allowance for financing and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018				2017
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**
Internal rating grade :					
Performing	5,423,140	-	-	5,423,140	5,386,012
Past due but not impaired	-	136,363	-	136,363	178,252
Individually impaired	-	-	267,288	267,288	418,478
Total	5,423,140	136,363	267,288	5,826,791	5,982,742

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

(xiv) Impairment allowance for financing and advances to customers (Cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to financing and advances to customers are, as follows :

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount as at 1 January 2018	5,386,012	178,252	418,478	5,982,742
Transfer from/(to) 12-month ECL	40,576	(32,313)	(8,263)	-
Transfer (to)/from lifetime ECL not credit impaired	(46,356)	49,832	(3,476)	-
Transfer (to)/from lifetime ECL credit impaired	(11,302)	(12,563)	23,864	(1)
New financial assets originated/ (financial assets repaid)	54,210	(46,845)	(81,541)	(74,176)
Write-offs	-	-	(81,774)	(81,774)
Gross carrying amount as at 31 December 2018	5,423,140	136,363	267,288	5,826,791

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	73,582	5,968	263,873	343,423
ECL allowance as at 1 January 2018, as restated	73,582	5,968	263,873	343,423
Transfer to 12-month ECL	4,479	(2,739)	(1,740)	-
Transfer to lifetime ECL not credit impaired	(618)	1,345	(727)	-
Transfer to lifetime ECL credit impaired	(183)	(303)	486	-
Allowance/(writeback) made during the year	(3,687)	11,550	(34,993)	(27,130)
Write-offs	-	-	(81,774)	(81,774)
ECL allowance as at 31 December 2018	73,573	15,821	145,125	234,519
Net carrying amount (after ECL)	5,349,567	120,542	122,163	5,592,272

13 OTHER ASSETS

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Deposits and prepayments		8,555	8,845	8,425	8,711
Amount due from subsidiaries	(i)	-	-	4	4
Amount due from other related parties parties	(i)	120,752	53,936	120,752	53,936
Fee receivable		1	795	1	795
Sundry debtors		4,117	2,252	4,120	2,246
		133,425	65,828	133,302	65,692

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

14 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
2018			
Forward foreign exchange related contracts	979,817	3,780	4,506
- in connection with fair value hedges	409,780	1,253	1,976
- other derivatives without a hedging relationship	570,037	2,527	2,530
Total	979,817	3,780	4,506
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

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 and corporate customer deposits. The changes in the fair value of the forward foreign exchange contract and interbank borrowings or corporate customer deposits are recognised in the income statements. The measurement of the hedged item results in a net gain of RM723,792 recorded in unrealised gain/loss on revaluation of foreign exchange in 2018 (2017: RM14,833,290).

15 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.

16 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 fair value. The Bank's participation in the entities involved is limited to safeguarding its interest under the Musyarakah financing.

17 INVESTMENT IN SUBSIDIARIES

	Bank	
	2018 RM’000	**2017 RM’000**
Unquoted shares, at cost		
- in Malaysia	10,200	30,200
Impairment on investment in subsidiaries	-	(16,468)
	10,200	13,732

Details of the subsidiaries are as follows:

Company		**Country of Incorporation**	**Equity interest held (%)**	
			2018	**2017**
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 voluntary liquidation since 29 November 2017)	Asset management	Malaysia	100	100

18 PROPERTY AND EQUIPMENT

Group 2018	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
Cost							
At 1 January	28,010	11,668	13,014	29,990	2,602	18,539	103,823
Additions	140	144	35	405	-	16,980	17,704
Disposals	(1,136)	(1,345)	(164)	(138)	-	-	(2,783)
Transfers	2,216	-	-	6,988	-	(24,883)	(15,679)
Exchange difference	1	-	-	1	-	-	2
At 31 December	29,231	10,467	12,885	37,246	2,602	10,636	103,067
Accumulated depreciation							
At 1 January	27,740	11,556	12,848	27,295	2,103	-	81,542
Charge for the year (Note 36)	273	105	128	2,058	157	-	2,721
Disposals	(1,136)	(1,347)	(160)	(138)	-	-	(2,781)
Exchange difference	2	-	-	3	-	-	5
At 31 December	26,879	10,314	12,816	29,218	2,260	-	81,487
Net book value							
At 31 December	2,352	153	69	8,028	342	10,636	21,580
Bank 2018							
Cost							
At 1 January	27,386	11,585	12,926	29,732	2,602	18,305	102,536
Additions	140	144	27	405	-	16,845	17,561
Disposals	(595)	(1,297)	(96)	-	-		(1,988)
Transfers	2,216	-	-	6,988		(24,520)	(15,316)
At 31 December	29,147	10,432	12,857	37,125	2,602	10,630	102,793
Accumulated depreciation							
At 1 January	27,115	11,482	12,760	27,056	2,103	-	80,516
Charge for the year (Note 36)	273	103	125	2,049	157	-	2,707
Disposals	(594)	(1,297)	(93)	-	-	-	(1,984)
At 31 December	26,794	10,288	12,792	29,105	2,260	-	81,239
Net book value							
At 31 December	2,353	144	65	8,020	342	10,630	21,554

18 PROPERTY AND EQUIPMENT (Cont'd.)

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
Cost							
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
Accumulated depreciation							
At 1 January	25,960	10,965	12,265	25,870	1,847	-	76,907
Charge for the year (Note 36)	2,164	936	652	1,526	256	-	5,534
Disposals	(3)	(126)	-	(4)	-	-	(133)
Write-off	(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
Net book value							
At 31 December	270	112	166	2,695	499	18,539	22,281
Bank 2017							
Cost							
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
Disposals	(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
Accumulated depreciation							
At 1 January	25,353	10,779	12,181	25,627	1,847	-	75,787
Charge for the year (Note 36)	2,134	920	647	1,514	256	-	5,471
Disposals	(372)	(217)	(68)	(85)	-	-	(742)
At 31 December	27,115	11,482	12,760	27,056	2,103	-	80,516
Net book value							
At 31 December	271	103	166	2,676	499	18,305	22,020

19 INTANGIBLE ASSETS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Computer software				
Cost				
At 1 January	72,603	69,787	71,039	68,056
Additions	1,034	951	748	928
Reclass	-	(51)	-	(51)
Disposal	(19)	(16)	-	-
Transfers from property and equipment	15,679	2,114	15,316	2,109
Exchange difference	(330)	(179)	-	-
At 31 December	88,967	72,603	87,103	71,039
Accumulated amortisation				
At 1 January	62,002	59,068	60,660	57,693
Amortisation for the year (Note 36)	4,635	3,085	4,517	2,970
Disposal	(19)	(2)	-	-
Write off	-	(3)	-	(3)
Exchange difference	31	(146)	-	-
At 31 December	66,649	62,002	65,177	60,660
Carrying amount				
At 31 December	22,318	10,601	21,926	10,379

20 DEFERRED TAXATION

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	196,775	198,329	196,775	198,329
Recognised in other comprehensive income	(3,727)	477	(3,727)	477
Recognised in profit and loss (Note 40)	(11,242)	(2,031)	(11,242)	(2,031)
At 31 December	181,806	196,775	181,806	196,775
Presented after appropriate offsetting as follows:				
Deferred tax assets	187,510	198,606	187,510	198,606
Deferred tax liabilities	(5,704)	(1,831)	(5,704)	(1,831)
Deferred tax assets (net)	181,806	196,775	181,806	196,775

20 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/(gain) on securities available-for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
2018				
At 1 January	2,078	188,774	7,754	198,606
Recognised in profit or loss	-	(13,492)	4,474	(9,018)
Recognised in other comprehensive income	(2,078)	-	-	(2,078)
At 31 December	-	175,282	12,228	187,510
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

Deferred tax liabilities of the Group and Bank:	Unrealised loss/(gain) on securities available-for-sale RM'000	Accelerated capital allowances RM'000	Total RM'000
2018			
At 1 January	-	1,831	1,831
Recognised in profit or loss	-	2,224	2,224
Recognised in other comprehensive income	1,649	-	1,649
At 31 December	1,649	4,055	5,704
2017			
At 1 January	-	1,855	1,855
Recognised in profit or loss	-	(24)	(24)
At 31 December	-	1,831	1,831

20 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	
	2018 RM'000	**2017 RM'000**
Unutilised tax losses	730,342	786,558
	730,342	786,558

The deferred tax assets have been recognised as at 31 December 2018 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 to six years horizon.

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

	Group	
	2018 RM'000	**2017 RM'000**
Unutilised tax losses	183,458	170,397
	183,458	170,397

The unutillised tax losses above are available for offset against future taxable profits of the Bank up to year of assessment 2026.

The availability of unutilised tax losses 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.

21 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
(i) By type of deposit				
Qard				
- Demand deposits	517,846	473,933	426,712	394,620
- Gold deposits	96,341	102,061	96,341	102,061
Wakalah	12,226	202,946	-	-
Murabahah				
- Term placement	3,845,469	3,833,900	3,845,469	3,833,900
- Savings deposits	107,117	86,338	107,118	86,338
	4,578,999	4,699,178	4,475,640	4,416,919
(ii) By type of customer				
Business enterprises	1,907,774	1,807,400	1,726,484	1,477,482
Individuals	371,946	335,578	371,946	335,578
Subsidiaries	-	-	77,930	47,659
Government and statutory bodies	1,659,101	2,063,351	1,659,101	2,063,351
Others	640,178	492,849	640,179	492,849
	4,578,999	4,699,178	4,475,640	4,416,919
(iii) By contractual maturity				
Due within six months	3,719,085	3,928,810	3,615,726	3,646,550
More than six months to one year	634,221	656,716	634,221	656,716
More than one year to three years	225,693	113,652	225,694	113,653
	4,578,999	4,699,178	4,475,640	4,416,919

22 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Murabahah				
Licensed Islamic banks	255,850	50,000	255,850	50,000
Other financial institutions	2,650,891	2,212,903	2,780,736	2,534,891
	2,906,741	2,262,903	3,036,586	2,584,891

23 INVESTMENT ACCOUNTS

	Group and Bank	
	2018 RM'000	**2017 RM'000**
As at 1 January	8,218	8,563
Net withdrawal during the year	(2,597)	(524)
Income from investment	225	300
Profit distributed to mudarib	(91)	(121)
As at 31 December	5,755	8,218
Investment asset:		
Wadiah placement with BNM	5,755	8,218

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder			
	Average profit sharing ratio		**Average rate of return**	
	Group and Bank			
	2018 (%)	**2017 (%)**	**2018 (%)**	**2017 (%)**
Unrestricted investment accounts:				
Less than 3 months	60	60	1.90	1.78

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Business enterprises	1,197	1,193
Individuals	2,846	6,477
Other enterprises	1,712	548
	5,755	8,218

24 OTHER LIABILITIES

		Group		Bank	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Sundry creditors	(i)	59,903	49,071	59,817	48,954
Accrued restoration cost		5,600	5,707	5,600	5,600
Other provisions and accruals		32,552	38,986	32,437	38,708
Undistributed charity funds	(ii)	3,192	2,760	3,192	2,760
		101,247	96,524	101,046	96,022

(i) Included in sundry creditors is an amount payable to holding company of RM4.6 million (2017: RM0.5 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Sources of charity funds:		
Undistributed charity funds as at 1 January	2,760	7,377
Penalty charges on late payment	664	5,672
Total sources of funds during the year	3,424	13,050
Uses of charity funds:		
Compensation of late payment charges (Note 28)	-	(10,000)
Contribution to non profit organisations	(85)	(195)
Aid to needy family	(147)	(95)
Total uses of funds during the year	(232)	(10,290)
Undistributed charity funds as at 31 December	3,192	2,760

25 PROVISION FOR ZAKAT

In 2018, zakat is calculated based on opening reserve method of Kuwait Finance House (Malaysia) and paid by Kuwait Finance House K.S.C who is the main shareholder of the Bank.

26 SUBORDINATED MURABAHAH TAWARRUQ

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD101,214,583 or equivalent RM409,716,633 is unsecured effective from 31 May 2007 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. The facility has been repaid on 7 October 2018.

27 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2018 Units'000	2017 Units'000	2018 RM'000	2017 RM'000
Issued and fully paid:				
At 1 January/ At 31 December	1,425,272	1,425,272	1,425,272	1,425,272

28 RESERVES

	Note	Group		Bank	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-distributable					
Statutory reserve	(i)	170,648	162,216	170,648	162,216
Exchange fluctuation reserve	(ii)	3,990	3,178	-	-
Available-for-sale reserve	(iii)	-	(6,825)	-	(6,648)
FVOCI reserve	(iv)	18,527	-	18,707	-
		193,165	158,569	189,355	155,568
Distributable					
Retained earnings		79,114	66,650	54,051	45,620
		272,279	225,219	243,406	201,188

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.

28 RESERVES (Cont'd.)

(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 fair value reserve are as follows:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At 1 January	-	(9,254)	-	(9,000)
Net unrealised gain/(losses) on securities available-for-sale financial investments	-	(47)	-	(124)
Net realised gain on securities available-for-sale financial investments reclassified to the income statements	-	2,476	-	2,476
At 31 December	-	(6,825)	-	(6,648)

(iv) FVOCI reserve

Movements of the FVOCI reserve are as follows:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At 1 January 2018				
- As previously stated	(6,825)	-	(6,648)	-
- Effect of MFRS 9 adoption	3,442	-	3,078	-
At 1 January	(3,383)	-	(3,570)	-
Net unrealised gain on financial assets at FVOCI	6,077	-	6,085	-
Net realised gain on financial assets at FVOCI reclassified to the income statements	(172)	-	(172)	-
Changes in allowances for expected credit losses	16,005		16,364	
At 31 December	18,527	-	18,707	-

29 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.

30 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income derived from investment of other deposits	367,760	408,186	366,868	408,391
	367,760	408,186	366,868	408,391
Finance income from financing, advances and other receivables	265,794	290,485	265,976	290,964
Finance income from impaired financing	2,475	576	2,477	576
Securities				
- Held-for-trading	-	21	-	21
- Available-for-sale	-	54,970	-	54,855
- Held-to-maturity	-	1,620	-	1,622
- Financial assets at FVTPL	9	-	9	-
- Debt securities at FVOCI	92,770	-	92,646	-
Money-at-call and deposits with financial institutions	7,651	30,466	7,677	30,645
	368,699	378,138	368,785	378,683
Amortisation of premium less accretion of discount	(4,687)	(4,725)	(4,690)	(4,733)
Total finance income and hibah	364,012	373,413	364,095	373,950
Gain arising from sale of securities				
- Held-for-trading	-	274	-	275
- Available-for-sale	-	23,100	-	23,121
- Financial assets at FVTPL	277	-	277	-
- Debt securities at FVOCI	140	-	140	-
				-
Foreign exchange gain - realised	2,162	8,847	1,186	8,488
Gain on Ijarah rental swap obligations	1,169	2,552	1,170	2,556
	367,760	408,186	366,868	408,391

31 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance income from financing, advances and other receivables	60,005	58,337	59,822	57,858
Finance income from impaired financing	553	108	551	108
Securities				
- Held-for-trading	-	4	-	4
- Available-for-sale	-	11,136	-	11,008
- Held-to-maturity	-	319	-	316
- Financial assets at FVTPL	2	-	2	-
- Debt securities at FVOCI	20,930	-	20,824	-
Money-at-call and deposits with financial institutions	1,711	6,021	1,711	5,995
	83,201	75,925	82,910	75,289
Amortisation of premium less accretion of discount	(1,058)	(950)	(1,055)	(942)
Total finance income and hibah	82,143	74,975	81,855	74,347
Fee income				
- Commissions	5,632	2,606	5,644	2,607
- Fund management fee	781	119	-	-
- Other fee income	6,017	6,253	6,004	6,253
- Compensation of late payment charges	-	10,000	-	10,000
Gain arising from sale of securities				
- Held-for-trading	-	56	-	55
- Available-for-sale	-	5,109	-	5,089
- Financial assets at FVTPL	63	-	63	-
- Debt securities at FVOCI	32	-	32	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(1,498)	(3,416)	(1,498)	(3,416)
Fair value loss from financial assets at FVTPL	(6,705)	-	(6,705)	-
Foreign exchange related contract gain/(loss)				
- Realised	(4,780)	(12,691)	(5,001)	(12,781)
- Unrealised	3,358	12,955	3,166	12,917
Gain on Ijarah rental swap obligations	263	510	262	506
Reversal of provision on property restoration	-	113	-	113
Gain on disposal of property and equipment	13	-	13	-
Other income	512	4,268	-	-
Management fee	-	95	120	213
	85,831	100,952	83,955	95,903

32 CREDIT LOSS EXPENSES

The table below shows the ECL (charges)/writeback (net bad debt recovered) on financial assets for the year recorded in the income statement.

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Group				
Cash and short-term funds	1,912	-	-	1,912
Deposits and placements with banks and other financial institutions	712	-	-	712
Financing and advances to customers	9	(9,853)	36,974	27,130
Bad debt recovered	-	-	19,457	19,457
Debt instruments measured at FVOCI	(16,005)	-	-	(16,005)
Total impairment loss	(13,372)	(9,853)	56,431	33,206

The table below shows the impairment (charges)/writeback recorded in the income statement under MFRS 139 during 2017.

2017	Specific RM'000	Collective (individually not significant exposures) RM'000	Collective (Incurred but not yet identified) RM'000	Total RM'000
Group				
Credit loss expense on financing and advances to customers	(29,275)	-	17,200	(12,075)
Debt securities	(16,809)	-	-	(16,809)
Total impairment loss	(46,084)	-	17,200	(28,884)

32 CREDIT LOSS EXPENSES (CONT'D.)

The table below shows the ECL (charges)/writeback (net bad debt recovered) on financial assets for the year recorded in the income statement.

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds	1,912	-	-	1,912
Deposits and placements with banks and other financial institutions	712	-	-	712
Financing and advances to customers	9	(9,853)	36,974	27,130
Bad debt recovered	-	-	19,456	19,456
Debt instruments measured at FVOCI	(16,364)	-	-	(16,364)
Total impairment loss	(13,731)	(9,853)	56,430	32,846

The table below shows the impairment (charges)/writeback recorded in the income statement under MFRS 139 during 2017.

2017 Bank	Specific RM'000	Collective (individually not significant exposures) RM'000	Collective (Incurred but not yet identified) RM'000	Total RM'000
Credit loss expense on financing and advances to customers	(29,275)	-	17,200	(12,075)
Debt securities	(11,297)	-	-	(11,297)
Total impairment loss	(40,572)	-	17,200	(23,372)

33 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Deposits from customers				
- Murabahah	144,295	135,023	144,013	135,023
- Wakalah	985	97	-	-
- Others	-	2,730	-	2,730
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	89,353	115,450	92,938	116,714
- Others	1,116	-	1,116	-
	235,749	253,300	238,067	254,467

34 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Income derived from investment of investment account funds	226	300
Profit distributed to mudarib	(92)	(121)
	134	179

35 PERSONNEL EXPENSES

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Salaries and wages	60,491	54,214	60,142	53,973
Social security costs	400	377	397	373
Pension costs - defined contribution plan	11,185	9,783	11,115	9,761
Other staff related costs	36,507	30,455	36,318	30,052
	108,583	94,829	107,972	94,159

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 follows:

Name	Position	Salary and other remuneration*	Bonus	Employees Provident Fund	Benefit in kinds	Total
2018		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
David Raymond Power	Chief Executive Officer	2,890	2,500	-	208	5,598
	Total	**2,890**	**2,500**	**-**	**208**	**5,598**
2017		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
David Raymond Power	Chief Executive Officer	2,823	-	-	175	2,998
	Total	**2,823**	**-**	**-**	**175**	**2,998**

* includes leave encashment, gratuity, income tax, home passage and housing allowances.
* Fixed remuneration in cash-based and non-deferred in nature.

36 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Promotion				
Advertisement and publicity	2,175	5,008	2,167	5,003
Establishment				
Rental	15,877	16,161	15,807	16,123
Depreciation of property and equipment (Note 18)	2,721	5,534	2,707	5,471
Amortisation of intangible assets (Note 19)	4,635	3,084	4,517	2,970
IT expenses	10,138	9,867	10,139	9,866
Hire of equipment	-	518	485	482
	35,545	40,172	35,822	39,915
General expenses				
Auditors remuneration				
- Statutory audit:	353	353	333	333
- Non-audit services:	626	316	626	316
- Review engagements and regulatory-related services	557	254	557	254
- Other services	69	62	69	62
Professional fees	2,476	1,707	2,463	1,692
Directors' remuneration (Note 39)	2,714	2,338	2,694	2,321
Shariah Committee's remuneration (Note 39)	782	804	782	804
Murabahah agent fees	-	1	-	1
Communication expenses	2,415	2,991	2,340	2,925
Other fees	15,771	16,326	15,771	16,326
Write-off of property and equipment	-	192	-	192
Others	23,833	24,184	22,915	23,808
	48,970	49,212	47,924	48,718
Total overheads and expenditures	84,516	89,384	83,746	88,633

37 FINANCE COST

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Subordinated Murabahah Tawarruq	25,871	33,704	25,871	33,704

38 DISCONTINUED OPERATION

On 27 January 2017, the board of directors of the Bank resolved to liquidate a subsidiary, KFH 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 are presented below:

	Note	Group 2018 RM'000	Group 2017 RM'000
Income derived from investment of shareholder's equity	(i)	-	299
Total gross income		-	299
Total net income		-	299
Personnel expenses	(ii)	-	(1,126)
Other overheads and expenditures	(iii)	-	(716)
Loss before taxation		-	(1,543)
Taxation		-	-
Net loss for the year from discontinued operation		**-**	**(1,543)**
(i) Income derived from investment of shareholder's equity			
Fee income			
- Fund management fee		-	295
- Other fee income		-	1
Gain on disposal of property, plant and equipment		-	3
		-	299

38 DISCONTINUED OPERATIONS (Cont'd.)

	Group 2018 RM'000	Group 2017 RM'000
(ii) Personnel expenses		
Salaries and wages	-	927
Social security costs	-	4
Pension costs - defined contribution plan	-	195
	-	1,126
(iii) Other overheads and expenditures		
Promotion		
Advertisement and publicity	-	7
Establishment		
Rental	-	108
Depreciation of property and equipment (Note 18)	-	49
Amortisation of intangible assets (Note 19)	-	1
Hire of equipment	-	5
	-	170
General expenses		
Auditors remuneration		
- Statutory audit:	-	29
- Non-audit services:	-	25
- Review engagements and regulatory-related services	-	25
Professional fees	-	110
Directors' remuneration (Note 39)	-	143
Others	-	239
	-	546
Total overheads and expenditures	-	716

39 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Bank				
Fees	1,553	1,286	1,553	1,286
Other remuneration	1,141	1,035	1,141	1,035
	2,694	2,321	2,694	2,321
Directors of subsidiary company				
Fees	20	146	-	-
Other remuneration	-	14	-	-
	20	160	-	-
Total Directors Remuneration*	2,714	2,481	2,694	2,321
Shariah Committee				
Fees	624	624	624	624
Other remuneration	158	180	158	180
Total Shariah Committee Remuneration	782	804	782	804

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

	Bank	
	Number of directors	
	2018	2017
Directors		
RM1,000 - RM100,000	-	1
RM100,001 - RM150,000	-	1
RM150,001 - RM200,000	1	-
RM200,001 - RM250,000	-	-
RM250,001 - RM300,000	1	1
RM300,001 - RM400,000	4	3
RM400,001 - RM500,000	2	2
Total	8	8

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

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

The list of directors together with their remuneration during the financial year are 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	Board Credit Investment & Recovery Committee	Board Corporate Governance Committee Fee	Total
2018		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group									
Muad S M M AlOsaimi	Chairman	340	-	-	-	-	-	60	400
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	5	60	60	-	-	55	360
Ahmad S A A AlKharji	Non-independent non-executive director	180	3	-	3	-	-	-	186
Khalid Sufat	Independent non-executive director	180	60	-	60	55	-	5	360
Md Adnan Md Zain	Independent non-executive director	200	-	60	60	60	-	60	440
Abdul Khalil Abdul Hamid	Independent non-executive director	180	55	60	3	60	-	57	415
Noorur Rahman Abbas Ali Abid	Independent non-executive director	180	60	-	60	-	-	-	300
Khalid Mahmood Bhaimia	Independent non-executive director	133	35	40	40	5	-	-	253
	Total	1,573	218	220	286	180	-	237	2,714

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

The list of directors together with their remuneration during the financial year are as follow: (Cont'd.)

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	Board Credit Investment & Recovery Committee	Board Corporate Governance Committee Fee	Total
2017		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group									
Muad S M M AlOsaimi	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 non-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

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

The list of directors together with their remuneration during the financial year are as follow: (Cont'd.)

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	Board Credit Investment & Recovery Committee	Board Corporate Governance Committee Fee	Total
2018		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Bank									
Muad S M M AlOsaimi	Chairman	340	-	-	-	-	-	60	400
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	5	60	60	-	-	55	360
Ahmad S A A AlKharji	Non-independent non-executive director	180	3	-	3	-	-	-	186
Khalid Sufat	Independent non-executive director	180	60	-	60	55	-	5	360
Md Adnan Md Zain	Independent non-executive director	180	-	60	60	60	-	60	420
Abdul Khalil Abdul Hamid	Independent non-executive director	180	55	60	3	60	-	57	415
Noorur Rahman Abbas Ali Abid	Independent non-executive director	180	60	-	60	-	-	-	300
Khalid Mahmood Bhaimia	Independent non-executive director	133	35	40	40	5	-	-	253
	Total	**1,553**	**218**	**220**	**286**	**180**	**-**	**237**	**2,694**

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

The list of directors together with their remuneration during the financial year are as follow: (Cont'd.)

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	Board Credit Investment & Recovery Committee	Board Corporate Governance Committee Fee	Total
2017		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Bank									
Muad S M M AlOsaimi	Chairman	262	-	-	-	-	-	52	314
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	-	60	44	-	-	60	344
Ahmad S A A AlKharji	Non-independent non-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**

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

Name of Shariah Committee Member	TOTAL RM '000	Fee RM '000	Allowances RM '000
2018			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	186	144	42
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	154	120	34
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	147	120	27
Sheikh Isa Abdulla Yusuf Dowaishan	137	120	17
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	158	120	38
	782	624	158
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

40 TAXATION

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysian income tax				
Current year	20	-	-	-
Deferred tax (Note 20):				
- Relating to origination and reversal of temporary differences	19,182	1,283	19,182	1,283
- (Over)/under provision in prior years	(7,940)	1,136	(7,940)	1,136
	11,262	2,419	11,242	2,419

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2018 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 (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank are as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit/(loss) before zakat and taxation				
- Continuing operations	32,170	9,158	28,105	10,080
- Discontinued operations	-	(1,543)	-	-
	32,170	7,615	28,105	10,080
Taxation at Malaysian statutory tax rate of 24% (2017: 24%)	7,721	1,828	6,745	2,419
Income not subject to tax	-	(71)	-	-
Expenses not deductible for tax purposes	9,594	2,206	10,550	1,544
Deferred tax assets not recognised on unutilised tax losses	1,887	-	1,887	-
(Over)/under provision of deferred tax in prior year	(7,940)	1,136	(7,940)	1,136
Utilisation of previously unrecognised unabsorbed capital allowances	-	(2,680)	-	(2,680)
Tax expense for the year	11,262	2,419	11,242	2,419

41 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	
	2018	**2017**
Net profit for the year (RM'000)	20,908	5,196
Weighted average number of ordinary shares in issue ('000)	1,425,272	1,425,272
Basic/diluted earnings per share (sen)	1.47	0.36

42 RELATED PARTY TRANSACTIONS

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

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

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

Holding Company
Details of holding company are disclosed in Note 50.

Subsidiaries
Details of subsidiaries are disclosed in Note 17.

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, Kuveyt Turk Participation K.S.C. and KFH Global Sukuk Fund.

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.

42 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:

2018	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
(i) Income						
- Management fees	-	120	-	-	-	-
- Other fee	60	-	-	-	-	-
- Profit income on placements	24	25	-	-	-	-
- Profit income on financing	-	-	1,533	39	-	-
	84	145	1,533	39	-	-
(ii) Expenditure						
- Profit expense on deposits	12,278	3,585	34	-	-	-
- Other fees	-	-	15,272	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	25,871	-	-	-	-	-
	38,149	3,585	15,306	-	-	-

42 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.)

2018 (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						
- Deposits from customers	-	77,930	5,221	1,170	-	1,017
- Deposits and placements of banks and other FIs	413,700	129,844	-	-	-	-
- Sundry creditors (Note 24)	4,598	-	-	-	-	-
	418,298	207,774	5,221	1,170	-	1,017
(iv) Amount due from related parties						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	-	377	-	-
- Other assets	-	4	120,791	-	-	
	-	4	156,891	377	-	-
(v) Others						
- Purchases of intangible assets	-	-	4,694	-	-	-
	-	-	4,694	-	-	-

42 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	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
(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	-	-	-

42 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 24)	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	-	-	-

42 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Short-term employee benefits				
- Salary and other remuneration	16,450	13,416	16,450	12,969
- Benefits-in-kind	372	748	372	746
	16,822	14,164	16,822	13,715

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 35.

(c) Credit transactions and exposures with connected parties

	2018			
	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)	121,153	3	121,241	-
Off-balance sheet exposures	600	1	600	-
	121,753	4	121,841	-
Total exposure to connected parties as % capital base			8.0%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.4%	0.0%

42 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	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%

* 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.

43 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.

	2018			2017		
	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	53,458	53,145	52,548	2,287	2,287	2,287
Transaction related contingencies	165,383	80,959	67,517	100,027	50,014	40,901
Trade related contingencies	59,250	11,847	8,895	19,113	3,822	3,822
Irrevocable commitments to extend credit						
- maturity less than one year	374,270	67,460	66,250	126,793	25,359	24,757
- maturity more than one year	194,106	93,666	66,857	319,868	159,934	147,384
Foreign exchange related contracts *						
- less than one year	-	-	-	646,620	9,582	2,053
- one year to five years	84,054	629	315	-	-	-
- five years and above	1,229,158	16,758	5,863	-	-	-
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	-	-	-	124,610	1,810	1,525
	2,159,680	324,464	268,245	1,339,318	252,808	222,729
		Note 45 (d)	Note 45 (d)		Note 45 (d)	Note 45 (d)

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

43 COMMITMENTS AND CONTINGENCIES (Cont'd.)

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Group and of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Group and the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to financing. The nominal values of such commitments are listed below:

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Financial guarantees	**53,458**	2,287
Letters of credit	**224,633**	119,141
Other undrawn commitments	**568,376**	446,661
Total commitment	**846,467**	568,089
Less : ECL allowance	**(2,742)**	-
	843,725	568,089

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 2018, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM3,779,539 (2017: RM1,714,497). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

43 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

Financial guarantees

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's and Bank’s internal credit rating system and year-end stage classification.

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000	2017 Total RM'000
Internal rating grade :					
Performing	53,458	-	-	53,458	2,287
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	53,458	-	-	53,458	2,287

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000
Gross carrying amount as at 1 January 2018	2,287	-	-	2,287
Net remeasurement of outstanding balance	1,131	-	-	1,131
New financial assets originated	62,259	-	-	62,259
Financial assets that have matured	(12,219)	-	-	(12,219)
Gross carrying amount as at 31 December 2018	53,458	-	-	53,458

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	294	-	-	294
ECL allowance as at 1 January 2018, as restated	294	-	-	294
Net remeasurement of loss allowance	80	-	-	80
New financial assets originated	1,548	140	-	1,688
Financial assets that have matured	(89)	-	-	(89)
ECL allowance as at 31 December 2018	1,834	140	-	1,974
Net carrying amount (after ECL)	51,624	(140)	-	51,484

43 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments (Cont'd.)

Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000	2017 Total RM'000
Internal rating grade :					
Performing	224,633	-	-	224,633	119,141
Past due but not impaired	-	-	-	-	-
Total	224,633	-	-	224,633	119,141

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

Group and Bank	2018 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	119,141	-	-	119,141
Net remeasurement of outstanding balance	(4,672)	-	-	(4,672)
New financial assets originated or purchased	110,164	-	-	110,164
Gross carrying amount as at 31 December 2018	224,633	-	-	224,633

Group and Bank	2018 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	**24**	-	-	**24**
ECL allowance as at 1 January 2018, as restated	**24**	-	-	**24**
Net remeasurement of loss allowance	(22)	-	-	(22)
New financial assets originated or purchased	3	-	-	3
Financial assets that have matured	(3)	-	-	(3)
ECL allowance as at 31 December 2018	3	-	-	3
Net carrying amount (after ECL)	224,630	-	-	224,630

43 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments (Cont'd.)

Other undrawn commitments

The table below shows the credit quality and the maximum exposure for credit risk based on the Bank's internal credit rating system and year-end stage classification.

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000	2017 Total RM'000
Internal rating grade :					
Performing	545,006	23,370	-	568,376	446,661
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
	545,006	23,370	-	568,376	446,661

An analysis of changes in the gross carrying amount and the corresponding ECLs in relation to other undrawn commitments are, as follows:

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000
Gross carrying amount as at 1 January 2018	443,437	3,224	-	446,661
Net remeasurement of outstanding balance	316	2,670	-	2,986
New financial assets originated or purchased	907,202	20,159	-	927,361
Financial assets that have matured	(805,949)	(2,683)	-	(808,632)
Gross carrying amount as at 31 December 2018	545,006	23,370	-	568,376

Group and Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	**1,336**	**49**	-	**1,385**
ECL allowance as at 1 January 2018, as restated	1,336	49	-	1,385
Net remeasurement of loss allowance	-	(49)	-	(49)
New financial assets originated or purchased	765	-	-	765
Financial assets that have matured	(1,336)	-	-	(1,336)
ECL allowance as at 31 December 2018	765	0	-	765
Net carrying amount (after ECL)	544,241	23,370	-	567,611

No provisions arising from financial guarantees, letters of credit and other undrawn commitments under MFRS139 and MFRS137 as at 31 December 2017.

44 CAPITAL COMMITMENTS

	Group and Bank	
	2018 RM'000	**2017 RM'000**
Capital expenditure :		
Authorised and contracted for		
- computer hardware	9,115	5,165
- computer software	19,107	13,883
- capital renovation	51	1,443
Authorised but not contracted for		
- computer software	12,175	32,100
	40,448	52,591

45 CAPITAL ADEQUACY

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

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	
	2018	**2017**	**2018**	**2017**
CET 1/ Tier 1 capital ratio				
Credit risk	27.293%	24.208%	26.583%	23.324%
Credit, market, operational and large exposure risks	25.419%	22.500%	24.794%	21.716%
Total capital ratio/ Risk-weighted capital ratio				
Credit risk	28.542%	32.199%	27.833%	31.320%
Credit, market, operational and large exposure risks	26.582%	29.927%	25.960%	29.162%

45 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
CET 1/Tier I capital				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	170,648	162,216	170,648	162,216
Other reserves	82,126	63,003	53,258	38,972
	1,678,046	1,650,491	1,649,178	1,626,460
Less: Deferred tax assets (net)	(181,806)	(196,775)	(181,806)	(196,775)
Less: Investment in subsidiaries	-	-	(10,200)	(30,200)
Total CET 1/ Tier I capital	1,496,240	1,453,716	1,457,172	1,399,485
Tier II capital				
Subordinated Murabahah Tawarruq	-	404,800	-	404,800
Collective impairment on financing	68,461	75,065	68,520	75,003
Total Tier II capital	68,461	479,865	68,520	479,803
Capital base	1,564,701	1,933,581	1,525,692	1,879,288

(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	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Computation of Total Risk-Weighted Assets ("RWA")				
Total credit RWA	5,482,161	6,005,122	5,481,618	6,000,188
Total market RWA	3,407	23,226	3,407	23,226
Total operational RWA	400,645	415,610	392,040	403,858
Large exposure risk RWA for equity holdings	8	17,108	8	17,108
Total Risk-Weighted Assets (ii)	5,886,221	6,461,066	5,877,073	6,444,380
Computation of Capital Ratios				
Core capital (iii)	1,496,240	1,453,716	1,457,172	1,399,485
Capital base (i)	1,564,701	1,933,581	1,525,692	1,879,288
CET 1/Tier 1 capital ratio	**25.419%**	**22.500%**	**24.794%**	**21.716%**
Total capital ratio	**26.582%**	**29.927%**	**25.960%**	**29.162%**

45 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,203,707	1,203,707	43,443	43,443	3,475
Banks, Development Financial Institutions & MDBs	140,906	140,906	42,039	42,039	3,363
Corporates	4,342,305	4,342,305	2,669,765	2,669,765	213,581
Regulatory Retail	2,013,133	2,013,133	1,507,468	1,507,468	120,597
Residential Mortgages	1,018,422	1,018,422	573,282	573,282	45,863
Higher Risk Assets[1]	1,077	1,077	1,615	1,615	129
Other Assets	287,321	287,321	177,325	177,325	14,186
Defaulted Exposures[2]	172,232	172,232	198,979	198,979	15,918
	9,179,103	9,179,103	5,213,916	5,213,916	417,113
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments[3]	17,387	17,387	6,177	6,177	494
Off-balance sheet exposures other than OTC hedging financial instruments	307,077	307,077	262,067	262,067	20,965
	324,464	324,464	268,245	268,245	21,460
Total On and Off-Balance Sheet Exposures	**9,503,567**	**9,503,567**	**5,482,161**	**5,482,161**	**438,573**

45 CAPITAL ADEQUACY (Cont'd.)

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

Group		Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2018 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(ii) Large Exposures Risk Requirement		**18**	**18**	**8**	**8**	**1**
	Long Position	**Short Position**				
(iii) Market Risk						
Benchmark Rate Risk	-	-	-	-	-	-
Foreign Currency Risk[4]	2,262	3,339	(1,077)	3,407	3,407	273
			(1,077)	**3,407**	**3,407**	**273**
(iv) Operational Risk				**400,645**	**400,645**	32,052
(v) Total RWA and Capital Requirements				**5,886,221**	**5,886,221**	**470,898**

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.*

45 CAPITAL ADEQUACY (Cont'd.)

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

Group	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	1,662,909	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**

45 CAPITAL ADEQUACY (Cont'd.)

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

Group		Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2017 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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				**6,461,065**	**6,461,065**	**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.*

45 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,191,466	1,191,466	43,443	43,443	3,475
Banks, Development Financial Institutions & MDBs	140,906	140,906	42,039	42,039	3,363
Corporates	4,342,305	4,342,305	2,669,765	2,669,765	213,581
Regulatory Retail	2,013,133	2,013,133	1,507,468	1,507,468	120,597
Residential Mortgages	1,018,422	1,018,422	573,282	573,282	45,863
Higher Risk Assets[1]	1,077	1,077	1,615	1,615	129
Other Assets	286,778	286,778	176,782	176,782	14,143
Defaulted Exposures[2]	172,232	172,232	198,979	198,979	15,918
	9,166,319	9,166,318	5,213,373	5,213,373	417,070
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments[3]	17,387	17,387	6,177	6,177	494
Off-balance sheet exposures other than OTC hedging financial instruments	307,077	307,077	262,068	262,067	20,965
	324,464	324,464	268,245	268,245	21,460
Total On and Off-Balance Sheet Exposures	**9,490,783**	**9,490,782**	**5,481,618**	**5,481,617**	**438,529**

45 CAPITAL ADEQUACY (Cont'd.)

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

Bank		**Gross Exposures**	**Net Exposures ****	**Risk-Weighted Assets**	**Total Risk-Weighted Assets After Effects of PSIA**	**Capital Requirement**
2018 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(ii) Large Exposures Risk Requirement		**18**	**18**	**8**	**8**	**1**
	Long	**Short**				
(iii) Market Risk						
Benchmark Rate Risk	-	-	-	-	-	-
Foreign Currency Risk[4]	2,262	3,339	(1,077)	3,407	3,407	273
			(1,077)	**3,407**	**3,407**	**273**
(iv) Operational Risk				**392,040**	**392,040**	**31,363**
(v) Total RWA and Capital Requirements				**5,877,073**	**5,877,072**	**470,166**

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.*

45 CAPITAL ADEQUACY (Cont'd.)

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

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**

45 CAPITAL ADEQUACY (Cont'd.)

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

Bank		**Gross Exposures**	**Net Exposures ** **	**Risk-Weighted Assets**	**Total Risk-Weighted Assets After Effects of PSIA**	**Capital Requirement**
2017 (Cont'd.)		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
(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.*

45 CAPITAL ADEQUACY (Cont'd.)

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

2018 Group	Exposures after Netting and Credit Risk Mitigation								
	Sovereigns & Central Banks RM'000	**Banks, MDBs and DFIs RM'000**	**Corporate RM'000**	**Regulatory Retail RM'000**	**Residential Mortgages RM'000**	**Higher Risk Assets RM'000**	**Other Assets RM'000**	**Total Exposures after Netting and Credit Risk Mitigation RM'000**	**Total Risk-Weighted Assets RM'000**
Risk-Weights									
0%	986,490	39,974	1,345,725	3,348	1,209	-	109,996	2,486,741	-
20%	217,217	36,542	357,754	-	-	-	-	611,513	122,303
35%	-	-	-	-	485,899	-	-	485,899	170,065
50%	-	81,738	209,864	-	261,924	-	-	553,526	276,763
75%	-	-	-	2,030,261	-	-	-	2,030,261	1,522,696
100%	-	39	2,761,999	5	286,844	-	177,325	3,226,212	3,226,212
150%	-	-	52,460	3,145	-	53,811	-	109,415	164,124
	1,203,707	**158,293**	**4,727,801**	**2,036,759**	**1,035,875**	**53,811**	**287,321**	**9,503,567**	**5,482,161**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

45 CAPITAL ADEQUACY (Cont'd.)

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

2018 (Cont'd.) Bank	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	RM'000
Risk-Weights									
0%	974,249	39,974	1,345,725	3,348	1,209	-	109,996	2,474,500	-
20%	217,217	36,542	357,754	-	-	-	-	611,513	122,303
35%	-	-	-	-	485,899	-	-	485,899	170,065
50%	-	81,738	209,864	-	261,924	-	-	553,526	276,763
75%	-	-	-	2,030,261	-	-	-	2,030,261	1,522,696
100%	-	39	2,761,999	5	286,844	-	176,782	3,225,668	3,225,668
150%	-	-	52,460	3,145	-	53,811	-	109,416	164,124
	1,191,466	**158,293**	**4,727,801**	**2,036,759**	**1,035,875**	**53,811**	**286,778**	**9,490,783**	**5,481,618**

45 CAPITAL ADEQUACY (Cont'd.)

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

2017	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		
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
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**

45 CAPITAL ADEQUACY (Cont'd.)

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

	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
2017 (Cont'd.)	**Sovereigns & Central Banks**	**Banks, MDBs and DFIs**	**Corporate**	**Regulatory Retail**	**Residential Mortgages**	**Higher Risk Assets**	**Other Assets**		
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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**	**6,000,188**

45 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	Principal RM'000	**Risk-weighted RM'000**	**Principal RM'000**	**Risk-weighted RM'000**
2018				
0%	2,486,741	-	2,474,500	-
20%	611,513	122,303	611,513	122,303
35%	485,899	170,065	485,899	170,065
50%	553,526	276,763	553,526	276,763
75%	2,030,261	1,522,696	2,030,261	1,522,696
100%	3,226,212	3,226,212	3,225,668	3,225,668
150%	109,415	164,123	109,416	164,124
Risk-weighted assets for credit risk	9,503,567	5,482,160	9,490,783	5,481,618
Risk-weighted assets for market risk		3,407		3,407
Risk-weighted assets for operational risk		400,645		392,040
Large exposure risk-weighted assets for equity holdings		8		8
Total risk-weighted assets		5,886,220		5,877,073
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		6,461,067		6,444,380

45 CAPITAL ADEQUACY (Cont'd.)

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

	2018		2017	
Group and Bank	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**
Benchmark Rate Risk	-	-	1,709	137
Foreign Exchange Risk	3,407	273	21,517	1,721
Total	3,407	273	23,226	1,858

46 SEGMENT INFORMATION

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

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

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

Segment capital expenditure comprises additions to property and equipment.

46 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segments:

The Group comprises of 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.

46 SEGMENT INFORMATION (Cont'd.)

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

Group 2018	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	117,403	120,144	41,822	174,450	-	453,819
Revenue from other segments	184,344	815	2,683	81,741	(269,583)	-
Total Revenue	301,747	120,959	44,505	256,191	(269,583)	453,819
Segment results	17,581	60,054	43,887	23,296		144,818
Unallocated expenses						(112,648)
Income from operations						32,170
Taxation						(11,262)
Net loss for the year						20,908
Other information						
Segment assets	3,135,573	1,949,351	620,672	3,207,839	(217,592)	8,695,844
Unallocated corporate assets						579,450
Total assets						9,275,294
Segment liabilities	5,537,251	1,967,429	459,795	7,072,905	(207,778)	14,829,602
Unallocated corporate Liabilities						(7,232,354)
Total liabilities						7,597,248
Other segment items						
Purchase of property and equipment				17,704		17,704
Purchase of intangible assets				1,034		1,034
Depreciation of property and equipment				2,721		2,721
Amortisation of intangible assets				4,635		4,635
Other non-cash expense other than depreciation	(210)	33,667	29,482	(37,007)	-	25,931

(b) Secondary Segment - By Geographical Locations

Group 2018	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	453,819	32,170	9,275,294

46 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	172,319	-	509,438
Revenue from other segments	206,309	882	4,766	65,590	(277,547)	-
Total Revenue	320,082	171,031	57,963	237,909	(277,547)	509,438
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 loss 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				5,534		
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 (Cont'd.)

Group 2017	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	509,438	7,615	9,142,011

47 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

	Level 2	Level 3	Total
Group	**RM'000**	**RM'000**	**RM'000**
2018			
Financial assets			
Securities held at FVTPL	1,059	-	1,059
Debt instruments measured at FVOCI	2,889,238	-	2,889,238
Equity instruments at FVOCI	18	-	18
Financing, advances and other receivables	1,774,175	3,816,701	5,590,876
Hedging financial instruments	3,780	-	3,780
Total	4,668,270	3,816,701	8,484,971
Financial liabilities			
Deposits from customers	4,561,603	-	4,561,603
Hedging financial instruments	4,506	-	4,506
	4,566,109	-	4,566,109
2017			
Financial assets			
Securities available-for-sale	2,282,276	-	2,282,276
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	3,800,231	4,078,290	7,878,521
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
	4,709,743	404,676	5,114,419

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

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

	Level 2 RM'000	Level 3 RM'000	Total RM'000
Bank			
2018			
Financial assets			
Securities held at FVTPL	1,059	-	1,059
Debt instruments measured at FVOCI	2,876,991	-	2,876,991
Equity instruments at FVOCI	18	-	18
Financing, advances and other receivables	1,774,175	3,816,701	5,590,876
Hedging financial instruments	3,780	-	3,780
Total	4,656,023	3,816,701	8,472,724
Financial liabilities			
Deposits from customers	4,457,895	-	4,457,895
Hedging financial instruments	4,506	-	4,506
	4,462,401	-	4,462,401
2017			
Financial assets			
Securities available-for-sale	2,255,531	-	2,255,531
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	3,773,486	4,078,290	7,851,776
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
	4,427,218	404,676	4,831,894

Description of significant unobservable inputs to valuation:

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

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

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

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

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

	Group			
	2018		2017	
	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
Financing, advances and other receivables	5,592,272	5,590,876	5,596,649	5,589,525
	5,592,272	5,590,876	5,601,713	5,594,531
Financial Liabilities				
Deposits from customers	4,578,999	4,561,603	4,699,178	4,694,762
Subordinated Murabahah Tawarruq	-	-	409,716	404,676
	4,578,999	4,561,603	5,108,894	5,099,438

	Bank			
	2018		2017	
	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
Financing, advances and other receivables	5,592,272	5,590,876	5,596,649	5,589,525
	5,592,272	5,590,876	5,601,713	5,594,531
Financial Liabilities				
Deposits from customers	4,475,640	4,457,895	4,416,919	4,412,237
Subordinated Murabahah Tawarruq	-	-	409,716	404,676
	4,475,640	4,457,895	4,826,635	4,816,913

47 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, FVTPL and FVOCI

The fair values of securities that are 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 using adjusted net assets method.

(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.

(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.

47 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.

48 OPERATING LEASES

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

	Group	
	2018 **RM'000**	**2017** **RM'000**
Within one year	15,562	16,412
Between one and five years	46,685	24,617
	62,247	41,029

	Bank	
	2018 **RM'000**	**2017** **RM'000**
Within one year	15,493	16,343
Between one and five years	46,479	24,514
	61,972	40,857

49 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.

50 HOLDING COMPANY

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

51 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 RM'000	Over 12 months RM'000	Total RM'000
2018			
Assets			
Cash and short-term funds	135,339	-	135,339
Deposits and placements with banks and other financial institutions	5,755	-	5,755
Securities FVTPL	-	1,059	1,059
Securities FVOCI	35,367	2,853,871	2,889,238
Financing, advances and receivables	1,908,196	3,684,076	5,592,272
Musyarakah capital investment	-	18	18
Other assets	489,312	181,806	671,118
Total Assets	2,573,969	6,720,830	9,294,799
Liabilities			
Deposits from customers	3,774,357	804,642	4,578,999
Investment accounts of customers	5,755	-	5,755
Deposits and placements of banks and other financial institutions	2,906,741	-	2,906,741
Other liabilities	105,753	-	105,753
Total Liabilities	6,792,606	804,642	7,597,248
Net	(4,218,637)	5,916,188	1,697,551

51 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:

Group	Less than 12 months RM'000	Over 12 months RM'000	Total 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
Musyarakah capital investment	18	-	18
Other assets	416,848	196,775	613,623
Total Assets	3,576,695	5,565,316	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	(3,452,491)	5,102,983	1,650,491

51 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			
2018			
Assets			
Cash and short-term funds	135,339	-	135,339
Deposits and placements with banks and other financial institutions	5,755	-	5,755
Securities FVTPL	-	1,059	1,059
Securities FVOCI	35,367	2,841,624	2,876,991
Financing, advances and receivables	1,908,448	3,683,824	5,592,272
Musyarakah capital investment	-	18	18
Other assets	498,971	181,806	680,777
Total Assets	2,583,880	6,708,331	9,292,211
Liabilities			
Deposits from customers	3,762,131	713,509	4,475,640
Investment accounts of customers	5,755	-	5,755
Deposits and placements of banks and other financial institutions	3,036,586	-	3,036,586
Other liabilities	105,552	-	105,552
Total Liabilities	6,910,024	713,509	7,623,533
Net	(4,326,144)	5,994,822	1,668,678

51 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	Over 12 months	Total
	RM'000	RM'000	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
Musyarakah capital investment	18	-	18
Other assets	429,961	196,775	626,736
Total Assets	3,603,878	5,553,329	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	111,003	-	111,003
Total Liabilities	7,068,414	462,333	7,530,747
Net	(3,464,536)	5,090,996	1,626,460

52 FINANCIAL RISK MANAGEMENT

MFRS 9 introduced and modified several disclosure requirements in MFRS 7 in relation to credit risk and impairment of financial instruments. These new disclosures are not required to be provided for the comparative period if a bank chooses not to restate the prior period in accordance with the exemption provided in MFRS 9 paragraph 7.2.15. Consequently, all disclosures required by the previous version of MFRS 7 are provided in respect of the comparative period.

The following section discusses the Bank's risk management policies. The measurement of Expected Credit Loss ("ECL") under MFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of MFRS 9. The approach taken for MFRS 9 measurement purposes is discussed separately in note B.3.4.1.1(i).

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.

(a) Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and consumer financing and advances, and commitments arising from such financing activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Bank is also exposed to other credit risks arising from investments in securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and head of each business unit.

Expected credit loss ("ECL") measurement

MFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank.

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Note 52(a)(iii) describe how the Bank determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Note 52(a)(iv) descibe how the Bank defines credit-impaired and default.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Note 52(a)(v) descibe the inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with MFRS 9 is that it should consider forward-looking information. Note 52(a)(v) descibe how the Bank has incorporated this in its ECL models.

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis.

(i) Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. A master scale is a scale of credit risk grades, typically denominated by a combination of numbers, letters or both, which represent the relative credit risk assigned to each class or grade.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(i) Credit risk grades (Cont'd.)

Non - Retail exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. Data from credit reference agencies, press articles, changes in external credit ratings. Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	Internally collected data on customer behaviour. Any other information about the borrowers which impacts the creditworthiness – e.g. unemployment, previous delinquency.	Payment record – this includes overdue status as well as a range of variables about payment ratios. Utilisation of the granted limit. Requests for and granting of forbearance. Existing and forecast changes in business, financial and economic conditions.

The Bank's rating method comprises 7 rating levels for instruments not in default (1 to 7) and one default class (8). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(i) Credit risk grades (Cont'd.)

Credit rating mapping table

This provides useful information to users of the financial statements in understanding the Bank’s risk management practices and evaluating the nature of risks arising from financial instruments. The Bank’s internal rating scale and mapping of external ratings are set out below:

Description of the grade	*Bank rating*	*Moody’s detailed Rating*	*Moody’s Rating*	*PD*
High grade	**1 to 4**	Aaa to Baa3	Aaa to Baa3	0.03% to 0.82%
Standard grade	**4- to 7-**	Ba1 to Caa3	Ba1 to Caa3	1.14% to 21.58%
Default	**=8 or >8**	Ca, C	Ca, C	100.00%

(ii) Generating the term structure of Probability of Default ("PD")

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(ii) Generating the term structure of Probability of Default ("PD") (Cont'd.)

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a ‘base scenario’ of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

(iii) Significant increase in credit risk ("SICR")

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based in the Bank’s quantitative modelling, the remaining lifetime PD is determined to have increased by more than (a predetermined percentage/range).

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due ("DPD"). Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Quantitative criteria for determining the significant increase in credit risk are summarised in the below table:

Portfolio	Method	
	DPD	Rating degradation
Non- Retail	30	Please refer the below Rating Degradation table
Retail	30	Not Applicable

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(iii) Significant increase in credit risk ("SICR") (Cont'd.)

Criteria under Stage 2 highlighted as follows:

		Retail	Non-Retail
	Primary Indicators		
1	Rating deterioration since inception	• Not applicable	• 2 Notches down to 5- (internal) or Ba3 (external) and worse
	Secondary Indicators		
2	Credit Review / Early Warning Indicators ("EWI")	• EWI • Credit Review / Credit committee decision	• EWI • Credit Review / Credit committee decision
3	Cross facility contagion	• Facilities of customers with Non Performing Financing <50% of their exposure	• Facilities of customers with Non Performing Financing <50% of their exposure
	Backstop		
4	30 Days Past Due ("DPD")	• Backstop of 30 DPD will be applied to all facilities	• Backstop of 30 DPD will be applied to all facilities
5	Rating / Probability of Default ("PD") cut-off	• Not applicable	• Internal rating cut off of 7-

Criteria under Stage 3 highlighted as follows:

		Retail	Non-Retail
	Primary Indicators		
1	Rating deterioration since inception	• Rating deterioration will not be applicable to the retail portfolio	• Internal Rating 8,9,10 • External Rating from C and worse
2	Obligor Status	• Bankruptcy	• Wound Up
	Secondary Indicators		
3	Credit Review / Early Warning Indicators ("EWI")	• Credit Review / Credit committee decision	• Credit Review / Credit committee decision
4	Restructures	• All facilities rescheduled & restructured ("R&R") due to financial difficulty	• All facilities rescheduled & restructured ("R&R") due to financial difficulty
	Backstop		
5	90 Days Past Due ("DPD")	• Backstop of 90 DPD will be applied to all facilities	• Backstop of 90 DPD will be applied to all facilities
6	Rating / Probability of Default ("PD") cut-off	• Rating cut-off will not be applicable to the retail portfolio	• Internal rating cut off of 8 or worse

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(iii) Significant increase in credit risk ("SICR") (Cont'd.)

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increase in credit risk before an exposure is in default.

Qualitative criteria:

For Retail portfolios, if the borrower meets one or more of the following criteria:
- In short-term forbearance
- Extension to the terms granted
- Previous arrears within the last 12 month

For Non retail and Treasury portfolios, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

For treatment of Low Credit Risk ("LCR") practical expedient the bank will maintain a higher threshold of externally rated, Aa- and above as the cut-off grade for applying LCR.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all Retail financial instruments held by the Bank. In relation to Non-Retail and Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(iv) Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

(v) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of Default ("PD");
- Loss Given Default ("LGD");
- Exposure at Default ("EAD");

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(v) Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Cont'd.)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(v) Forward-looking information incorporated in the ECL models

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the KFH Group Risk expert and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the Organisation for Economic Cooperation and Development ("OECD") and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank relied on historical industry analysis and has identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The economic scenarios used as at 31 December 2017 included the following ranges of key indicators for Malaysia for the years ending 31 December 2018 and 2019, as provided by Moody's.

	2018	2019
Gross Domestic Product ("GDP") (RM Billion)	1252.81	1301.83
Kuala Lumpur Stock Exchange Index ("KLSE") (Index)	2191.85	2136.24
Unemployment Rate (%)	3.14	3.10

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

Expected credit loss ("ECL") measurement (Cont'd.)

(v) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail – Groupings for collective measurement
- Product type (e.g. Auto Financing, Personal Financing, House Financing and Credit Card)

Non-Retail – Groupings for collective measurement
- Industry – External data sourced from study by Moodys
- Collateral type
- Credit Rating band
- Geographical region of risk exposures – external data sourced from study by Moodys

The following exposures are assessed individually:

Retail
- Stage 3 financing includes Auto Financing, Personal Financing, House Financing and Credit Card

Non-Retail
- Stage 1 facilities
- Stage 2 facilities
- Stage 3 facilities

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) 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 assets, 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.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

	Total gross maximum exposure	
	Group	**Bank**
2018	**RM'000**	**RM'000**
Cash and short-term funds	135,339	135,339
Deposits and placements with banks and other financial institutions	5,755	5,755
Securities FVOCI	2,889,238	2,876,991
Financing, advances and other receivables	5,592,272	5,592,272
Other assets	133,425	133,302
Statutory deposits with Bank Negara Malaysia	211,800	211,800
Hedging financial instruments		
- Ijarah rental swap	3,780	3,780
Total On-Balance Sheet	8,971,609	8,959,239
Financial guarantees	53,458	53,458
Contingent liabilities	224,633	224,633
Commitments *	568,376	568,376
Total Off-Balance Sheet	846,467	846,467
Total On and Off-Balance Sheet	9,818,076	9,805,706

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

	Total gross maximum exposure	
	Group	Bank
2017	RM'000	RM'000
Cash and short-term funds	429,575	458,403
Deposits and placements with banks and other financial institutions	214,806	214,806
Securities available-for-sale	2,224,097	2,212,110
Securities held-to-maturity	5,064	5,064
Financing, advances and other receivables	5,596,649	5,596,649
Other assets	65,828	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	8,751,333	8,768,038
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	9,319,422	9,336,127

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment:

	Geographical region				Total gross maximum
2018	**Malaysia**	**Middle East**	**Others**	**Stage 1 & 2 impairment**	**exposure**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	34,970	1,254	99,927	(812)	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	5,755
Securities FVOCI	2,771,768	105,224	12,246	-	2,889,238
Financing, advances and other receivables	5,676,021	3,885	1,759	(89,394)	5,592,271
Other assets	36,810	96,615	-	-	133,425
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	211,800
Hedging financial instruments					
- Ijarah rental swap	3,780	-	-	-	3,780
Total On-Balance Sheet	8,740,904	206,978	113,932	(90,206)	8,971,609
Financial guarantees	53,458	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	224,633
Commitments *	568,360	2	14	-	568,376
Total Off-Balance Sheet	846,451	2	-	-	846,467
Total On and Off-Balance Sheet	9,587,355	206,980	113,932	(90,206)	9,818,076

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum
2017	**Malaysia**	**Middle East**	**Others**	**Collective assessment**	**exposure**
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)	5,596,648
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 ijarah rental swaps as the fair value has already been disclosed within hedging financial instruments.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum
2018	**Malaysia**	**Middle East**	**Others**	**Stage 1 & 2 Impairment**	**exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	34,970	1,254	99,927	(812)	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	5,755
Securities FVOCI	2,771,767	105,224	-	-	2,876,991
Financing, advances and other receivables	5,676,021	3,885	1,759	(89,394)	5,592,272
Other assets	36,687	96,615	-	-	133,302
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	211,800
Hedging financial instruments					
- Ijarah rental swap	3,780	-	-	-	3,780
Total On-Balance Sheet	8,740,781	206,977	101,686	(90,206)	8,959,239
Financial guarantees	53,458	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	224,633
Commitments *	568,360	2	14	-	568,376
Total Off-Balance Sheet	846,451	2	14	-	846,467
Total On and Off-Balance Sheet	9,587,233	206,979	101,700	(90,206)	9,805,706

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum
2017	**Malaysia**	**Middle East**	**Others**	**Collective assessment**	**exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
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	8,370,560	220,010	299,690	(122,221)	8,768,039
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	8,938,514	220,145	299,690	(122,221)	9,336,128

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector:

	Industry							
2018	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Stage 1 & 2 Impairment**	**Total gross maximum exposure**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	-	136,151	-	-	-	-	(812)	135,339
Deposits and placements with banks and other financial institutions	-	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	288,654	780,835	460,769	1,011,861	347,119	-	2,889,238
Financing, advances and other receivables	795,793	113,147	1,076,034	149,340	-	3,547,353	(89,394)	5,592,272
Other assets	-	-	-	-	-	133,425	-	133,425
Statutory deposits with Bank Negara Malaysia	-	211,800	-	-	-	-	-	211,800
Hedging financial instruments	-	3,780	-	-	-	-	-	3,780
Total On-Balance Sheet	795,793	759,287	1,856,869	610,109	1,011,861	4,027,897	(90,206)	8,971,609
Financial guarantees	-	-	-	-	-	53,458	-	53,458
Contingent liabilities	982	-	72,574	7,830	-	143,247	-	224,633
Commitments *	179,384	-	209,547	11,104	-	168,341	-	568,376
Total Off-Balance Sheet	180,366	-	282,121	18,934	-	365,046	-	846,467
Total On and Off-Balance Sheet	976,159	759,287	2,138,990	629,043	1,011,861	4,392,943	(90,206)	9,818,076

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry							
2017 **Group**	**Trading and manufacturing** **RM'000**	**Banks and financial institutions** **RM'000**	**Construction and real estate** **RM'000**	**Transportation, storage and communication** **RM'000**	**Government** **RM'000**	**Others** **RM'000**	**Collective assessment** **RM'000**	**Total gross maximum exposure** **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	319,918	-	2,282,276
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	3,560,966	(122,221)	8,809,512
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	3,837,916	(122,221)	9,377,601

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry							
2018	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Stage 1 & 2 Impairment**	**Total gross maximum exposure**
Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	-	136,151	-	-	-	-	(812)	135,339
Deposits and placements with banks and other financial institutions	-	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	288,654	780,835	460,769	999,615	347,118	-	2,876,991
Financing, advances and other receivables	795,793	113,147	1,076,034	149,340	-	3,547,353	(89,394)	5,592,272
Other assets	-	-	-	-	-	133,302	-	133,302
Statutory deposits with Bank Negara Malaysia	-	211,800	-	-	-	-	-	211,800
Hedging financial instruments	-	3,780	-	-	-	-	-	3,780
Total On-Balance Sheet	795,793	759,287	1,856,869	610,109	999,615	4,027,773	(90,206)	8,959,239
Financial guarantees	-	-	-	-	-	53,458	-	53,458
Contingent liabilities	982	-	72,574	7,830	-	143,247	-	224,633
Commitments *	179,384	-	209,547	11,104	-	168,341	-	568,376
Total Off-Balance Sheet	180,366	-	282,121	18,934	-	365,046	-	846,467
Total On and Off-Balance Sheet	976,159	759,287	2,138,990	629,043	999,615	4,392,819	(90,206)	9,805,706

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry							
2017	**Trading and manufacturing**	**Banks and financial institutions**	**Construction and real estate**	**Transportation, storage and communication**	**Government**	**Others**	**Collective assessment**	**Total gross maximum exposure**
Bank	**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	-	95,790	15,333	-	1,839,249	305,159	-	2,255,531
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	3,546,071	(122,221)	8,811,460
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	824,200	1,114,189	1,706,608	194,502	1,839,249	3,823,022	(122,221)	9,379,548

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

By residual maturity:

2018 Group	Residual Maturity: Less than 6 months RM'000	6 months to 1 year RM'000	1 year to 5 years RM'000	More than 5 years RM'000	Not on demand and no maturity date RM'000	Stage 1 & 2 Impairment RM'000	Total gross maximum exposure RM'000
Cash and short-term funds	136,151	-	-	-	-	(812)	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	35,368	1,296,116	1,557,754	-	-	2,889,238
Financing, advances and other receivables	2,220,203	18,944	437,998	3,004,520	-	(89,394)	5,592,272
Other assets	-	-	-	-	133,425	-	133,425
Statutory deposits with Bank Negara Malaysia	-	-	-	-	211,800	-	211,800
Hedging financial instruments	-	-	3,780	-		-	3,780
Total On-Balance Sheet	2,362,109	54,312	1,737,894	4,562,274	345,225	(90,206)	8,971,609
Financial guarantees	900	20	600	51,338	600	-	53,458
Contingent liabilities	89,179	51,931	59,836	17,415	6,272	-	224,633
Commitments *	348,451	101,333	29,728	57,344	31,520	-	568,376
Total Off-Balance Sheet	438,530	153,284	90,164	126,097	38,392	-	846,467
Total On and Off-Balance Sheet	2,800,639	207,596	1,828,058	4,688,371	383,617	(90,206)	9,818,076

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) 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
2017	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**			
Group	**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	59,661	15,035	1,027,093	1,180,487	-	-	2,282,276
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	4,190,662	279,428	(122,221)	8,809,512
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	4,440,408	308,476	(122,221)	9,377,602

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) 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	Stage 1 & 2 Impairment	Total gross maximum exposure
2018	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	136,151	-	-	-	-	(812)	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	35,367	1,283,870	1,557,754	-	-	2,876,991
Financing, advances and other receivables	2,220,203	18,944	437,998	3,004,520	-	(89,394)	5,592,272
Other assets	-	-	-	-	133,302	-	133,302
Statutory deposits with Bank Negara Malaysia	-	-	-	-	211,800	-	211,800
Hedging financial instruments	-	-	3,780	-		-	3,780
Total On-Balance Sheet	2,362,109	54,311	1,725,648	4,562,274	345,102	(90,206)	8,959,239
Financial guarantees	900	20	600	51,338	600	-	53,458
Contingent liabilities	89,179	51,931	59,836	17,415	6,272	-	224,633
Commitments *	348,451	101,333	29,728	57,344	31,520	-	568,376
Total Off-Balance Sheet	438,530	153,284	90,164	126,097	38,392	-	846,467
Total On and Off-Balance Sheet	2,800,639	207,595	1,815,812	4,688,371	383,494	(90,206)	9,805,706

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) 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
2017	**Less than 6 months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**			
Bank	**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	59,661	15,035	1,015,107	1,165,728	-	-	2,255,531
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	4,175,903	279,292	(122,221)	8,811,459
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	4,425,649	308,340	(122,221)	9,379,548

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3A(iv)

Group	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cash & Central Bank Balances (Less 1 month)				**136,151**	**429,575**
High Grade	136,151	-	-	136,151	39,837
Standard Grade	-	-	-	-	389,738
Past due or impaired	-	-	-	-	-
Loss allowance	812	-	-	812	-
Carrying amount	**135,339**	-	-	**135,339**	**429,575**
Deposit and placement with banks (More 1 month)				**5,755**	**214,806**
High Grade	5,755	-	-	5,755	-
Standard Grade	-	-	-	-	214,806
Past due or impaired	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	5,755	-	-	5,755	**214,806**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

Bank	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cash & Bank Balances (Less 1 month)				**136,151**	**458,403**
High Grade	136,151	-	-	136,151	39,837
Standard Grade	-	-	-	-	418,566
Past due or impaired	-	-	-	-	-
Loss allowance	812	-	-	812	-
Carrying amount	**135,339**	-	-	**135,339**	**458,403**
Deposit and placement with banks (More 1 month)				**5,755**	**214,806**
High Grade	5,755	-	-	5,755	-
Standard Grade	-	-	-	-	214,806
Past due or impaired	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	5,755	-	-	5,755	**214,806**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

Bank	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				**2,876,991**	**2,239,407**
High Grade	2,896,491	-	-	2,876,991	2,174,342
Standard Grade	-	-	-	-	65,065
Past due or impaired	-	-	-	-	16,124
Loss allowance	**19,500**	-	-	**19,500**	-
Carrying amount	2,876,991	-	-	2,857,491	**2,255,531**

Group	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				**2,889,238**	**2,266,152**
High Grade	2,908,743	-	-	2,889,238	2,201,087
Standard Grade	-	-	-	-	65,065
Past due or impaired	-	-	-	-	16,124
Loss allowance	**19,505**	-	-	**19,505**	-
Carrying amount	2,889,238	-	-	2,869,733	**2,282,276**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

Group	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Corporate Financing				**2,719,788**	**3,123,320**
High Grade	1,259,464	-	-	1,259,464	838,410
Standard Grade	1,172,504	-	-	1,172,504	1,831,172
Past due or impaired	-	41,275	246,545	287,820	453,738
Loss allowance	49,586	9,154	140,129	198,869	321,655
Carrying amount	**2,382,382**	32,121	106,416	**2,520,919**	**2,801,665**
Retail Financing				**3,107,003**	**2,859,422**
High Grade	2,991,172	-	-	2,991,172	2,716,430
Standard Grade	-	-	-	-	-
Past due or impaired	-	95,088	20,743	115,831	142,991
Loss allowance	21,384	6,527	4,997	32,908	64,438
Carrying amount	2,969,788	88,561	15,746	3,074,095	**2,794,984**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

Group and Bank	31-Dec-18				31-Dec-17
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments (Retail)				**41,696**	**91,926**
High Grade	40,702	-	-	40,702	90,732
Standard Grade	-	-	-	-	-
Past due or impaired	-	994	-	994	1,194
Loss allowance	-	-	-	-	-
Carrying amount	**40,702**	994	-	**41,696**	**91,926**
Undrawn Commitments (Corporate)				**526,680**	**354,735**
High Grade	222,576	-	-	222,576	352,705
Standard Grade	281,728	-	-	281,728	-
Past due or impaired	-	22,376	-	22,376	2,030
Loss allowance	765	-	-	765	-
Carrying amount	**503,539**	22,376	-	**525,915**	**354,735**
Trade Facilities (Financial Guarantee & Letter of Credit)				**278,091**	**121,428**
High Grade	202,501	-	-	202,501	95,245
Standard Grade	75,190	-	-	75,190	26,183
Past due or impaired	-	400	-	400	-
Loss allowance	1,837	140	-	1,977	-
Carrying amount	**275,854**	**260**	-	**276,114**	**121,428**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

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.

2018 **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	136,151	-	-	-	-	136,151
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	5,755
Securities FVOCI	2,889,238	-	-	-	-	2,889,238
Financing, advances and other receivables	2,399,525	2,690,356	464,329	5,293	267,288	5,826,791
Other assets	133,425	-	-	-	-	133,425
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	-	3,780
Total On-Balance Sheet	5,779,674	2,690,356	464,329	5,293	267,288	9,206,940
Financial guarantees	53,458	-	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	-	224,633
Commitments *	568,376	-	-	-	-	568,376
Total Off-Balance Sheet	846,467	-	-	-	-	846,467
Total On and Off-Balance Sheet	6,626,141	2,690,356	464,329	5,293	267,288	10,053,407

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

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.)

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	2,221,060	61,216	-	-	-	2,282,276
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	65,828	-	-	-	-	65,828
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
Total On-Balance Sheet	5,848,349	2,525,986	374,923	27,869	418,478	9,195,604
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	6,416,437	2,525,986	374,923	27,869	418,478	9,763,693

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

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.)

2018 Bank	**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	136,151	-	-	-	-	136,151
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	5,755
Securities FVOCI	2,876,991	-	-	-	-	2,876,991
Securities FVTPL	-	-	-	-	-	-
Financing, advances and other receivables	2,399,525	2,690,356	464,329	5,293	267,288	5,826,791
Other assets	133,302	-	-	-	-	133,302
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	-	3,780
Total On-Balance Sheet	5,767,304	2,690,356	464,329	5,293	267,288	9,194,570
Financial guarantees	53,458	-	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	-	224,633
Commitments *	568,376	-	-	-	-	568,376
Total Off-Balance Sheet	846,467	-	-	-	-	846,467
Total On and Off-Balance Sheet	6,613,771	2,690,356	464,329	5,293	267,288	10,041,037

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Credit quality analysis (Cont'd.)

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.)

2017 **Bank**	**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	458,403	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	214,806
Securities available-for-sale	2,194,315	61,216	-	-	-	2,255,531
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	65,692	-	-	-	-	65,692
Statutory deposits with Bank Negara Malaysia	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
Total On-Balance Sheet	5,850,297	2,525,986	374,923	27,869	418,478	9,197,552
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	6,418,385	2,525,986	374,923	27,869	418,478	9,765,641

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

For retail banking, KFHMB has in place a series of 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.

2018 **Group and Bank**	**Total** **RM'000**
Corporate, Commercial and Retail	
Excellent	-
Very Strong	151
Strong	422,529
Good	958,797
Satisfactory	305,868
Weak	440,479
Special Mention	328,165
Impaired	122,154
Unrated *	3,103,522
	5,681,665
Less: Stage 1 & 2 ECL	(89,394)
Total Corporate, Commercial and Retail	5,592,271

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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
	5,718,870
Less: Collective assessment	(122,221)
Total Corporate, Commercial and Retail	5,596,649

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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2018
Securities

Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B+ to C**			
S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
RAM	**AAA to AA3**	**A to A3**	**BBB to BB**	**B to D**		**Government -**	**Total**
MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**	**guaranteed**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group							
Securities FVOCI	497,266	555,171	-	-	-	1,836,801	2,889,238
Bank							
Securities FVOCI	485,019	555,171	-	-	-	1,836,801	2,876,991

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(viii) 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		Government -	Total
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	guaranteed	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities available-for-sale	136,386	367,551	-	-	61,215	1,717,124	2,282,276
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
Bank							
Securities available-for-sale	124,399	367,551	-	-	61,215	1,702,366	2,255,531
Securities held-to-maturity	5,064	-	-	-	-	-	5,064

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

	Less than 30 days	31 to 60 days	61 to 90 days	Total
2018				
Group and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financing and advances to customers				
Corporate financing	56,407	-	50	56,457
Retail & Consumer financing	314,802	63,634	29,437	407,873
	371,208	63,634	29,487	464,329
2017				
Group and Bank				
Financing and advances to customers				
Corporate financing	22,572	3,890	50	26,513
Retail & Consumer financing	269,898	58,562	19,951	348,411
	292,470	62,452	20,001	374,923

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Impaired and past due financing by geographical regions

2018 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Stage 3 impairment RM'000	Stage 1 & 2 impairment RM'000	Write-off RM'000
Malaysia	267,150	463,655	145,125	89,394	81,774
Others	138	674	-	-	-
Total	267,288	464,329	145,125	89,394	81,774

2017 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Malaysia	415,272	373,385	263,010	-	8,290
Middle East	-	851	-	-	-
Others	3,206	687	862	-	-
Total	418,478	374,923	263,872	122,221	8,290

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Impaired and past due financing by industry sector

2018 **Group and Bank**	**Impaired** **RM'000**	**Past due but not impaired** **RM'000**	**Stage 3 impairment** **RM'000**	**Stage 1 & 2 impairment** **RM'000**	**Write-off** **RM'000**
Trading and manufacturing	125,767	17,917	78,139	-	2,901
Banks and financial institutions	2,892	-	2,892	-	-
Construction and real estate	111,832	39,170	59,098	-	8,800
Others	26,797	407,242	4,996	-	70,073
Total	267,288	464,329	145,125	89,394	81,774

2017 **Group and Bank**	**Impaired** **RM'000**	**Past due but not impaired** **RM'000**	**Individual impairment** **RM'000**	**Collective impairment** **RM'000**	**Write-off** **RM'000**
Trading and manufacturing	163,242	4,369	91,434	-	-
Banks and financial institutions	-	22,093	-	-	-
Construction and real estate	193,020	742	136,942	-	-
Others	62,217	347,719	35,496	-	8,290
Total	418,478	374,923	263,872	122,221	8,290

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

- Impacts on the measurement of ECL due to changes made to models and assumptions;

- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL (Cont'd.)

The following tables explain the changes in the loss allowance for non-retail portfolio, inclusive of non-retail financing, cash and bank balances, deposits and securities between the beginning and the end of the annual period due to these factors:

Non- Retail	***Stage 1***	***Stage 2***	***Stage 3***	
Group	***12-month ECL***	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***
	RM'000	***RM'000***	***RM'000***	***RM'000***
Loss allowance as at 1 January 2018	**91,065**	**263**	**228,623**	**319,951**
Movements with income statement impact				
Transfers:				
Transfer to Stage 3	(12)	-	12	-
New financial assets originated or purchased	34,268	8,234	129,705	**172,207**
Financial assets derecognised during the period	(78,872)	(191)	(146,848)	**(225,911)**
Changes in PDs/LGDs/EADs	26,056	988	(17,663)	**9,382**
Write-offs	-	-	(53,701)	**(53,701)**
Loss allowance as at 31 December 2018	**72,505**	**9,294**	**140,129**	**221,928**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL (Cont'd.)

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors: (Cont'd)

Retail	***Stage 1***	***Stage 2***	***Stage 3***	
Group	***12-month ECL***	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***
	RM'000	***RM'000***	***RM'000***	***RM'000***
Loss allowance as at 1 January 2018	**23,624**	**5,564**	**35,249**	**64,438**
Movements with income statement impact				
Transfers:				
Transfer to Stage 1	4,478	(2,739)	(1,740)	**-**
Transfer to Stage 2	(618)	1,345	(727)	**-**
Transfer to Stage 3	(171)	(303)	474	**-**
New financial assets originated or purchased	7,576	901	1,857	**10,334**
Financial assets derecognised during the period	(2,101)	(375)	(1,218)	**(3,694)**
Changes in PDs/LGDs/EADs	(11,405)	2,133	15,300	**6,028**
Write-offs	-	-	(44,198)	**(44,198)**
Loss allowance as at 31 December 2018	**21,384**	**6,527**	**4,997**	**32,908**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL (Cont'd.)

The following table further explains changes in the gross carrying amount of the non-retail portfolio, inclusive of non-retail financing, cash and bank balances, deposits and securities to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Non - Retail	***Stage 1***	***Stage 2***	***Stage 3***	
Group	***12-month ECL***	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***
	RM000	***RM000***	***RM000***	***RM000***
Gross carrying amount as at 1 January 2018	**6,431,454**	**102,472**	**358,508**	**6,892,434**
Transfers:				
Transfer to Stage 3	(526)	(6,249)	6,774	(0)
New financial assets originated or purchased	4,499,277	59,974	226,224	**4,785,475**
Financial assets derecognised during the period other than write-offs	(4,375,818)	(91,503)	(279,550)	**(4,746,871)**
Changes in Carrying Amount	(289,775)	(643)	(11,710)	**(302,128)**
Write-offs	-	-	(53,701)	**(53,701)**
Gross carrying amount as at 31 December 2018	**6,264,612**	**64,051**	**246,545**	**6,575,208**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL (Cont'd.)

The following table further explains changes in the gross carrying amount of the retail financing portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above: (Cont'd.)

Retail	*Stage 1*	*Stage 2*	*Stage 3*	
Group	*12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
	RM000	*RM000*	*RM000*	*RM000*
Gross carrying amount as at 1 January 2018	**2,717,906**	**79,037**	**61,971**	**2,858,914**
Transfers:				
Transfer to Stage 1	40,576	(32,313)	(8,263)	**-**
Transfer to Stage 2	(46,356)	49,832	(3,476)	**-**
Transfer to Stage 3	(10,776)	(6,314)	17,090	**-**
New financial assets originated or purchased	720,792	14,534	5,614	**740,940**
Financial assets derecognised during the period other than write-offs	(244,873)	(6,689)	(4,134)	**(255,696)**
Changes in Carrying Amount	(186,097)	(3,000)	(3,860)	**(192,957)**
Write-offs	-	-	(44,198)	**(44,198)**
Gross carrying amount as at 31 December 2018	**2,991,172**	**95,088**	**20,743**	**3,107,003**

Write off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank’s recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was RM81,774,296. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(x) Amounts arising from ECL (Cont'd.)

Modified financial assets

There were no financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL on 2018 and 2017.

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

Collateral held and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Margin agreement for derivatives, for which the Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(xi) Carrying amount by class of financial assets whose terms have been renegotiated (Cont'd.)

Collateral held and other credit enhancements (Cont'd.)

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. The Bank holds collateral and other credit risk enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Loans and advances/Islamic financing to custo	**Percentage of exposure that is subject to collateral requirements**		
RM'000	31-Dec-18	31-Dec-17	Principle type of collateral
Financing receivables	5,592,272	5,596,649	
Corporate	62.89%	66.36%	Real Estate, Securities, Cash &
Retail	35.64%	29.64%	Real Estate & Cash

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired portfolio:

Mortgage portfolio – LTV	**Credit-impaired (Gross carrying amount)**	
	31-Dec-18	**31-Dec-17**
LTV ratio		
Less than 50%	-	-
51–70%	1,858,669	616,364
71–90%	6,821,158	17,209,611
91–100%	8,938,925	4,690,944
More than 100%	-	-
Total	17,618,752	22,516,920

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(xi) 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 sovereign 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 65.3% as at 31 December 2018 (2017: 80.5%). 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.

52 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 has adopted the BNM’s liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report Net Stable Funding as part of BNM requirements under Observation Period. Ratio under the Basel III observation reporting to BNM.

The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Group are monitored regularly against the established policies, procedures and limits.

Contractual maturity of total assets and liabilities

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities as at 31 December 2018 and 31 December 2017. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2018 Group	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	15,184	-	-	-	120,155	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	5,755
Securities FVTPL	-	-	-	-	1,059	1,059
Securities FVOCI	-	35,367	1,296,117	1,557,754	-	2,889,238
Financing, advances and receivables	1,898,009	10,187	729,078	2,954,998	-	5,592,272
Equity instrument at FVOCI	-	-	-	-	18	18
Other assets	-	-	181,806	-	485,532	667,338
Hedging Financial Instrument Assets	3,655	125	-	-	-	3,780
Total Assets	1,922,603	45,679	2,207,001	4,512,752	606,764	9,294,799
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,118,100	656,257	190,497	-	614,145	4,578,999
Deposits and placements of banks and other financial institutions	2,691,725	215,016	-	-	5,755	2,912,496
Hedging Financial Instrument Assets	4,201	305	-	-	-	4,506
Other liabilities	-	-	-	-	101,247	101,247
Total Liabilities	5,814,026	871,578	190,497	-	721,147	7,597,248
Shareholder's equity	-	-	-	-	1,697,551	1,697,551
Total Liabilities and Shareholder's equity	5,814,026	871,578	190,497	-	2,418,698	9,294,799
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	399,718	145,818	68,886	57,415	174,629	846,466
Net maturity mismatch	(4,291,141)	(971,717)	1,947,618	4,455,337	(274,124)	(846,466)

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2017 Group	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	365,139	-	-	-	64,436	429,575
Deposits and placements with banks and other financial institutions	108,471	106,335	-	-	-	214,806
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	-	-	196,775	-	416,848	613,623
Total Assets	2,863,767	173,447	1,980,195	3,585,121	539,481	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	1,989,841	273,063	-	-	8,218	2,271,122
Subordinated Murabahah Tawarruq	-	-	-	409,716	-	409,716
Hedging Financial Instrument	1,467	13,513	-	-	-	14,981
Other liabilities	-	-	-	-	96,524	96,524
Total Liabilities	5,346,416	997,236	51,731	410,602	685,535	7,491,520
Shareholder's equity	-	-	-	-	1,650,491	1,650,491
Total Liabilities and Shareholder's equity	5,346,416	997,236	51,731	410,602	2,336,026	9,142,011
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	141,661	66,731	80,903	249,746	29,048	568,089
Net maturity mismatch	(2,624,310)	(890,520)	1,847,561	2,924,773	(1,825,593)	(568,089)

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2018 Bank	**Up to 6 months RM'000**	**>6 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Not on demand & no maturity date RM'000**	**Total RM'000**
ASSETS						
Cash and short-term funds	15,184	-	-	-	120,155	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	5,755
Securities FVTPL	-	-	-	-	1,059	1,059
Securities FVOCI	-	35,367	1,283,870	1,557,754	-	2,876,991
Financing, advances and receivables	1,898,261	10,187	728,826	2,954,998	-	5,592,272
Equity Instrument at FVOCI	-	-	-	-	18	18
Hedging Financial Instrument Assets	3,655	125	-	-	-	3,780
Other assets	-	-	181,806	-	495,191	676,997
Total Assets	1,922,855	45,679	2,194,502	4,512,752	616,423	9,292,211
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,106,206	655,925	190,497	-	523,012	4,475,640
Deposits and placements of banks and other financial institutions	2,821,570	215,016	-	-	5,755	3,042,341
Hedging Financial Instrument Assets	4,201	305	-	-	-	4,506
Other liabilities	-	-	-	-	101,046	101,046
Total Liabilities	5,931,977	871,246	190,497	-	629,813	7,623,533
Shareholder's equity	-	-	-	-	1,668,678	1,668,678
Total Liabilities and Shareholder's equity	5,931,977	871,246	190,497	-	2,298,491	9,292,211
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	399,718	145,818	68,886	57,415	174,629	846,466
Net maturity mismatch	(4,408,840)	(971,385)	1,935,119	4,455,337	(1,856,697)	(846,466)

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2017 Bank	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	393,967	-	-	-	64,436	458,403
Deposits and placements with banks and other financial institutions	108,471	106,335	-	-	-	214,806
Securities available-for-sale	59,661	15,035	1,015,106	1,122,308	43,421	2,255,531
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	-	-	-	-	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)

52 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
2018						
Deposits from customers	3,168,267	672,158	209,642	-	614,145	4,664,212
Deposit and placements of banks and other financial institutions	2,740,897	220,935	-	-	5,755	2,967,587
Other liabilities	-	-	-	-	101,247	101,247
Total	5,909,164	893,093	209,642	-	721,147	7,733,046
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

52 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 RM'000	> 6 -12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity RM'000	Total RM'000
2018						
Deposits from customers	3,157,242	672,157	210,065	-	523,012	4,562,476
Deposit and placements of banks and other financial institutions	2,872,334	220,845	-	-	5,755	3,098,933
Other liabilities	-	-	-	-	101,046	101,046
Total	6,029,576	893,002	210,065	-	629,813	7,762,456
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

52 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.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

Market risk is the risk that movements in market variables, including rates of return, foreign exchange rates, credit spreads, commodity prices and equity prices, will reduce the earnings or capital of the Group.

i. Traded Market Risk

Traded Market Risk arising from financial instruments held either with trading intent or to hedge other elements of the Trading Book. Positions held with trading intent are those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits. These positions attract market risk capital charge. For example, proprietary positions, positions arising from client servicing and market making.

ii. Non-Traded Market Risk

Rate of Return in the Banking Book

Rate of return risk in the banking book refers to the risk of the Bank's earnings and economic value of equity due to the adverse movements in benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

The following tables indicate the effective rate of return at the reporting date and the Group's and the Bank's sensitivity to the rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financing and advances.

50 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
ASSETS									
Cash and short-term funds	15,184	-	-	-	-	120,155	-	135,339	**2.55**
Deposits and placements	-								
with banks and other financial institutions	5,755	-		-	-	-	-	5,755	
Securities FVTPL	-	-	-	-	-	1,059	-	1,059	
Securities FVOCI	-	-	35,367	1,296,116	1,557,755	-	-	2,889,238	**4.28**
Financing, advances and receivables	1,289,206	2,032,387	247,537	218,009	1,768,363	36,770	-	5,592,272	**5.42**
Equity instrument of FVOCI	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	667,338	-	667,338	
Hedging Financial Instrument Assets		2,527	1,253	-	-	-	-	3,780	
TOTAL ASSETS	1,310,145	2,034,914	284,157	1,514,125	3,326,118	825,340	-	9,294,799	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,156,960	1,198,067	1,419,289	190,497	-	614,186	-	4,578,999	**3.24**
Deposits and placements of banks and other financial institutions	1,275,719	953,306	677,716	-	-	-	-	2,906,741	**3.69**
Investment accounts of customers	5,755	-	-	-	-	-	-	5,755	
Hedging Financial Instrument Liabilities	1,065	2,692	648	101	-	-	-	4,506	
Other liabilities	-	-	-	-	-	101,247	-	101,247	
Total Liabilities	2,439,499	2,154,065	2,097,653	190,598	-	715,433	-	7,597,248	
Shareholder's equity	-	-	-	-	-	1,697,551		1,697,551	
Total Liabilities and Shareholder's equity	2,439,499	2,154,065	2,097,653	190,598	-	2,412,984	-	9,294,799	
On-balance sheet profit sensitivity gap	(1,129,354)	(119,151)	(1,813,496)	1,323,527	3,326,118	(1,587,644)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(1,129,354)	(119,151)	(1,813,496)	1,323,527	3,326,118	(1,587,644)	-	-	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
ASSETS									
Cash and short-term funds	365,139	-	-	-	-	64,436	-	429,575	2.67
Deposits and placements with banks and other financial institutions	-	30,051	184,755	-	-	-	-	214,806	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	2,161,101	2,031,147	224,621	1,528,399	2,460,487	736,256	-	9,142,011	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2017	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
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	(400,453)	195,335	(2,117,287)	1,476,668	2,460,487	(1,614,751)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(400,453)	195,335	(2,117,287)	1,476,668	2,460,487	(1,614,751)	-	-	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**%**
ASSETS									
Cash and short-term funds	15,184	-	-	-	-	120,155	-	135,339	**2.55**
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	-	-	5,755	
Securities FVTPL	-	-	-	-	-	1,059	-	1,059	
Securities FVOCI	-	-	35,367	1,283,870	1,557,754	-	-	2,876,991	**4.29**
Financing, advances and receivables	1,289,206	2,032,387	247,537	218,009	1,768,363	36,770	-	5,592,272	**5.42**
Equity Instrument at FVOCI	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	676,997	-	676,997	
Hedging Financial Instrument Assets		2,527	1,253	-	-	-	-	3,780	
TOTAL ASSETS	1,310,145	2,034,914	284,157	1,501,879	3,326,117	834,999	-	9,292,211	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Bank 2018	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,149,906	1,197,579	1,414,605	190,497	-	523,053	-	4,475,640	**3.31**
Deposits and placements of banks and other financial institutions	1,380,717	974,000	681,869	-	-	-	-	3,036,586	**3.63**
Investment accounts of customers	5,755	-	-	-		-	-	5,755	
Hedging Financial Instrument Liabilities	1,065	2,692	648	101	-	-	-	4,506	
Subordinated Murabahah Tawarruq	-	-	-	-	-	-	-	-	
Other liabilities	-	-	-	-	-	101,046	-	101,046	
Total Liabilities	2,537,443	2,174,271	2,097,122	190,598	-	624,099	-	7,623,533	
Shareholder's equity	-	-	-	-	-	1,668,678		1,668,678	-
Total Liabilities and Shareholder's equity	2,537,443	2,174,271	2,097,122	190,598	-	2,292,777	-	9,292,211	
On-balance sheet profit sensitivity gap	(1,227,298)	(139,357)	(1,812,965)	1,311,281	3,326,117	(1,457,778)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(1,227,298)	(139,357)	(1,812,965)	1,311,281	3,326,117	(1,457,778)	-	-	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Bank 2017	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	393,967	-	-	-	-	64,436	-	458,403	2.50
Deposits and placements with banks and other financial institutions	-	30,051	184,755	-	-	-	-	214,806	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	5,777	496,242	1,338,180	-	-	5,596,649	4.80
Musyarakah capital investment	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	625,022	-	625,022	
Hedging Financial Instrument Assets	-	1,714	-	-	-	-	-	1,714	
TOTAL ASSETS	2,189,929	2,032,861	224,620	1,516,412	2,460,488	732,897	-	9,157,207	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank	**Up to 1 month**	**>1 - 3 months**	**>3 - 12 months**	**>1 - 5 years**	**Over 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Effective profit rate**
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	1,404,268	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	-	-		-	2,584,891	3.11
Investment accounts of customers						8,218		8,218	
Hedging Financial Instrument Liabilities	1,467	13,514	-	-				14,981	
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	96,022	-	96,022	
Total Liabilities	2,663,844	1,867,545	2,341,908	51,731	-	605,719	-	7,530,747	
Shareholder's equity	-	-	-	-	-	1,626,460	-	1,626,460	
Total Liabilities and Shareholder's equity	2,663,844	1,867,545	2,341,908	51,731	-	2,232,179	-	9,157,207	
On-balance sheet profit sensitivity gap	(473,915)	165,316	(2,117,288)	1,464,681	2,460,488	(1,499,282)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(473,915)	165,316	(2,117,288)	1,464,681	2,460,488	(1,499,282)	-	-	

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

The following table indicates the sensitivity of the net revenue and the economic value of equity to the rate of return upward and downward rate shocks.

Profit Rate Risk Sensitivity Analysis

31 December 2018	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value of Equity	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(20,562)	20,562	(187,459)	187,459
USD - United States Dollars	(3,603)	3,603	(8,101)	8,101
Other Currencies	(96)	96	(340)	340
Total	(24,261)	24,261	(195,900)	195,900
Bank				
MYR - Ringgit Malaysia	(20,565)	20,565	(187,462)	187,462
USD - United States Dollars	(4,707)	4,707	(7,855)	7,855
Other Currencies	(96)	96	(340)	340
Total	(25,368)	25,368	(195,657)	195,657

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

31 December 2017	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value of Equity	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(11,129)	11,129	(159,173)	159,173
USD - United States Dollars	(2,897)	2,897	(8,158)	8,158
Other Currencies	(355)	355	(272)	272
Total	(14,381)	14,381	(167,603)	167,603
Bank				
MYR - Ringgit Malaysia	(11,129)	11,129	(159,173)	159,173
USD - United States Dollars	(143)	143	(8,611)	8,611
Other Currencies	(81)	81	(257)	257
Total	(11,353)	11,353	(168,041)	168,041

Note:
The earnings and economic values were computed based on the standardised approach adopted by BNM.

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the Assets & Liabilities Management Committee ("ALCO") seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) 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, and US Dollar.

Group 2018	**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	123,589	9,115	-	-	-	2,635	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	-	5,755
Securities FVTPL	-	-	1,059	-	-	-	1,059
Securities FVOCI	2,496,316	-	392,922	-	-	-	2,889,238
Financing, advances and receivables	5,461,591	-	130,681	-	-	-	5,592,272
Equity Instrument at FVOCI	18	-	-	-	-	-	18
Other assets	671,118	-	-	-	-	-	671,118
Total Assets	8,758,387	9,115	524,662	-	-	2,635	9,294,799

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group **2018 (Cont'd.)**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,191,875	254,919	128,285	-	-	3,920	4,578,999
Deposits and placements of banks and other financial institutions	2,378,416	-	534,080	-	-	-	2,912,496
Other liabilities	105,753	-	-	-	-	-	105,753
Total Liabilities	6,676,044	254,919	662,365	-	-	3,920	7,597,248
Shareholder's equity	1,697,551	-	-	-	-	-	1,697,551
Total Liabilities and Shareholder's equity	8,373,595	254,919	662,365	-	-	3,920	9,294,799
On-balance sheet open position	384,793	(245,804)	(137,703)	-	-	(1,285)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	384,793	(245,804)	(137,703)	-	-	(1,285)	-

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 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	335,369	61,790	32,416	-	-	-	429,575
Deposits and placements with banks and other financial institutions	38,269	176,537	-	-	-	-	214,806
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
LIABILITIES AND SHAREHOLDER'S EQUITY							
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)	-

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank **2018**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
			USD	**USD**			
ASSETS							
Cash and short-term funds	123,589	9,115	-	-	-	2,635	135,339
Deposits and placements with banks and other financial institutions	5,755	-	-	-	-	-	5,755
Securities FVTPL	-	-	1,059	-	-	-	1,059
Securities FVOCI	2,496,315	-	380,676	-	-	-	2,876,991
Financing, advances and receivables	5,461,591	-	130,681	-	-	-	5,592,272
Equity investment at FVOCI	18	-	-	-	-	-	18
Other assets	680,777	-	-	-	-	-	680,777
Total Assets	8,768,045	9,115	512,416	-	-	2,635	9,292,211
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,100,719	247,320	123,681	-	-	3,920	4,475,640
Deposits and placements of banks and other financial institutions	2,378,416	7,604	656,321	-	-	-	3,042,341
Other liabilities	105,552	-	-	-	-	-	105,552
Total Liabilities	6,584,687	254,924	780,002	-	-	3,920	7,623,533
Shareholder's equity	1,668,678	-	-	-	-	-	1,668,678
Total Liabilities and Shareholder's equity	8,253,365	254,924	780,002	-	-	3,920	9,292,211
On-balance sheet open position	514,680	(245,809)	(267,586)	-	-	(1,285)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	514,680	(245,809)	(267,586)	-	-	(1,285)	-

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) 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	335,369	61,790	32,416	28,828	-	-	458,403
Deposits and placements with banks and other financial institutions	38,269	176,537	-	-	-	-	214,806
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)	-

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2018. 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.

	2018		2017	
	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	(2,458)	1	(76)
US Dollar (USD)	1	(1,377)	1	(14,181)
Euro (EUR)	1	-	1	(1,408)
Bank				
Singapore Dollar (SGD)	1	(2,458)	1	(76)
US Dollar (USD)	1	(2,676)	1	(27,215)
Euro (EUR)	1	-	1	(12)

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) 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:

2018

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**
Credit exposures (using corporate risk-weights)						
Group						
Corporates		357,754	166,111	140,551	-	4,727,801

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018 (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		RM '000	RM '000	RM '000	RM '000	RM '000
Credit exposures (using corporate risk-weights)						
Bank						
Corporates		357,754	166,111	140,551	-	4,727,801

2017

Exposure class		Rating of Corporates by approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000
Credit exposures (using corporate risk-weights)						
Group						
Corporates		-	167,707	200,152	17,357	3,544,132
Bank						
Corporates		-	167,707	200,152	17,357	3,558,195

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018

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		12,241	963,075	-	-	-	228,390
Bank							
Sovereigns/Central Banks			963,075	-	-	-	228,390

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		37,536	66,141	330	39	-	54,248
Bank							
Banks, MDBs and FDIs		37,536	66,141	330	39	-	54,248

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2017

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		11,986	1,427,920	-	-	-	223,003
Bank							
Sovereigns/Central Banks		-	1,427,920	-	-	-	223,003

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		12,122	285,092	681	44	-	205,242
Bank							
Banks, MDBs and FDIs		12,122	313,919	681	44	-	205,242

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2018

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	1,203,707	735,874	-
Public Sector Entities			
Banks, Development Financial Institutions & MDBs	140,906	39,974	-
Corporates	4,342,305	1,216,583	126,460
Regulatory Retail	2,013,934	-	3,348
Residential Mortgages	1,023,270	-	1,209
Higher Risk Assets[1]	1,077	-	-
Other Assets	287,321	-	-
Defaulted Exposures[2]	166,583	-	2,682
Total On Balance Sheet Exposures	9,179,103	1,992,431	133,698
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	17,387	-	-
Off-balance sheet exposures other than OTC derivatives[2]	307,077	-	-
Total Off-Balance Sheet Exposures	324,464	-	-
Total On and Off-Balance Sheet Exposures	9,503,567	1,992,431	133,698

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

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	-
Public Sector Entities			
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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

2018

Bank	**Exposures before CRM**	**Exposures Covered by Guarantees**	**Exposures Covered by Eligible Financial Collateral**
	RM'000	**RM'000**	**RM'000**
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,191,466	735,874	-
Banks, Development Financial Institutions & MDBs	140,906	39,974	-
Corporates	4,342,305	1,216,583	126,460
Regulatory Retail	2,013,934	-	3,348
Residential Mortgages	1,023,270	-	1,209
Higher Risk Assets[1]	1,077	-	-
Other Assets	286,778	-	-
Defaulted Exposures[2]	166,583	-	2,682
Total On-Balance Sheet Exposures	9,166,318	1,992,431	133,698
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	17,387	-	-
Off-balance sheet exposures other than OTC derivatives[2]	307,077	-	-
Total Off Balance Sheet Exposures	324,464	-	-
Total On and Off-Balance Sheet Exposures	**9,490,782**	**1,992,431**	**133,698**

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

2017

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,650,923	447,533	-
Banks, Development Financial Institutions & MDBs	522,240	39,337	-
Corporates	3,586,068	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	263,964	-	-
Defaulted Exposures[2]	239,834	-	3,360
Total On-Balance Sheet Exposures	9,070,739	733,772	153,509

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

2017 (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]	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	**9,323,547**	**733,772**	**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.

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Direct credit substitutes	53,458		53,145	52,548
Transaction related contingent items	165,383		80,959	67,517
Short-term self liquidating trade related contingencies	59,250		11,847	8,895
Foreign exchange related contracts				
- One year or less	-	-		
- Over one year to five years	84,054	3,780	629	315
- Over five years	1,229,158	-	16,758	5,863
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	194,106		93,666	66,857
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	374,270		67,460	66,250
	2,159,680	3,780	324,464	268,245

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows: (Cont'd.)

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2017	**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
- Over one year to five years	-	1,714	-	-
- Over five years	-	-	-	-
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		228,701	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

52 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Equities (Disclosure for banking book positions)

2018
Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries	**10,200**	**-**	
Kuwait Finance House (Labuan) Berhad	10,200		Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
(b) Investment	**20,609**	**(19,550)**	**1,589**
Al Faiz Fund 1	20,609	(19,550)	1,589
(c) Musyarakah Capital Investment	**18**	**-**	**27**

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
(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**

53 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

In 2017, 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. During the year, there was no non-Shariah compliant incident.

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

2018		2017	
Group and Bank		Group and Bank	
Number of events occur	Amount	Number of events occur	Amount
	RM'000		RM'000
-	-	1	3
-	-	-	-