

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

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**Directors' Report and Audited Financial Statements as at 31 December 2016**

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*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)**

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# **KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**

**(672174-T)**

**(Incorporated in Malaysia)**

## **1 PERFORMANCE OVERVIEW**

The Group and the Bank recorded a loss before zakat and taxation of RM28.3 million and RM29.7 million respectively for the year ended 31 December 2016.

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2016 stood at a commendable 20.275% and 27.722% respectively.

## **2 STATEMENT OF CORPORATE GOVERNANCE**

### **(i) Board responsibility and oversight**

Kuwait Finance House (Malaysia) Berhad (hereinafter referred to as "the Bank" or "KFHMB") 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 system, which effectively monitors and manages the principal risks of the business.

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

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 business and operational efficiency.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### **Board Composition and Balance**

The Board currently has six (6) members, comprising three (3) independent non-executive directors and three (3) non-independent non-executive directors. Prior to the resignation of Mr Hamad A H D Almarzouq, the Independent Chairman of the Bank on 1 November 2016, the composition of the Bank met with the requirement of Bank Negara Malaysia to have majority independent directors on its Board. The Bank is working towards appointing a new Independent Chairman to meet with Bank Negara Malaysia's above requirement.

The Directors comprise of members who are seasoned bankers and has a 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 has any shareholding in the Bank.

#### **Directors' Profile**

##### ***Mohammad Nasser AlFouzan***

##### ***Non-Independent Non-Executive Director***

(54 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 the Strategic Marketing Management Program at Harvard Business School, U.S.A.

He was appointed as a Non Independent Non-Executive Director ("NINED") and subsequently as the Chairman of KFHMB on 7 October 2014 and 26 November 2014, respectively. He relinquished the Chairmanship on 1 May 2015 and continues to be the NINED of the Bank. Currently, he is also the Vice Chairman of Kuwait Finance House - Bahrain and the Chairman of the Executive Committee of the said entity.

Mr AlFouzan has over 28 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. Before his resignation from KFHK, he was the Chief Retail Banking Officer of KFHK, a position he held until 2014. He is now an adviser to the Group Chief Executive Officer of KFHK.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### **Ahmad S A A AlKharji**

#### **Non-Independent Non-Executive Director**

(45 years of age - Kuwaiti)

Mr Ahmad S A A AlKharji ("Mr AlKharji") has a Bachelors 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 the Bank on 1 June 2014 and as the Chief Executive Officer & Managing Director ("CEO & MD") of the Bank for the period from 20 April 2015 to 5 July 2016. He was re-designated as a NINED of KFHMB on 6 July 2016. He is also currently a Board member of Kuvayt Turk Participation Bank Inc, a subsidiary of KFHK in Turkey.

Mr AlKharji is a seasoned banker with 18 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 Wholesale Banking Officer of KFHK.

#### **Khalid Sufat**

#### **Independent Non-Executive Director**

(61 years of age - Malaysian)

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

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

En Khalid is an accountant by profession, 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 the Executive Director of Tronoh Mines Malaysia Berhad, as the Deputy Executive Chairman of Furqan Business Organisation Berhad and as the Group Managing Director of Seacera Tiles Berhad.

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

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## **2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

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

#### ***Mohamed Zaheer Mohamed Azreen***

#### ***Non-Independent Non-Executive Director***

(47 years of age – Sri Lanka)

Mr Mohamed Zaheer Mohamed Azreen (“Mr Azreen”) is an Associate Member of Chartered Institute of Management Accountants (CIMA) UK, Fellow Member of the Institute of Chartered Accountants (ICASL) of Sri Lanka, Fellow Member of the Institute of Certified Management Accountants (ICMA) of Sri Lanka and is a Certified Risk Analyst (CRA), US.

He was appointed as a NINED of KFHMB on 10 April 2011.

Mr Azreen started his career in 1991 as article clerk and then promoted as Manager Audit and Consultancy at KPMG in Colombo, Sri Lanka. He then joined Messrs Ernst & Young (“EY”), Bahrain Office in October 1996 as the Senior Accountant and was assigned the responsibilities of managing business community training unit which provide in house training to EY employees and its clients on various accounting and finance disciplines. He then joined KFHK in 1999 as an Investment Manager in the Direct Investment Department. Later, he was transferred to head the performance monitoring unit of International Banking Sector which oversee the performances of the banking subsidiaries. He is currently the Senior Manager, FI Credit Management under Treasury Division in KFHK where he is responsible for managing interbank limits.

#### ***Md Adnan Md Zain***

#### ***Independent non-executive director***

(60 years of age – Malaysian)

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

He was appointed as Independent 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 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 Rating Corporation Berhad, Malaysian Reinsurance Berhad and Takaful Ikhlas Berhad. He is also a Board Member of The Malaysian Insurance Institute.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### ***Abdul Khalil Abdul Hamid***

#### ***Independent non-executive director***

(61 years of age – Malaysian)

En Abdul Khalil Bin Abdul Hamid (“En Abdul Khalil”) has a Bachelor of Economics (B. Admin) degree from the University of Malaya from where he graduated in 1979.

En Abdul Khalil was appointed as an INED of KFHMB on 10 June 2016. He was appointed as INED of Prudential BSN Takaful Berhad on 17 July 2006, as INED of Prudential Assurance Malaysia Berhad (“PAMB”) on 9 April 2007 and as Chairman of PAMB on 1 January 2017.

En Abdul Khalil has 34 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 BTM’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.

#### **Board Meetings**

During the financial year ended 31 December 2016, five (5) 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 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.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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 (%)
Mr Hamad A H D Almarzouq <sup>∞</sup> (Chairman)	2/4	50%
En. Khalid Sufat	5/5	100%
Mr. Mohamed Zaheer Mohamed Azreen	5/5	100%
En Md Adnan Md Zain	5/5	100%
Mr Ahmed S. Al Kharji	4/5	80%
Mr Mohammad Nasser AlFouzan	4/5	80%
En Abdul Khalil Abdul Hamid <sup>^</sup>	3/3	100%

#### Notes:

<sup>∞</sup> Resigned with effect from 01.11.2016

<sup>^</sup> Appointed with effect from 10.06.2016

#### **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") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director. Six (6) BAC meetings were held during the financial year. The members during the financial year are as follows:

Khalid Sufat - Chairman

Mohamed Zaheer Mohamed Azreen - Member

Abdul Khalil Abdul Hamid - Member (Appointed on 10 June 2016)

Gopala Krishnan K Sundaram - Member (Ceased to be a member on 10 June 2016)

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.



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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### **Board Audit Committee (Cont'd.)**

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 (%)
En. Khalid Sufat (Chairman)	6/6	100%
Mr. Mohamed Zaheer Mohamed Azreen	5/6	83%
En Abdul Khalil Abdul Hamid ^	4/4	100%

Note:

^ Appointed with effect from 10.06.2016

#### **Board Risk Management Committee**

The Board Risk Management Committee ("BRMC") consists of one (1) independent non-executive director and two (2) non-independent non-executive directors. Five (5) BRMC meetings were held during the financial year. The members during the financial year are as follows:

Abdul Khalil Abdul Hamid - Chairman (Appointed on 10 June 2016)

Mohamed Zaheer Mohamed Azreen - Member

Mohammad Nasser AlFouzan - Member

Gopala Krishnan K Sundaram - Chairman (Ceased to be the Chairman on 10 June 2016)

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 BNM's Standards on Compliance which came into effect on 1 January 2017, BRMC has in 2016 also been specifically tasked to oversee 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:

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### *Board Risk Management Committee (Cont'd.)*

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
En Abdul Khalil Abdul Hamid ^	3/3	100%
Mr Mohammad Nasser AlFouzan	5/5	100%
Mr. Mohamed Zaheer Mohamed Azreen	4/5	80%

#### Note:

^ Appointed with effect from 10.06.2016

#### *Board Nominating And Remuneration Committee*

The Board Nominating And Remuneration Committee ("BNRC") consists of three (3) independent non-executive directors and two (2) non-independent non-executive directors. Eight (8) BNRC meetings were held during the financial year. The members during the financial year are as follows:

Md Adnan Md Zain - Chairman

Khalid Sufat - Member

Mohamed Zaheer Mohamed Azreen - Member

Mr Ahmad S A A AlKharji - Member

Abdul Khalil Abdul Hamid - Member (Appointed on 10 June 2016)

Gopala Krishnan K Sundaram - Member (Ceased to be a member on 10 June 2016)

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:

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### *Board Nominating And Remuneration Committee (Cont'd.)*

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
En Md Adnan Md Zain	8/8	100%
En. Khalid Sufat	8/8	100%
Mr. Mohamed Zaheer Mohamed Azreen	7/8	88%
Mr Ahmed S. Al Kharji	6/8	75%
En Abdul Khalil Abdul Hamid ^	3/3	100%

#### Note:

^ Appointed with effect from 10.06.2016

#### **Board Credit Committee**

The Board Credit, Investment and Recovery Committee ("BCIRC") was renamed to Board Credit Committee ("BCC") on 26 October 2016. BCC consists of one (1) non-independent non-executive director and two (2) independent non-executive directors. Eight (8) BCIRC/BCC meetings were held during the financial year. The members during the financial year are as follows:

Mohamed Zaheer Mohamed Azreen - Chairman  
Md Adnan Md Zain - Member  
Khalid Sufat - Member

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

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

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

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### **Board Credit Committee (Cont'd.)**

<b>Name of Directors</b>	<b>No of Meetings Attended</b>	<b>Total Percentage of Attendance (%)</b>
Mr. Mohamed Zaheer Mohamed Azreen	8/8	100%
En. Khalid Sufat	8/8	100%
En Md Adnan Md Zain	8/8	100%

#### **Board Corporate Governance Committee**

The Board Corporate Governance Committee ("BCGC") currently consists of one (1) non-independent non-executive director and one (1) independent non-executive director. One (1) BCGC meetings was held during the financial year. The Chairmanship of the BCGC is reserved for the Board Chairman. The members during the financial year are as follows:

Hamad A H D AlMarzouq - Chairman (Ceased to be the Chairman on 1 November 2016)

Mohammad Nasser AlFouzan - Member

Md Adnan Md Zain - Member

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 sole BCGC meeting for 2016 is set out below:

<b>Name of Directors</b>	<b>No of Meetings Attended</b>	<b>Total Percentage of Attendance (%)</b>
Mr Hamad A H D Almarzouq ∞ (Chairman)	1/1	100%
En Md Adnan Md Zain	1/1	100%
Mr Mohammad Nasser AlFouzan	1/1	100%

Note:

∞ Resigned with effect from 01.11.2016

#### **Board Remuneration**

A summary of the total remuneration of the Directors, in aggregate with categorization into appropriate Board Committees for the financial year ended 31 December 2016 is disclosed under Note 35 of the Audited Financial Statements.

#### **Tenure of Independent Director**

The Bank has a Policy on Tenure of Appointment / Re-appointment of Non-executive Directors which stipulates that the tenure for independent directors shall be for a 3-year term with a maximum service tenure of nine (9) years.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### Board Training

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

Training programmes / workshops attended by Directors in the year 2016 were as follows:-

Name of Directors	Training Programmes/ Workshops Attended	Training/Workshops Scope & Description
En Khalid Sufat	1. ACCA Annual Conference (10 May 2016)	· Contrasting Leadership Effectiveness in the "Before Google" and "After Google" ages · Presentation of ACCA Research & Insights · The golden compass – Discussion on the economic outlook and direction of TPPA and AEC · Updates on GST since it comes into effect from 1 April 2015
	2. PNB Investment Series (30 May 2016)	· International Forum on World's Economic Outlook
	3. Futures Opportunities of Polymers (30 May 2016)	· The future opportunities of polymers
	4. National Accountants Conference (30 May 2016)	· To discuss and share insights on today's most pressing issues, challenges and opportunities of the accounting and business world.
	5. Malaysian Institute of Corporate Governance (MICG) (28 September 2016)	· Understanding the role of the Chairman & Independent Director
	6. An Overview Of Shariah Governance Framework In Malaysia In Its Effect On Islamic Banks (26 October 2016)	· Understanding current practice of Shariah Governance within the context of Islamic Banks.
Mr Mohamed Zaheer Mohamed Azreen	1. Capital Market Directors Programme (CMDP) - Module 1 (24 October 2016) - Module 2B (25 October 2016) - Module 3 (25 October 2016) - Module 4 (26 October 2016)	· Good Corporate Governance · Business Challenges & Regulatory Expectations · Risk Oversight & Compliance · Capital Market in Malaysia
	2. Ernst & Young GCC VAT Conference (21 November 2016)	· Proposed Introduction of Value Added Tax in the Gulf Cooperation Council.
	3. CA Kuwait Chapter- BEPS, FATCA and CRS (6 December 2016)	· Understanding on Base Erosion and Profit Sharing · Conceptual understanding of the FATCA Law · CRS Reporting
Md Adnan Md Zain	1. Directors' Remuneration Report 2015 (25 February 2016)	· Briefing Session for Directors. Implementation Of The Recommendations by FIDE Forum
	2. Wealth Management Conference (23 March 2016)	· To create public awareness of the importance of wealth management and financial planning
	3. Financial Planning Industry Conference (26 May 2016)	· Annual gathering of the practitioners in the financial planning profession
	4. Foreign Exchange Administration Rules (FEAR) (20 July 2016)	· Guideline for trade (export and import) · Brief overview on the relevance provision · Learn on the documentation required and the important to ensure compliance

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**2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

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

**Board Training (Cont'd.)**

Name of Directors	Training Programmes/ Workshops Attended	Training/Workshops Scope & Description
Md Adnan Md Zain	5. Capital Market Directors Programm (CMDP) - Module 2B (27 July 2016) - Module 3 (28 July 2016) - Module 4 (29 July 2016) - Module 1 (5 September 2016)	· Good Corporate Governance · Business Challenges & Regulatory Expectations · Risk Oversight & Compliance · Capital Market in Malaysia
	6. MNRB Holdings Directors' Training Programme (23 October 2016)	· Trainings on directorship
	7. An Overview Of Shariah Governance Framework In Malaysia In Its Effect On Islamic Banks (26 October 2016)	· Understanding current practice of Shariah Governance within the context of Islamic Banks.
Ahmad S A A Al Kharji	1. FIDE Core Programme – Module A (10-13 March 2016)	· Board Leadership · Fiduciary Responsibilities · Oversight Role in Risk Management
Mr Mohammad Nasser AlFouzan	1. FIDE Core Programme – Module A (6-9 September 2016)	· Board Leadership · Fiduciary Responsibilities · Oversight Role in Risk Management
	2. Capital Market Directors Programm (CMDP) - Module 1 (28 November 2016) - Module 2B (29 November 2016) - Module 3 (29 November 2016) - Module 4 (30 November 2016)	· Good Corporate Governance · Business Challenges & Regulatory Expectations · Risk Oversight & Compliance · Capital Market in Malaysia
Abdul Khalil Abdul Hamid	1. Dialogue on The New and Revised Auditor Reporting Standards (20 January 2016)	· Implications to Financial Institutions
	2. Industry Briefing (17 February 2016)	· On Directors' Register Implementation
	3. Focus Group Discussion (3 March 2016)	· In Preparation for Dialogue with BNM's Senior Management
	4. FIDE Forum (16 March 2016)	· 1st Distinguished Board Leadership Series – Cyber-Risk Oversight
	5. FIDE Forum (29 March 2016)	· Annual Dialogue with the Governor – Economic and Financial Services Sector: Trends and Challenges Moving Forward
	6. FIDE Forum (5 April 2016)	· Dialogue Session with Mr Rob Russell, Head of Financial Lines, Jardine Lloyd Thompson (JLT) Malaysia
	7. FIDE Forum (19 April 2016)	· 2nd Distinguished Board Leadership Series – Avoiding Financial Myopia
	8. FIDE Forum (26 April 2016)	· Dialogue with Deputy Governor on the Corporate Governance Concept Paper
	9. Audit Committee Institute Breakfast Roundtable 2016 (26 April 2016)	· Centers on Sustainability Reporting.
	10. Bank's Induction Programme (13 July 2016)	· To provide new Directors with the necessary information of the industry as well as an overview of the Group's business operations.
	11. Foreign Exchange Administration Rules (FEAR) (20 July 2016)	· Guideline for trade (export and import) · Brief overview on the relevance provision · Learn on the documentation required and the important to ensure compliance
	12. FIDE Forum (25 July 2016)	· 3rd Distinguished Board Leadership Series - Effective Board Evaluation
	13. FIDE Forum (4 August 2016)	· Financial Technology (FinTech): Business Opportunity or Disruptor
	14. FIDE Forum (29 August 2016)	· Securities Commission - FinTech's Impact On Financial Institutions
	15. FIDE Forum (2 November 2016)	· Technology-based Innovation that Counts
	16. FIDE Forum (14 November 2016)	· Strategy to Leverage Technology For Business Solutions
	17. An Overview Of Shariah Governance Framework In Malaysia In Its Effect On Islamic Banks (26 October 2016)	· Understanding current practice of Shariah Governance within the context of Islamic Banks.

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

#### Compliance to BNM Corporate Governance Policy

The Bank has been working towards compliance to the BNM Corporate Governance Policy that was issued on 3 August 2016. Apart from requirements in which financial institutions were given transitional periods to comply, work on the following gap is also being undertaken:-

No	Description	Explanation
17.5	Must have a robust succession plan	<p><u>Reasons for the gap</u></p> <p>1. Due to the numerous changes to the Bank's leadership and organization structure and distraction of a possible divestment exercise in year 2015, there is no continuity in support, endorsement and agreement for staff career development including succession planning. For obvious reasons, the effort in these areas have not been emphasized and worked on.</p> <p>2. A pre-requisite of the succession plan is an updated and agreed organization chart with a formalization of the reporting lines, span of control, number of positions and an assessment of seniority levels.</p> <p><u>Actions to close the gap</u></p> <p>1. The top-level organization chart was finalised in January 2017. Subsequently other parts of the KFHMB organization will be developed which are appropriate in relation to an effective- and efficient organization in their respective areas. It is expected that the organization infrastructure considerations of the top chart and the Banking Divisions will all be completed in Quarter one 2017.</p> <p>2. Quarter 2 will be dedicated to a job sizing and calibration exercise on which basis the succession plan can be prepared and presented to the Board, early Quarter 3, 2017.</p>

### (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.

# **KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**

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## **2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

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

#### ***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.

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.

At the Management level, committees that have been established to complement governance, risk and internal control systems include the Management Committee ("MANCO"), Administrative and Operations Committee ("AOC"), Management Credit Committee ("MCC"), Asset Liability Management Committee ("ALCO"), Information Technology Steering Committee ("ITSC"), Tender Committee and Provision Review Committee.

#### ***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.



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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

### (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 Board Risk Management Committee ("BRMC") are to oversee the banks' activities in managing credit, market, operational and other risks and to ensure that the risk management process is robust and functions effectively.

#### **Highlights of major achievements**

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

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

- Implementation of data loss prevention system with the objective to strengthen the control measures on data leakage.
- Continued improvement in the corporate governance practices by ensuring compliance against the relevant regulatory requirements and KFH Kuwait Subsidiary Corporate Governance Policy.
- Reviewed comprehensiveness of all takaful coverages subscribed by the Bank to ensure the Bank's interest is adequately safeguarded.
- Enhanced the anti-money laundering system to be more efficient in detecting and capturing potential money laundering activities as well as conducting the required screening on existing and potential customers against entities suspected involved in terrorism as issued by United Nations Security Council ("UNSC") and Kementerian Dalam Negeri.

#### **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

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## **2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

### **(iii) Risk Management (Cont'd.)**

#### **Three Lines of Defence Concept**

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

#### **Credit Risk Management**

The Bank defines credit risk as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. Corporate and commercial financing segment continues to contribute major share of the Bank's financing and investment assets with 62% of the Bank's financing asset portfolio while the consumer financing segment contributed 38% of the Bank's total financing assets in 2016.

Credit risk limit is further refined with the full implementation of the new Single Counterparty Exposure Limit ("SCEL") requirements. A Weighted Average Credit Grade ("WACG") and more detailed assessment on real estate exposure are implemented to monitor the quality of the Corporate and Commercial portfolio.

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

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

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

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

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

### (iii) Risk Management (Cont'd.)

#### **Market Risk Management**

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

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

#### **Liquidity Risk Management**

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

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

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

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

#### **Profit Rate (Rate of Return) Risk Management**

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

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

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

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## **2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

### **(iii) Risk Management (Cont'd.)**

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

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

- The total of fixed rate financing over the Bank's total financing;
- The 3 months rate sensitive assets over the 3 months rate sensitive liabilities; and
- Present Value of 01 ("PV01") measurement.

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

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

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

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

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

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

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## **2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)**

### **(iii) Risk Management (Cont'd.)**

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

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

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

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

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

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

### (iii) Risk Management (Cont'd.)

#### Capital Adequacy Framework Initiatives

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

#### Pillar 1

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

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

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

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

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

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

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

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## 2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

### (iii) Risk Management (Cont'd.)

#### **Capital Adequacy Framework Initiatives (Cont'd.)**

##### Pillar 3

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

##### Stress Test

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

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

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

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

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

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**DIRECTORS' REPORT**

The directors hereby submit their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2016.

**PRINCIPAL ACTIVITIES**

The Bank is principally engaged in the Islamic banking business as allowed under the Islamic Financial Services Act, 2013.

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

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

**RESULTS**

	<b>Group</b> <b>RM'000</b>	<b>Bank</b> <b>RM'000</b>
Net loss for the year	<u>(28,277)</u>	<u>(29,710)</u>

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

**DIVIDENDS**

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



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**DIRECTORS**

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

Mohammad Nasser AlFouzan

Mohamed Zaheer Mohamed Azreen

Khalid Sufat

Md Adnan Md Zain

Abdul Khalil Abdul Hamid (Appointed on 10 June 2016)

Hamad A H D AlMarzouq (Resigned as Independent Non-Executive Director/Chairman on 1 November 2016)

Ahmad S A A AlKharji (Resigned as Chief Executive Officer and Managing Director and Redesignated as Non-Independent Non-Executive Director on 6 July 2016)

Gopala Krishnan A/L K Sundaram (Expiry of term of office on 10 June 2016)

**DIRECTORS' BENEFITS**

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 35 of the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest except for those transactions carry in the ordinary course of business as disclosed in Note 38 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 2016.

**CHANGES IN SHARE CAPITAL**

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

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**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 8, 28, 29 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 the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper actions had been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowances 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 allowances for bad debts in the financial statements of the Group and 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 valuations of assets or liabilities of the Group and of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.

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**OTHER STATUTORY INFORMATION (Cont'd.)**

(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 other than those arising in the normal course of business of the Group and of the Bank.

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and 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 2017**

The year 2017 will be the year of Simpler-Better-Faster for KFHMB with several key themes namely rebuild and stabilize, re-balance the portfolio, focus on customer and to launch INSPIRE programme. The Bank will further build its balance sheet and stabilize its structure to compete in the market. The Bank will also re-balance its portfolio by building the retail business as well as to book quality assets in the wholesale banking to ensure stability of the earnings.

The key themes for 2017 will also to cater for the business needs of customers through several initiatives by introducing new products and services in both retail and wholesale. And INSPIRE programme is set to be introduced and to become the main values to the Bank. Overall, this is the strategy that KFHMB aspires to be a strong brand in the Islamic banking space and to enlarge the current market share in Malaysia.

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## **OUTLOOK FOR 2017**

The Malaysian economy is expected to expand between 4% to 5% in 2017 (2016: 4% - 4.5%), underpinned by strong domestic demand, especially private sector expenditure. Pro-growth fiscal and accommodative monetary policies will support the private sector activity in a stable inflation environment of between 2% to 3% in 2017 (2016: 2% - 2.5%). Similarly, higher capital investment by public corporations will drive the public sector expenditure, going forward. On the supply side, services will continue to account for the largest share of GDP and Malaysia's global pre-eminence in the provision of Islamic finance will support the growth of the financial services sector. However, several downside risks remain such as further slowdown in the world economy and heightening volatility in global financial markets. Overall, we continue to expect BNM to keep the overnight policy rate (OPR) steady throughout 2017 and the current monetary policy stance is appropriate to support the economic activity.

## **RATING BY EXTERNAL RATING AGENCY**

<b>Rating Agency</b>	<b>Date</b>	<b>Current Rating</b>	<b>Outlook</b>
Malaysian Rating Corporation Berhad (MARC)	November 2016	AA+ / MARC-1	Stable

## **DISCLOSURE OF SHARIAH COMMITTEE**

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Seven (7) Shariah Committee Meetings were held with full attendance from all members and thirty six (36) 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 Isa Abdulla Yusuf Dowaishan (Member)
- (d) Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali (Member)
- (e) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi (Member)

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**DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)**

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

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

**ZAKAT OBLIGATIONS**

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

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## AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 27 January 2017.



**Mohammad Nasser AlFouzan**  
Director



**Khalid bin Sufat**  
Director

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**STATEMENT BY DIRECTORS**  
**Pursuant To Section 169 (15) of the Companies Act, 1965**

We, Mohammad Nasser AlFouzan and Khalid bin Sufat, 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 37 to 210 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 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 27 January 2017.



**Mohammad Nasser AlFouzan**  
Director



**Khalid bin Sufat**  
Director

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

I, David Raymond Power, being the officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 37 to 210, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared  
by the abovenamed David Raymond Power  
at Kuala Lumpur, in the Federal Territory  
on 27 January 2017



David Raymond Power

BEFORE ME





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

**REPORT OF SHARIAH COMMITTEE**

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

We have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries ("the Group") during the year ended 31 December 2016. We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles and also with the Shariah rulings issued by us.

Kuwait Finance House (Malaysia) Berhad's Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form our independent opinion, based on our review of the operations of Kuwait Finance House (Malaysia) Berhad, and to report to you.

We conducted our review through Shariah Division and approved samples of contracts, agreements and reviewed operations related to the transactions of Kuwait Finance House (Malaysia) Berhad's with shareholder, investors and others. This has been done by selecting random samples according to the annual Shariah Review Plan on all departments, and by regular reports submitted by Shariah Division regarding the review process, field visits, conduct of business and proper implementation of decisions issued by the Committee.

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

In our opinion:

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2016 that we have reviewed are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account and disposed of to charitable causes;
- (d) the calculation of Zakat is in compliance with Shariah rules and principles; and
- (e) any known non compliance with Shariah and action taken to remedy such non compliance as reported by the licensed person as specified in the circular on Shariah Non-Compliance Reporting.

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

**REPORT OF SHARIAH COMMITTEE**

The licensed person may refer to the illustration provided in the Shariah Governance Framework for Islamic Financial Institutions.

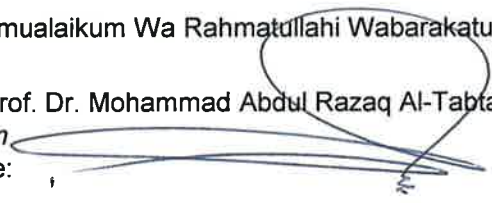
This opinion is rendered based on what has been presented to us by the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Division.

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: 27 January 2017

Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam

*Member*

Signature: 

Date: 27 January 2017

Sheikh Isa Abdulla Yusuf Dowaishan

*Member*

Signature: 

Date: 27 January 2017

Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali

*Member*

Signature: 

Date: 27 January 2017

Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi

*Member*

Signature: 

Date: 27 January 2017

Date: 27 January 2017

Kuala Lumpur, Malaysia

672174-T

**Independent auditors' report to the members 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 2016 of the Group and of the Bank, and the income statements and 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 37 to 210.

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 2016, 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 1965 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 auditors' report thereon*

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

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

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

*Information other than the financial statements and auditors' report thereon (continued)*

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 requirements of the Companies Act 1965 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 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 has 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.

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:

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

*Auditors' responsibilities for the audit of financial statements (continued)*

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

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

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

**Report on other legal and regulatory requirements**

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

**Other matters**

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



Ernst & Young  
AF: 0039  
Chartered Accountants



Dato' Megat Iskandar Shah Bin Mohamad Nor  
No. 3083/07/17(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
27 January 2017

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

**STATEMENT OF FINANCIAL POSITION**

		Group		
		2016	2015	
Note		RM'000	RM'000	
<b>ASSETS</b>				
	Cash and short-term funds	4	2,341,840	1,558,023
	Deposits and placements with banks and other financial institutions	5	171,073	211,618
	Investment accounts due from designated financial institutions	19	8,563	7,490
	Hedging financial instruments	10	5,956	9,267
	Securities available-for-sale	6	1,092,402	1,135,222
	Securities held-to-maturity	7	61,251	61,251
	Financing, advances and other receivables	8	6,494,270	7,002,145
	Other assets	9	190,369	211,325
	Statutory deposit with Bank Negara Malaysia	11	201,000	242,000
	Musarakah capital investment	12	5,898	5,898
	Property and equipment	14	13,633	17,885
	Intangible assets	15	10,719	7,763
	Deferred tax assets	16	198,329	198,141
	<b>TOTAL ASSETS</b>		<b>10,795,303</b>	<b>10,668,028</b>
<b>LIABILITIES</b>				
	Deposits from customers	17	4,329,342	3,640,007
	Investment accounts of customers	19	8,563	7,490
	Deposits and placements of banks and other financial institutions	18	4,261,411	4,849,350
	Hedging financial instruments	10	1,163	459
	Subordinated Murabahah Tawarruq	22	451,070	429,538
	Other liabilities	20	96,976	73,713
	<b>TOTAL LIABILITIES</b>		<b>9,148,525</b>	<b>9,000,557</b>
<b>SHAREHOLDER'S EQUITY</b>				
	Share capital	23	1,425,272	1,425,272
	Reserves	24	221,506	242,199
	<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,646,778</b>	<b>1,667,471</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>			<b>10,795,303</b>	<b>10,668,028</b>

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

**STATEMENT OF FINANCIAL POSITION (CONT'D.)**

		<b>Group</b>	
<b>Note</b>	<b>2016</b>	<b>2015</b>	
	<b>RM'000</b>	<b>RM'000</b>	
<b>COMMITMENTS AND CONTINGENCIES</b>	39	895,885	918,748
<b>CAPITAL ADEQUACY</b>			
CET 1/Tier 1 capital ratio	41	20.275%	18.827%
Total capital ratio	41	27.722%	25.493%
<b>NET ASSETS PER SHARE (RM)</b>		1.16	1.17

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		
		2016	2015	
Note		RM'000	RM'000	
<b>ASSETS</b>				
	Cash and short-term funds	4	2,341,840	1,558,023
	Deposits and placements with banks and other financial institutions	5	199,165	239,536
	Investment accounts due from designated financial institutions	19	8,563	7,490
	Hedging financial instruments	10	5,956	9,267
	Securities available-for-sale	6	1,059,538	1,052,370
	Securities held-to-maturity	7	61,251	61,251
	Financing, advances and other receivables	8	6,494,270	7,002,145
	Other assets	9	189,975	210,372
	Statutory deposit with Bank Negara Malaysia	11	201,000	242,000
	Musarakah capital investment	12	5,898	5,898
	Investment in subsidiaries	13	15,069	18,680
	Property and equipment	14	13,276	17,683
	Intangible assets	15	10,363	7,240
	Deferred tax assets	16	198,329	198,141
	<b>TOTAL ASSETS</b>		<b>10,804,493</b>	<b>10,630,096</b>
<b>LIABILITIES</b>				
	Deposits from customers	17	4,295,095	3,556,307
	Investment accounts of customers	19	8,563	7,490
	Deposits and placements of banks and other financial institutions	18	4,336,014	4,922,132
	Hedging financial instruments	10	1,163	459
	Subordinated Murabahah Tawarruq	22	451,070	429,538
	Other liabilities	20	96,141	72,931
	<b>TOTAL LIABILITIES</b>		<b>9,188,046</b>	<b>8,988,857</b>
<b>SHAREHOLDER'S EQUITY</b>				
	Share capital	23	1,425,272	1,425,272
	Reserves	24	191,175	215,967
	<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,616,447</b>	<b>1,641,239</b>
	<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>10,804,493</b>	<b>10,630,096</b>

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

**STATEMENT OF FINANCIAL POSITION (CONT'D.)**

		Bank	
Note	2016 RM'000	2015 RM'000	
<b>COMMITMENTS AND CONTINGENCIES</b>	39	895,885	918,748
<b>CAPITAL ADEQUACY</b>			
CET 1/Tier 1 capital ratio	41	19.505%	18.241%
Total capital ratio	41	26.979%	24.953%
<b>NET ASSETS PER SHARE (RM)</b>		1.13	1.15

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## INCOME STATEMENTS

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Operating revenue	25	490,620	483,640	489,033	483,335
Income derived from investment of depositors' funds and others	26	399,607	394,630	399,316	392,388
Income derived from investment of investment account funds	31	258	68	258	68
Income derived from investment of shareholder's equity	27	90,755	88,942	89,459	90,879
Total gross income		490,620	483,640	489,033	483,335
Impairment allowance on financing, advances and other receivables	28	(78,442)	(99,743)	(78,442)	(99,743)
Impairment writeback/(allowances) on investments	29	334	(11,287)	(4,331)	(14,723)
Total distributable income		412,512	372,610	406,260	368,869
Income attributable to the depositors	30	(258,520)	(248,066)	(259,306)	(248,189)
Profit distributed to investment account holders	31	(154)	(41)	(154)	(41)
Total net income		153,838	124,503	146,800	120,639
Personnel expenses	32	(83,276)	(81,280)	(80,161)	(78,358)
Other overheads and expenditures	33	(86,126)	(68,133)	(83,656)	(65,393)
Finance cost	34	(12,693)	(12,250)	(12,693)	(12,250)
Loss before zakat and taxation		(28,257)	(37,160)	(29,710)	(35,362)
Taxation	36	(20)	(20)	-	-
Net loss for the year		(28,277)	(37,180)	(29,710)	(35,362)
Attributable to:					
- Equity holder of the Bank		(28,277)	(37,180)	(29,710)	(35,362)
Loss per share (sen)					
- Basic/Diluted	37	(1.98)	(2.61)		

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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Net loss for the year	(28,277)	(37,180)	(29,710)	(35,362)
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised gain/(loss) on securities available-for-sale	4,310	(13,220)	3,707	(11,317)
- Net realised loss on securities available-for-sale reclassified to the income statements	564	4,066	889	3,268
Exchange differences on translation of foreign operations:				
- Net gain taken to equity	2,388	7,653	-	-
Income tax relating to components of other comprehensive income (Note 16)	322	44	322	113
Other comprehensive income/(loss) for the year, net of tax	7,584	(1,457)	4,918	(7,936)
Total comprehensive loss for the year	(20,693)	(38,637)	(24,792)	(43,298)
Total comprehensive loss for the year attributable to equity holder of the Bank	(20,693)	(38,637)	(24,792)	(43,298)

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	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available- For-Sale Reserve RM'000		Retained Earning RM'000
<b>Group</b>						
<b>At 1 January 2016</b>	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
Total comprehensive loss	-	-	2,388	5,196	(28,277)	(20,693)
<b>At 31 December 2016</b>	1,425,272	158,385	7,090	(9,254)	65,285	1,646,778
<b>At 1 January 2015</b>	1,425,272	158,385	(2,951)	(5,340)	130,742	1,706,108
Total comprehensive loss	-	-	7,653	(9,110)	(37,180)	(38,637)
<b>At 31 December 2015</b>	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
<b>Bank</b>						
<b>At 1 January 2016</b>	1,425,272	158,385	-	(13,918)	71,500	1,641,239
Total comprehensive loss	-	-	-	4,918	(29,710)	(24,792)
<b>At 31 December 2016</b>	1,425,272	158,385	-	(9,000)	41,790	1,616,447
<b>At 1 January 2015</b>	1,425,272	158,385	-	(5,982)	106,862	1,684,537
Total comprehensive loss	-	-	-	(7,936)	(35,362)	(43,298)
<b>At 31 December 2015</b>	1,425,272	158,385	-	(13,918)	71,500	1,641,239

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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before zakat and taxation	(28,257)	(37,160)	(29,710)	(35,362)
<b>Adjustments for:</b>				
Impairment allowances on financing, advances and other receivables (Note 28)	78,442	99,743	78,442	99,743
Amortisation of premium less accretion of discounts (Notes 26 and 27)	5,263	3,324	5,261	3,321
Finance cost (Note 34)	12,693	12,250	12,693	12,250
Depreciation of property and equipment (Note 33)	9,267	10,168	9,156	10,019
Amortisation of intangible assets (Note 33)	2,689	3,552	2,466	3,355
Property and equipment written off (Note 14)	-	200	-	190
Gain on disposal of property and equipment (Note 27)	(41)	-	(41)	-
Net gains on sale of securities available-for-sale (Notes 26 and 27)	(7,436)	(4,166)	(7,498)	(3,097)
Net gains on sale of securities held-for-trading (Notes 26 and 27)	(1,330)	(160)	(1,330)	(160)
Impairment (writeback)/allowance on securities available-for-sale and others (Note 29)	(289)	10,239	765	13,675
Other impairment loss (Note 29)	(45)	1,048	3,566	1,048
Unrealised loss on foreign translations (Note 27)	6,170	7,954	6,178	7,828
Unrealised loss on revaluation of securities held-for-trading, and Ijarah rental swap (net) (Note 27)	3,178	2,459	3,178	2,459
Operating profit before working capital changes	80,304	109,451	83,126	115,269
<b>Increase/(decrease) in operating assets</b>	530,861	(515,883)	530,128	(518,398)
Deposits and placements with banks and other financial institutions	40,545	(100,003)	40,371	(102,502)
Investment accounts due to designated financial institutions	(1,073)	(7,490)	(1,073)	(7,490)
Financing, advances and other receivables	429,433	(398,362)	429,433	(398,365)
Other assets	20,956	9,772	20,397	9,759
Statutory deposit with Bank Negara Malaysia	41,000	(19,800)	41,000	(19,800)
<b>Increase in operating liabilities</b>	125,732	216,927	176,953	264,090
Deposits from customers	689,335	(420,364)	738,788	(407,235)
Investment accounts due to designated financial institutions	1,073	7,490	1,073	7,490
Deposits and placements of banks and other financial institutions	(587,939)	669,118	(586,118)	705,132
Other liabilities	23,263	(39,317)	23,210	(41,297)

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## STATEMENTS OF CASH FLOWS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)</b>				
Cash generated from/(used in) operations	736,897	(189,505)	790,207	(139,039)
Tax paid	(20)	(20)	-	-
<b>Net cash generated from/(used in) operating activities</b>	<b>736,877</b>	<b>(189,525)</b>	<b>790,207</b>	<b>(139,039)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net proceeds from sales of securities	62,334	280,648	11,074	234,969
Investment in subsidiaries	-	(1,048)	-	(296)
Proceeds from disposal of property and equipment	53	-	53	-
Purchase of property and equipment (Note 14)	(9,307)	(3,170)	(9,041)	(3,119)
Purchase of intangible assets (Note 15)	(1,431)	(1,747)	(1,309)	(1,747)
<b>Net cash generated from investing activities</b>	<b>51,649</b>	<b>274,683</b>	<b>777</b>	<b>229,807</b>
<b>Net increase in cash and cash equivalents</b>	<b>788,526</b>	<b>85,158</b>	<b>790,984</b>	<b>90,768</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,577,005</b>	<b>1,487,145</b>	<b>1,577,007</b>	<b>1,486,239</b>
Exchange differences on translation of opening balances	7,090	4,702	-	-
<b>Cash and cash equivalents at end of year</b>	<b>2,372,621</b>	<b>1,577,005</b>	<b>2,367,991</b>	<b>1,577,007</b>
<b>Cash and cash equivalents comprises:</b>				
Cash and short-term funds (Note 4)	2,341,840	1,558,023	2,341,840	1,558,023
Deposits and placements with banks and other financial institutions (Note 5)	171,073	211,618	199,165	239,536
Investment accounts due from designated financial institutions (Note 19)	8,563	7,490	8,563	7,490
	<b>2,521,476</b>	<b>1,777,131</b>	<b>2,549,568</b>	<b>1,805,049</b>
Less: Deposit with contractual maturity more than 3 months	(148,855)	(200,126)	(181,577)	(228,042)
<b>Cash and cash equivalents</b>	<b>2,372,621</b>	<b>1,577,005</b>	<b>2,367,991</b>	<b>1,577,007</b>

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

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**1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

The Bank is principally engaged in the provisions of Islamic banking business as allowed under the Islamic Financial Services Act, 2013. The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund management and asset management. There have been no significant changes in the nature of the principal activities during the financial year.

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-Qebila, 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 27 January 2017.

**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, 1965 in Malaysia.

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

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery of settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 48.

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

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



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**3 SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

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

**(b) Subsidiaries and Basis of Consolidation**

**(i) Subsidiaries**

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

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

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

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Summary of Significant Accounting Policies**

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

**(ii) Basis of Consolidation**

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

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

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

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

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

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

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

**(c) Fair value measurement**

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

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

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

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

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

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

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

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

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 43.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(d) Financial assets**

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

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

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

**(i) Financial assets at fair value through profit and loss ("FVTPL")**

Financial assets at FVTPL consist of investment in securities held-for-trading and hedging financial instruments.

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

Profit from securities held-for-trading calculated using the effective yield rate method, is recognised in profit or loss.

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

The accounting policies in relation to hedging financial instruments are disclosed in Note 3.1 (o).

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(d) Financial assets (Cont'd.)**

**(ii) 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. Gains and losses are recognised in profit or loss when the financing, advances and other receivables are derecognised or impaired, and through the amortisation process.

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

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(d) Financial assets (Cont'd.)**

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

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 statement.

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.

**(iii) 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. A gain or loss is recognised in profit or loss when the securities are derecognised or impaired, and through the amortisation process.

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(d) Financial assets (Cont'd.)**

**(iv) 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 profit or loss.

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

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

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(d) Financial assets (Cont'd.)**

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

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

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

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

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

**(e) Financial liabilities**

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

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

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



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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(f) Property and Equipment, and Depreciation**

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(g) Intangible Assets**

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

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

**(h) Other Assets**

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

**(i) Musyarakah Capital Investment and Musyarakah Financing**

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(j) Provision for Liabilities**

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

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

**(k) Income Tax**

**(i) Current tax**

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

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

**(ii) Deferred tax**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(k) Income Tax (Cont'd.)**

**(ii) Deferred tax (Cont'd.)**

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

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

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(l) Revenue Recognition**

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

**(i) Finance Income Recognition**

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

Murabahah

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

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

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

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

**(ii) Fee and Other Income Recognition**

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

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

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(m) Profit Expense Recognition**

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

**(n) Foreign Currencies**

**(i) Functional and Presentational Currency**

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

**(ii) Foreign Currency Transactions**

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

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.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**3.1 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) Hedging financial instruments**

The initial recognition of hedging financial instruments is at fair value, and subsequently remeasured at fair value with the resulting gain or loss recognised in profit or loss. 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 profit or loss.

**(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 profit or loss unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(o) Hedging financial instruments (Cont'd)**

**(ii) Profit Rate, Foreign Currency and Ijarah Rental Swaps (Cont'd.)**

**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.

**Cash flow hedge**

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

**(p) Employee Benefits**

**(i) Short-Term Benefits**

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

**(ii) Defined Contribution Plan**

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



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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(q) Zakat**

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

**(r) Profit Equalisation Reserves ("PER")**

PER is the amount appropriated out of total gross income in order to maintain a certain level of return to depositors in conformity with Bank Negara Malaysia's "The Framework of Rate of Return (BNM/GP2-i)".

The Bank does not maintain PER as the Bank has been utilising income from shareholder's fund to stabilise the rate of return to depositors.

**(s) Impairment of Non-Financial Assets**

The carrying amounts of assets (other than investment in subsidiaries, associated companies 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.

The carrying amounts of assets (other than investment in subsidiaries, associated companies 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.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**(s) Impairment of Non-Financial Assets (Cont'd.)**

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

An impairment loss is recognised in 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.

**(t) Financial Instruments**

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

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

**(u) Cash and Cash Equivalents**

Cash and cash equivalents include cash and bank balances and short-term deposits with remaining maturities of less than one month.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**3.1 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").

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**3.2 Changes in Accounting Policies**

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

On 1 January 2016, the Group and the Bank adopted the following new and amended MFRSs and IC Interpretation mandatory for annual financial periods beginning on or after 1 January 2016.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**3.3 Standards issued but not yet effective**

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

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Bank plans to adopt the above pronouncements when they have become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Bank upon their initial application except as describe below.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**MFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Directors anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Group’s and the Bank’s financial statements. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

**MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

**MFRS 16 Leases**

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

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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 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 plans to assess the potential effect of MFRS 16 on its financial statements in year 2017.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**3.4 Significant Accounting Estimates and Judgments**

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

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

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

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



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**3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

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

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

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

**(c) Deferred tax and income taxes**

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

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

**(d) Income recognition on Musyarakah and Mudharabah financing**

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>4 CASH AND SHORT-TERM FUNDS</b>				
Cash and balances with banks and other financial institutions	127,452	46,667	127,452	46,667
Money at call and interbank placements with remaining maturity less than one month	2,214,388	1,511,356	2,214,388	1,511,356
	<b>2,341,840</b>	<b>1,558,023</b>	<b>2,341,840</b>	<b>1,558,023</b>
<b>5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS</b>				
Other financial institutions	171,073	211,618	199,165	239,536
	<b>171,073</b>	<b>211,618</b>	<b>199,165</b>	<b>239,536</b>
<b>6 SECURITIES AVAILABLE-FOR-SALE</b>				
<u>At fair value</u>				
Unquoted securities				
Islamic private debt securities/sukuk	444,691	508,778	431,467	444,640
Government guaranteed sukuk	573,686	462,849	573,686	462,849
Mutual Fund	-	86,638	-	86,638
	<b>1,018,377</b>	<b>1,058,265</b>	<b>1,005,153</b>	<b>994,127</b>
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	19,640	18,714	-	-
Collective Investment Scheme	18,285	22,143	18,285	22,143
	<b>74,025</b>	<b>76,957</b>	<b>54,385</b>	<b>58,243</b>
	<b>1,092,402</b>	<b>1,135,222</b>	<b>1,059,538</b>	<b>1,052,370</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 7 SECURITIES HELD-TO-MATURITY

At amortised cost

Unquoted securities:

Islamic private debt securities/sukuk

Group and Bank	
2016	2015
RM'000	RM'000
61,251	61,251

### 8 FINANCING, ADVANCES AND OTHER RECEIVABLES

#### (i) At amortised cost

Term financing

- House financing

- Personal financing

- Leasing financing

- Syndicated financing

- Cashline financing

- Hire purchase receivables

- Other term financing

Staff financing

Less: Impairment allowances on financing

- Collective assessment

- Individual assessment

Net financing, advances and other receivables

Group and Bank	
2016	2015
RM'000	RM'000
762,988	588,527
1,212,692	1,294,582
50,117	100,201
331,139	333,548
6,053	5,960
541,130	407,936
3,947,681	4,671,417
11,578	12,850
6,863,378	7,415,021
(139,421)	(92,212)
(229,687)	(320,664)
6,494,270	7,002,145
2,053,752	1,894,939
4,499,057	5,193,684
71,378	77,816
1,043	1,147
236,813	245,935
1,335	1,500
6,863,378	7,415,021

#### (ii) By contract

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

(lease ended with ownership)

Murabahah (cost-plus)

Mudharabah (profit sharing)

Qard (benevolent financing) (Note 8(x))

Musyarakah (profit and loss sharing)

Istisna'

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

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

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>(iii) By type of customer</b>		
Domestic business enterprises		
- Small medium enterprises	595,133	1,203,198
- Others	3,615,471	3,694,872
Individuals	2,533,727	2,326,615
Foreign entities	14,299	34,421
Domestic non-bank financial institutions	104,748	155,915
	<b>6,863,378</b>	<b>7,415,021</b>
<b>(iv) By residual contractual maturity</b>		
Maturity within one year	3,879,579	4,578,875
More than one year to three years	225,908	20,013
More than three years to five years	139,689	323,627
More than five years	2,618,202	2,492,506
	<b>6,863,378</b>	<b>7,415,021</b>
<b>(v) By geographical distribution</b>		
Malaysia	6,846,625	7,395,927
Middle East	5,170	6,639
Other countries	11,583	12,455
	<b>6,863,378</b>	<b>7,415,021</b>
<b>(vi) By profit rate sensitivity</b>		
Fixed rate		
- House financing	7,550	8,858
- Hire purchase receivables	541,130	407,936
- Syndicated financing	331,139	333,548
- Term financing	1,593,095	1,512,649
Variable		
- House financing	760,197	609,742
- Term financing	3,630,267	4,542,290
	<b>6,863,378</b>	<b>7,415,021</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

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

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>(vii) By sector</b>		
Construction	616,724	739,278
Electricity, gas and water	157,686	162,030
Finance, insurance and business services	321,489	367,248
Household	2,533,727	2,326,614
Manufacturing	794,955	904,930
Agriculture, hunting, forestry & fishing	336,615	297,983
Real Estate	1,317,458	1,400,648
Transports, storage and communication	238,021	486,073
Wholesale & retail trade and restaurants & hotels	477,180	646,954
Others	69,523	83,263
	<b>6,863,378</b>	<b>7,415,021</b>
<b>(viii) By economic purpose</b>		
Merger and acquisition	-	230,759
Purchase of securities	219,242	22,120
Purchase of transport vehicles	544,890	416,739
Purchase of landed properties		
- residential	798,690	687,640
- non-residential	949,149	972,781
Purchase of fixed assets	86,632	176,683
Working capital	1,852,617	2,650,879
Construction	467,263	435,355
Personal use	1,230,718	1,291,879
Other purposes	714,177	530,186
	<b>6,863,378</b>	<b>7,415,021</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

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

#### (ix) Financing by types and Shariah contract

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

	Group and Bank						
	Ijarah Muntahia Bittamilik/ 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
<b>2015</b>							
House financing	562,511	97	-	24,419	-	1,500	588,527
Personal financing	-	1,294,074	-	-	508	-	1,294,582
Leasing financing	27,413	38,678	34,111	-	-	-	100,202
Syndicated financing	65,083	268,465	-	-	-	-	333,548
Cashline financing	-	5,960	-	-	-	-	5,960
Hire purchase receivables	401,035	-	-	6,901	-	-	407,936
Other term financing	828,082	3,585,385	43,705	214,245	-	-	4,671,417
Staff financing	10,815	1,026	-	371	639	-	12,850
	1,894,939	5,193,684	77,816	245,935	1,147	1,500	7,415,021

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

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>(x) Purpose and Source of Qard financing</b>		
As at 1 January	1,147	1,157
Source of Qard fund:	1,104	1,312
- Depositors' Fund	915	1,084
- Shareholders' Fund	189	229
Uses of Qard fund:	(1,208)	(1,322)
- Financing for asset purchase	(1,001)	(1,092)
- Staff Benevolent	(207)	(230)
As at 31 December (Note 8(ii))	1,043	1,147
<b>(xi) Movements in impaired financing, advances and other receivables</b>		
At 1 January	550,898	526,625
- Impaired during the year	223,973	283,019
- Reclassified to performing during the year	(7,316)	(7,137)
- Amount recovered	(149,115)	(138,588)
- Amount written off	(140,380)	(113,021)
At 31 December	478,060	550,898
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment allowance	3.74%	3.25%

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

	Group and Bank	
	2016 RM'000	2015 RM'000
<b>(xii) Movements in impairment allowances on financing, advances and other receivables</b>		
<b>Collective assessment</b>		
At 1 January	92,212	148,032
Allowance made/(written back) during the year (Note 28)	47,209	(55,820)
At 31 December	139,421	92,212
As % of total gross financing, advances and other receivables less individual impairment allowance	2.10%	1.30%
<b>Individual assessment</b>		
At 1 January	320,664	267,142
Allowance made during the year (Note 28)	49,403	166,543
<i>Allowance charged during the year</i>	151,157	199,951
<i>Allowance written-back during the year</i>	(101,754)	(33,408)
Amount written off	(140,380)	(113,021)
At 31 December	229,687	320,664
<b>(xiii) Impaired financing by sector</b>		
Agriculture, hunting, forestry and fishing	-	12,021
Electricity, gas and water	79	79
Finance, insurance and business services	9,337	28
Household	46,392	24,987
Manufacturing	191,926	274,946
Real Estate	217,688	88,202
Transport, storage and communication	7,209	25,917
Wholesale & retail trade and restaurants & hotels	5,429	124,718
	478,060	550,898



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### 9 OTHER ASSETS

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits and prepayments		8,222	8,526	7,991	8,311
Amount due from subsidiaries	(i)	-	-	4	4
Amount due from other related parties	(i)	51,561	51,561	51,561	51,561
Fee receivable		742	403	742	403
Sundry debtors		2,895	1,190	2,728	448
Gold depository		126,949	149,645	126,949	149,645
		190,369	211,325	189,975	210,372

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

### 10 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
<b>2016</b>			
Forward foreign exchange related contracts	85,225	994	1,113
Ijarah rental swap related contracts	199,152	4,962	50
Total	284,377	5,956	1,163
<b>2015</b>			
Forward foreign exchange related contracts	8,873	265	249
Ijarah rental swap related contracts	245,505	9,002	210
Total	254,378	9,267	459

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### 11 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.

### 12 MUSYARAKAH CAPITAL INVESTMENT

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

### 13 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost  
- in Malaysia

Impairment on investment in subsidiaries

Bank	
2016	2015
RM'000	RM'000
30,200	30,200
30,200	30,200
(15,131)	(11,520)
15,069	18,680

Details of the subsidiaries are as follows:

Company	Principal Activity	Country of Incorporation	Equity interest held (%)	
			2016	2015
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.	Asset management	Malaysia	100	100

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### 14 PROPERTY AND EQUIPMENT

Group 2016	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	27,991	11,883	13,620	29,102	1,981	2,907	87,484
Additions	94	144	47	314	621	8,087	9,307
Disposals	-	-	(634)	(1,349)	-	-	(1,983)
Transfers	442	-	42	822	-	(5,586)	(4,280)
Exchange difference	5	1	2	4	-	-	12
At 31 December	28,532	12,028	13,077	28,893	2,602	5,408	90,540
<u>Accumulated depreciation</u>							
At 1 January	22,074	9,128	11,615	25,098	1,684	-	69,599
Charge for the year (Note 33)	3,881	1,836	1,271	2,116	163	-	9,267
Disposals	-	-	(623)	(1,348)	-	-	(1,971)
Exchange difference	5	1	2	4	-	-	12
At 31 December	25,960	10,965	12,265	25,870	1,847	-	76,907
<u>Net book value</u>							
At 31 December	2,572	1,063	812	3,023	755	5,408	13,633
<b>Bank 2016</b>							
<u>Cost</u>							
At 1 January	27,360	11,683	13,533	28,840	1,981	2,888	86,285
Additions	94	144	46	296	621	7,840	9,041
Disposals	-	-	(634)	(1,349)	-	-	(1,983)
Transfers	442	-	42	822	-	(5,586)	(4,280)
At 31 December	27,896	11,827	12,987	28,609	2,602	5,142	89,063
<u>Accumulated depreciation</u>							
At 1 January	21,531	8,973	11,541	24,873	1,684	-	68,602
Charge for the year (Note 33)	3,822	1,806	1,263	2,102	163	-	9,156
Disposals	-	-	(623)	(1,348)	-	-	(1,971)
At 31 December	25,353	10,779	12,181	25,627	1,847	-	75,787
<u>Net book value</u>							
At 31 December	2,543	1,048	806	2,982	755	5,142	13,276

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**14 PROPERTY AND EQUIPMENT (Cont'd.)**

<b>Group 2015</b>	<b>Renovation RM'000</b>	<b>Furniture &amp; fittings RM'000</b>	<b>Office equipment RM'000</b>	<b>Computer hardware RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Work-in- progress RM'000</b>	<b>Total RM'000</b>
<u>Cost</u>							
At 1 January	27,705	11,958	13,616	28,317	1,981	2,933	86,510
Additions	275	17	15	622	-	2,241	3,170
Disposals	(53)	-	-	-	-	-	(53)
Write-offs	(154)	(97)	(16)	(129)	-	-	(396)
Transfers	202	-	2	267	-	(2,267)	(1,796)
Exchange difference	16	5	3	25	-	-	49
At 31 December	27,991	11,883	13,620	29,102	1,981	2,907	87,484
<u>Accumulated depreciation</u>							
At 1 January	18,530	7,327	10,209	22,082	1,462	-	59,610
Charge for the year (Note 33)	3,612	1,832	1,409	3,093	222	-	10,168
Disposals	(30)	-	-	-	-	-	(30)
Write-off	(56)	(37)	(6)	(97)	-	-	(196)
Exchange difference	18	6	3	20	-	-	47
At 31 December	22,074	9,128	11,615	25,098	1,684	-	69,599
<u>Net book value</u>							
At 31 December	5,917	2,755	2,005	4,004	297	2,907	17,885
<b>Bank 2015</b>							
<u>Cost</u>							
At 1 January	27,092	11,763	13,532	28,016	1,981	2,934	85,318
Additions	275	17	15	590	-	2,222	3,119
Disposals	(53)	-	-	-	-	-	(53)
Write-offs	(154)	(97)	(16)	(33)	-	-	(300)
Reclass	-	-	-	-	-	-	-
Transfers	200	-	2	267	-	(2,268)	(1,799)
At 31 December	27,360	11,683	13,533	28,840	1,981	2,888	86,285
<u>Accumulated depreciation</u>							
At 1 January	18,063	7,207	10,146	21,844	1,462	-	58,722
Charge for the year (Note 33)	3,553	1,803	1,401	3,040	222	-	10,019
Disposals	(29)	-	-	-	-	-	(29)
Write-offs	(56)	(37)	(6)	(11)	-	-	(110)
At 31 December	21,531	8,973	11,541	24,873	1,684	-	68,602
<u>Net book value</u>							
At 31 December	5,829	2,710	1,992	3,967	297	2,888	17,683

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### 15 INTANGIBLE ASSETS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Computer software</b>				
<u>Cost</u>				
At 1 January	64,066	60,253	62,467	58,921
Additions	1,431	1,747	1,309	1,747
Write-offs	-	(27)	-	-
Transfers from property and equipment	4,280	1,799	4,280	1,799
Exchange difference	10	294	-	-
At 31 December	69,787	64,066	68,056	62,467
<u>Accumulated amortisation</u>				
At 1 January	56,303	52,593	55,227	51,872
Amortisation for the year (Note 33)	2,689	3,552	2,466	3,355
Write-offs	-	(24)	-	-
Exchange difference	76	182	-	-
At 31 December	59,068	56,303	57,693	55,227
<u>Carrying amount</u>				
At 31 December	10,719	7,763	10,363	7,240

### 16 DEFERRED TAXATION

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	198,141	198,097	198,141	198,028
Recognised in other comprehensive income	322	44	322	113
Recognised in profit and loss (Note 36)	(134)	-	(134)	-
At 31 December	198,329	198,141	198,329	198,141
Presented after appropriate offsetting as follows:				
Deferred tax assets	200,184	201,464	200,184	201,464
Deferred tax liabilities	(1,855)	(3,323)	(1,855)	(3,323)
Deferred tax assets (net)	198,329	198,141	198,329	198,141

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### 16 DEFERRED TAXATION (Cont'd.)

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

	<b>Unrealised loss/(gain) on securities available- for-sale RM'000</b>	<b>Unused tax losses RM'000</b>	<b>Other temporary differences RM'000</b>	<b>Total RM'000</b>
<b>Deferred tax assets of the Group:</b>				
<b>2016</b>				
At 1 January	1,279	196,585	3,600	201,464
Recognised in profit or loss	-	(9,256)	7,654	(1,602)
Recognised in other comprehensive income	322	-	-	322
At 31 December	1,601	187,329	11,254	200,184
<b>2015</b>				
At 1 January	1,166	191,166	9,311	201,643
Recognised in profit or loss	-	5,488	(5,711)	(223)
Recognised in other comprehensive income	113	(69)	-	44
At 31 December	1,279	196,585	3,600	201,464
<b>Deferred tax assets of the Bank:</b>				
<b>2016</b>				
At 1 January	1,279	196,584	3,601	201,464
Recognised in profit or loss	-	(9,256)	7,654	(1,602)
Recognised in other comprehensive income	322	-	-	322
At 31 December	1,601	187,328	11,255	200,184
<b>2015</b>				
At 1 January	1,166	191,096	9,312	201,574
Recognised in profit or loss	-	5,488	(5,711)	(223)
Recognised in other comprehensive income	113	-	-	113
At 31 December	1,279	196,584	3,601	201,464

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### 16 DEFERRED TAXATION (Cont'd.)

The components and movements of deferred tax assets and liabilities during the financial year are as follows: (Cont'd.)

	<b>Accelerated capital allowances RM'000</b>	<b>Total RM'000</b>
<b>Deferred tax liabilities of the Group and Bank:</b>		
2016		
At 1 January	3,323	3,323
Recognised in profit or loss	(1,468)	(1,468)
At 31 December	1,855	1,855
2015		
At 1 January	3,546	3,546
Recognised in profit or loss	(223)	(223)
At 31 December	3,323	3,323

#### Unutilised tax losses and unabsorbed capital allowance

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

	<b>Group</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Unutilised tax losses	791,438	786,340
	791,438	786,340

The deferred tax assets have been recognised as at 31 December 2016 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.

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### 16 DEFERRED TAXATION (Cont'd.)

#### Unutilised tax losses and unabsorbed capital allowance (Cont'd.)

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

	Group	
	2016 RM'000	2015 RM'000
Unutilised tax losses	225,888	203,832
	225,888	203,832

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

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

### 17 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>(i) By type of deposit</b>				
Non Mudharabah				
- Demand deposits	686,580	664,685	652,831	581,459
- Gold deposits	127,209	149,585	127,210	149,585
- Savings deposits	52,844	51,407	52,844	51,407
Wakalah	498	474	-	-
Murabahah	3,462,211	2,773,856	3,462,210	2,773,856
	4,329,342	3,640,007	4,295,095	3,556,307



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### 17 DEPOSITS FROM CUSTOMERS (Cont'd.)

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>(ii) By type of customer</b>				
Business enterprises	1,760,948	1,739,879	1,602,031	1,591,087
Individuals	385,418	276,670	385,418	276,670
Subsidiaries	-	-	124,670	65,091
Government and statutory bodies	1,249,020	1,058,300	1,249,020	1,058,302
Others	933,956	565,158	933,956	565,157
	<b>4,329,342</b>	<b>3,640,007</b>	<b>4,295,095</b>	<b>3,556,307</b>
<b>(iii) By contractual maturity</b>				
Due within six months	4,014,438	3,263,593	3,980,191	3,213,578
More than six months to one year	312,324	367,782	312,324	334,097
More than one year to three years	2,580	8,632	2,580	8,632
	<b>4,329,342</b>	<b>3,640,007</b>	<b>4,295,095</b>	<b>3,556,307</b>

### 18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	452,014	247,633	452,014	247,633
Other financial institutions	3,809,397	4,597,615	3,884,000	4,674,499
<u>Wakalah</u>				
Other financial institutions	-	4,102	-	-
	<b>4,261,411</b>	<b>4,849,350</b>	<b>4,336,014</b>	<b>4,922,132</b>

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### 19 INVESTMENT ACCOUNTS OF CUSTOMERS

	Group and Bank	
	2016 RM'000	2015 RM'000
As at 1 January	7,490	-
Net placement during the year	919	7,449
Income from investment	258	68
Profit distributed to mudarib	(104)	(27)
As at 31 December	8,563	7,490
Investment asset: Wadiah placement with BNM	8,563	7,490

### Profit Sharing Ratio and Rate of Return

	Investment account holder			
	Average profit sharing ratio		Average rate of return	
	Group and Bank			
	2016 (%)	2015 (%)	2016 (%)	2015 (%)
<b>Unrestricted investment accounts:</b>				
Less than 3 months	60	60	1.84	1.87

	Group and Bank	
	2016 RM'000	2015 RM'000
Business enterprises	2,789	1,212
Individuals	4,529	6,273
Other enterprises	1,245	5
	8,563	7,490

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### 20 OTHER LIABILITIES

	Note	Group		Bank	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Sundry creditors	(i)	53,041	39,107	53,006	39,007
Accrued restoration cost		5,857	5,807	5,750	5,700
Other provisions and accruals		30,701	23,212	30,008	22,637
Undistributed charity funds	(ii)	7,377	5,587	7,377	5,587
		96,976	73,713	96,141	72,931

(i) Included in sundry creditors is an amount payable to holding company of RM0.4 million (2015: RM0.4 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

		Group and Bank	
		2016 RM'000	2015 RM'000
Sources of charity funds:			
Undistributed charity funds as at 1 January		5,587	2,241
Penalty charges on late payment		1,946	3,947
Total sources of funds during the year		7,533	6,188
Uses of charity funds:			
Contribution to Baitulmal		-	(80)
Contribution to non profit organisations		(108)	(455)
Aid to needy family		(48)	(66)
Total uses of funds during the year		(156)	(601)
Undistributed charity funds as at 31 December		7,377	5,587

### 21 PROVISION FOR ZAKAT

In 2016, 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.

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### 22 SUBORDINATED MURABAHAH TAWARRUQ

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD100,550,495 or equivalent RM451,069,519 (2015: USD100,026,396 or equivalent RM429,538,350) is unsecured effective from 31 May 2007 which extended until 23 September 2018 and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

### 23 SHARE CAPITAL

**Authorised:**

At 1 January/31 December

**Issued and fully paid:**

At 1 January/31 December

Number of ordinary shares at RM1.00 each		Amount	
2016 Units'000	2015 Units'000	2016 RM'000	2015 RM'000
3,000,000	3,000,000	3,000,000	3,000,000
1,425,272	1,425,272	1,425,272	1,425,272

### 24 RESERVES

**Non-distributable**

Statutory reserve (i)  
Exchange fluctuation reserve (ii)  
Available-for-sale reserve (iii)

**Distributable**

Retained earnings

Note	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
	158,385	158,385	158,385	158,385
	7,090	4,702	-	-
	(9,254)	(14,450)	(9,000)	(13,918)
	156,221	148,637	149,385	144,467
	65,285	93,562	41,790	71,500
	221,506	242,199	191,175	215,967

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### 24 RESERVES (Cont'd.)

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

(iii) Available-for-sale reserve

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

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At 1 January	(14,450)	(5,340)	(13,918)	(5,982)
Net unrealised (losses)/gain on securities available-for-sale financial investments	4,632	(13,176)	4,029	(11,204)
Net realised losses/(gain) on securities available-for-sale financial investments reclassified to the income statements	564	4,066	889	3,268
At 31 December	(9,254)	(14,450)	(9,000)	(13,918)

### 25 OPERATING REVENUE

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

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

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### 26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of:				
(i) General investment deposits	-	9	-	9
(ii) Other deposits	399,607	394,621	399,316	392,379
	399,607	394,630	399,316	392,388
<b>(i) Income derived from investment of general investment deposits</b>				
Finance income from financing, advances and other receivables	-	7	-	7
Securities				
- Available-for-sale	-	1	-	1
Money-at-call and deposits with financial institutions	-	1	-	1
Total finance income and hibah	-	9	-	9
	-	9	-	9

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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>(ii) Income derived from investment of other deposits</b>				
Finance income from financing, advances and other receivables	315,064	317,572	315,376	317,918
Finance income from impaired financing	279	231	279	231
Securities				
- Held-for-trading	3	102	3	102
- Available-for-sale	31,091	29,464	30,577	27,815
- Held-to-maturity	2,599	3,086	2,601	3,090
Money-at-call and deposits with financial institutions	36,038	31,554	36,221	31,587
	385,074	382,009	385,057	380,743
Amortisation of premium less accretion of discount	(4,367)	(2,743)	(4,370)	(2,743)
Total finance income and hibah	380,707	379,266	380,687	378,000
Profit from Murabahah trading on automobile	-	614	-	614
Gain arising from sale of securities				
- Held-for-trading	1,107	131	1,108	131
- Available-for-sale	6,102	3,434	6,163	2,551
Foreign exchange gain - realised	8,395	7,377	8,059	7,281
Gain on Ijarah rental swap obligations	3,296	3,799	3,299	3,802
	399,607	394,621	399,316	392,379

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### 27 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Finance income from financing, advances and other receivables	64,673	67,479	64,361	67,133
Finance income from impaired financing	59	60	59	60
Securities				
- Held-for-trading	1	22	1	22
- Available-for-sale	6,407	6,260	6,267	5,872
- Held-to-maturity	535	656	532	653
Money-at-call and deposits with financial institutions	7,189	6,629	7,183	6,596
	78,864	81,106	78,403	80,336
Amortisation of premium less accretion of discount	(896)	(581)	(891)	(578)
Total finance income and hibah	77,968	80,525	77,512	79,758
Fee income				
- Commissions	1,899	2,356	2,245	2,679
- Fund management fee	3,943	5,032	-	-
- Other fee income	5,504	5,229	5,498	5,220
- Compensation of late payment charges	-	-	-	-
Gain arising from sale of securities				
- Held-for-trading	223	29	222	29
- Available-for-sale	1,334	732	1,335	546
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(3,178)	(2,459)	(3,178)	(2,459)
Profit from Murabahah trading on automobile	-	121	-	122
Foreign exchange gain/(loss)				
- Realised	1,782	1,739	1,703	1,708
- Unrealised	(6,170)	(7,954)	(6,178)	(7,828)
Gain on Ijarah rental swap obligations	675	808	673	803
Gross dividend from property funds (securities available-for-sale)	897	-	-	-
Gain on disposal of property and equipment	41	-	41	-
Other income	5,527	2,514	-	-
Gross dividend from subsidiary	-	-	8,940	9,695
Management fee	310	270	646	606
	90,755	88,942	89,459	90,879



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

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Allowances for (Note 8(xii)):				
- Collective assessment	47,209	(55,820)	47,209	(55,820)
- Individual assessment:	49,403	166,543	49,403	166,543
Allowances charged during the year	151,157	199,951	151,157	199,951
Allowances written-back during the year	(101,754)	(33,408)	(101,754)	(33,408)
Bad debt recovered on financing	(18,170)	(10,980)	(18,170)	(10,980)
	78,442	99,743	78,442	99,743

### 29 IMPAIRMENT (WRITEBACK)/ALLOWANCES ON INVESTMENTS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Securities available-for-sale	(289)	10,239	765	13,675
Other impairment loss	(45)	1,048	3,566	1,048
	(334)	11,287	4,331	14,723

### 30 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Deposits from customers				
- Mudharabah	-	390	-	390
- Murabahah	129,777	107,962	129,777	107,723
- Wakalah	203	38	-	-
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	125,707	139,051	126,696	139,452
- Others	2,833	625	2,833	624
	258,520	248,066	259,306	248,189

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### 31 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Income derived from investment of investment account funds	258	68	258	68
Profit distributed to mudarib	(104)	(27)	(104)	(27)
	154	41	154	41

### 32 PERSONNEL EXPENSES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Salaries and wages	49,735	51,250	47,799	49,390
Social security costs	331	312	321	304
Pension costs - defined contribution plan	9,665	10,338	9,267	9,956
Other staff related costs	23,545	19,380	22,774	18,708
	83,276	81,280	80,161	78,358

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

Name	Position	Salary and other remuneration*	Bonus	Employees Provident Fund	Benefit in kinds	Total
2016		RM'000	RM'000	RM'000	RM'000	RM'000
Ahmad S A A AIKharji (20 April 2015 - 5 July 2016)	Chief Executive Officer & Managing Director	1,143	243	176	43	1,605
David Raymond Power (29 August 2016 - current)	Chief Executive Officer	902	-	-	65	967
	Total	2,045	243	176	108	2,572
2015		RM'000	RM'000	RM'000	RM'000	RM'000
Ahmad S A A AIKharji (20 April 2015 - 5 July 2016)	Chief Executive Officer & Managing Director	1,430	-	175	26	1,631
Dato' Mohamad Aslam Khan (27 Nov 2014 - 19 April 2015)	Acting Chief Executive Officer	153	-	24	-	177
	Total	1,583	-	199	26	1,808

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

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

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### 33 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Promotion</b>				
Advertisement and publicity	957	286	938	276
<b>Establishment</b>				
Rental	17,115	18,229	16,608	17,678
Depreciation of property and equipment (Note 14)	9,267	10,168	9,156	10,019
Amortisation of intangible assets (Note 15)	2,689	3,552	2,466	3,355
IT expenses	9,437	7,631	9,433	7,615
Hire of equipment	699	552	683	537
	40,164	40,418	39,284	39,480
<b>General expenses</b>				
Auditors remuneration				
- Statutory audit:	359	386	317	344
- Non-audit services:	336	301	312	276
- Review engagements and regulatory-related services	206	231	206	206
- Other services	130	70	106	70
Professional fees	1,889	306	1,817	207
Directors' remuneration (Note 35)	2,446	2,649	2,218	2,485
Shariah Committee's remuneration (Note 35)	752	846	752	846
Murabahah agent fees	35	301	35	301
Communication expenses	3,361	2,820	3,282	2,740
Transactional related expenses	16,852	16,879	16,852	16,879
Others	19,932	3,227	18,787	1,835
	45,962	27,715	44,372	25,913
<b>Total overheads and expenditures</b>	<b>86,126</b>	<b>68,133</b>	<b>83,656</b>	<b>65,393</b>

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### 34 FINANCE COST

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Subordinated Murabahah Tawarruq	12,693	12,250	12,693	12,250

### 35 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Directors of the Bank</b>				
Fees	1,238	1,380	1,238	1,380
Other remuneration	980	1,105	980	1,105
	<b>2,218</b>	<b>2,485</b>	<b>2,218</b>	<b>2,485</b>
<b>Directors of subsidiary company</b>				
Fees	214	164	-	-
Other remuneration	14	-	-	-
	<b>228</b>	<b>164</b>	<b>-</b>	<b>-</b>
<b>Total Directors Remuneration*</b>	<b>2,446</b>	<b>2,649</b>	<b>2,218</b>	<b>2,485</b>
<b>Shariah Committee</b>				
Fees	624	634	624	634
Other remuneration	128	212	128	212
<b>Total Shariah Committee Remuneration</b>	<b>752</b>	<b>846</b>	<b>752</b>	<b>846</b>

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

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

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

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

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

Name of Directors	Position	Board of Directors Fee	Board of Audit Committee Fee	Board of Risk Management Committee Fee	Board of Nominating & Remuneration Committee Fee	Board of Credit & Investment Committee Fee	Board of Credit Committee	Board of Transformation Sub-Committee Fee	Board of Corporate Governance Committee Fee	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015 Group</b>										
Hamad A H D AlMarzouq	Chairman	200	-	-	-	-	-	-	35	235
Mohammad N A AlFouzan	Non-independent non-executive director	220	-	35	-	-	-	-	60	315
Ahmad S A A AlKharji	Non-independent executive director	180	-	25	35	-	25	25	-	290
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	240	60	35	60	-	60	25	-	480
Khalid Sufat	Independent non-executive director	180	60	-	60	-	35	25	-	360
Gopala Krishnan a/l K.Sundran	Independent non-executive director	180	60	60	60	-	-	25	-	385
Dr Paul Quigley	Non-independent non-executive director	60	-	20	20	-	-	-	20	120
Md Adnan Md Zain	Independent non-executive director	180	-	-	60	-	60	-	60	360
	Subtotal	1,440	180	175	295	-	180	100	175	2,545

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

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

Name of Directors	Position	Board of Directors Fee	Board of Audit Committee Fee	Board of Risk Management Committee Fee	Board of Nominating & Remuneration Committee Fee	Board of Credit & Investment Committee Fee	Board of Credit Committee	Board of Transformation Sub-Committee Fee	Board of Corporate Governance Committee Fee	Total
2015		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>		1,440	180	175	295	-	180	100	175	2,545
Abdul Hamid Sheikh Mohamed	Independent non-executive director	15	-	-	-	-	-	-	-	15
Abdulla S A A Almulaifi	Non-independent non-executive director	1	-	-	-	-	-	-	-	1
Mohammad Nasser AlFouzan	Non-independent non-executive director	72	-	-	-	-	-	-	-	72
Jeyaratnam A/L Tamotharam Pillai	Non-independent non-executive director	16	-	-	-	-	-	-	-	16
	<b>Total</b>	<b>1,544</b>	<b>180</b>	<b>175</b>	<b>295</b>	<b>-</b>	<b>180</b>	<b>100</b>	<b>175</b>	<b>2,649</b>

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

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

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



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

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

Name of Directors	Position	Board of Directors Fee	Board of Audit Committee Fee	Board of Risk Management Committee Fee	Board of Nominating & Remuneration Committee Fee	Board of Credit Committee	Board of Transformation Sub-Committee Fee	Board of Corporate Governance Committee Fee	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>									
<b>Bank</b>									
Hamad A H D AlMarzouq	Chairman	200	-	-	-	-	-	35	235
Mohammad N A AlFouzan	Non-independent non-executive director	220	-	35	-	-	-	60	315
Ahmad S A A AlKharji	Non-independent executive director	180	-	25	35	25	25	-	290
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	180	60	35	60	60	25	-	420
Khalid Sufat	Independent non-executive director	180	60	-	60	35	25	-	360
Gopala Krishnan a/l K.Sundran	Independent non-executive director	180	60	60	60	-	25	-	385
Dr Paul Quigley	Non-independent non-executive director	60	-	20	20	-	-	20	120
Md Adnan Md Zain	Independent non-executive director	180	-	-	60	60	-	60	360
<b>Total</b>		<b>1,380</b>	<b>180</b>	<b>175</b>	<b>295</b>	<b>180</b>	<b>100</b>	<b>175</b>	<b>2,485</b>

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

Name of Shariah Committee Member	TOTAL	Fee	Allowances
	RM '000	RM '000	RM '000
<b>2016</b>			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	179	144	35
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	151	120	31
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	141	120	21
Sheikh Isa Abdulla Yusuf Dowaishan	127	120	7
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	154	120	34
	<b>752</b>	<b>624</b>	<b>128</b>
<b>2015</b>			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	190	144	46
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	168	120	48
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	163	130	33
Sheikh Isa Abdulla Yusuf Dowaishan	136	120	16
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	189	120	69
	<b>846</b>	<b>634</b>	<b>212</b>

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### 36 TAXATION

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Malaysian income tax				
- Current year	20	20	-	-
Deferred tax (Note 16):				
- Relating to origination and reversal of temporary differences	(5,638)	(875)	(5,638)	(875)
- Relating to reduction/increase* in Malaysian/foreign* income tax rate	7,962	-	7,962	-
- (Over)/underprovision of deferred tax	(2,191)	875	(2,191)	875
- Relating to effect of temporary differences in income statement in prior year	(133)	-	(133)	-
	20	20	-	-

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2016 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 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	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loss before zakat and taxation	(28,257)	(37,160)	(29,710)	(35,362)
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	(6,782)	(9,290)	(7,130)	(8,841)
Income subject to different tax rates	(1,913)	(2,203)	-	-
(Income)/loss not subject to tax	(1,299)	5,348	(2,668)	2,879
Expenses not deductible for tax purposes	1,612	1,335	1,396	1,132
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	2,631	3,955	2,631	3,955
Effect on opening deferred tax of reduction/increase* in Malaysian/foreign* income tax rate	7,962	-	7,962	-
(Over)/underprovision of deferred tax in prior year	(2,191)	875	(2,191)	875
Tax expense for the year	20	20	-	-

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### 37 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	
	2016	2015
Net loss for the year (RM'000)	(28,277)	(37,180)
Weighted average number of ordinary shares in issue ('000) *	1,425,272	1,425,272
Basic/diluted (loss)/earnings per share (sen)	(1.98)	(2.61)

\* As the capital reduction exercise completed in previous year did not result to a corresponding change in resources of the Bank, for the purposes of calculating the earnings per share, the weighted average number of ordinary shares in issue has been retrospectively adjusted.

### 38 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 46.

#### **Subsidiaries**

Details of subsidiaries are disclosed in Note 13.

#### **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, Kuvveyt 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.

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### 38 RELATED PARTY TRANSACTIONS (Cont'd.)

#### (a) Related party transactions

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

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

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### 38 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.)

2016 (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
<b>(iii) Amount due to related parties</b>						
- Subordinated Murabahah Tawarruq	451,070	-	-	-	-	-
- Deposits from customers		124,670	6,875	1,739	-	358
- Deposits and placements of banks and other FIs	91,030	74,603	-	-	-	-
- Sundry creditors (Note 20)	367	-	-	-	-	-
	542,467	199,273	6,875	1,739	-	358
<b>(iv) Amount due from related parties</b>						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	352,452	1,005	-	-
- Deposits and placements with banks and other FIs	-	28,091	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	-	28,095	440,152	1,005	-	-
<b>(v) Others</b>						
- Purchases of intangible assets	-	-	4,490	-	-	-
	-	-	4,490	-	-	-

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### 38 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
<b>2015</b>						
<b>(i) Income</b>						
- Management fees	-	10,031	-	-	-	-
- Other fee	212	-	260	-	-	-
- Profit income on placements	-	197	-	-	-	-
- Profit income on financing	-	-	15,989	38	-	-
	212	10,228	16,249	38	-	-
<b>(ii) Expenditure</b>						
- Profit expense on deposits	2,983	602	1,171	1	-	-
- Other fees	-	-	17,742	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	12,250	-	-	-	-	-
	15,233	602	18,913	1	-	-

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### 38 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
<b>2015 (Cont'd.)</b>						
<b>(iii) Amount due to related parties</b>						
- Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-
- Deposits from customers	-	65,091	5,290	1,366	37	14
- Deposits and placements of banks and other FIs	259,329	76,882	-	-	-	-
- Sundry creditors (Note 20)	434	-	-	-	-	-
	689,301	141,973	5,290	1,366	37	14
<b>(iv) Amount due from related parties</b>						
- Securities	-	-	122,738	-	-	-
- Financing	-	-	352,131	500	-	-
- Deposits and placements with banks and other FIs	-	27,918	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	-	27,922	526,469	500	-	-
<b>(v) Others</b>						
- Purchases of intangible assets	-	-	959	-	-	-
	-	-	959	-	-	-



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**38 RELATED PARTY TRANSACTIONS (Cont'd.)**

**(b) Key management personnel compensation**

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

	<b>Group</b>		<b>Bank</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Short-term employee benefits				
- Salary and other remuneration	10,523	10,577	9,623	9,589
- Benefits-in-kind	605	604	454	597
	<b>11,128</b>	<b>11,181</b>	<b>10,077</b>	<b>10,186</b>

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 32 and Note 35.

**(c) Credit transactions and exposures with connected parties**

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

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**38 RELATED PARTY TRANSACTIONS (Cont'd.)**

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

	2015			Total non-performing credit exposure RM'000
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	
Financing, credit facility and leasing (except guarantee)	403,794	2	403,669	-
Equities and Islamic Private Debt Securities held	36,100	1	36,100	-
Off-balance sheet exposures	570	1	600	-
	440,464	4	440,369	-
Total exposure to connected parties as % capital base			22.8%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.0%	0.0%

\* Included total outstanding and unutilised limit.

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

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

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

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

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### 39 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.

	2016			2015		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
<b>Group and Bank</b>						
Direct credit substitutes	6,987	6,987	6,887	28,618	28,618	20,129
Transaction related contingencies	117,263	58,632	50,555	85,700	42,850	32,888
Trade related contingencies	9,374	1,875	1,875	10,146	2,029	2,029
Irrevocable commitments to extend credit						
- maturity less than one year	299,227	59,845	65,442	269,352	53,870	52,465
- maturity more than one year	178,657	89,329	76,982	270,554	135,277	124,479
Foreign exchange related contracts *						
- less than one year	85,225	2,048	1,558	8,873	350	163
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	199,152	6,823	5,775	245,505	13,763	11,799
	895,885	225,539	209,074	918,748	276,757	243,952
			Note 41 (d)			Note 41 (d)
			Note 41 (d)			Note 41 (d)

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

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### 39 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

#### Market risk

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

#### Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2016, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM5,955,302 (2015: RM9,267,189 ). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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**40 CAPITAL COMMITMENTS**

	<b>Group</b>		<b>Bank</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Capital expenditure:				
Authorised and contracted for				
- computer hardware	675	119	675	119
- computer software	8,894	2,225	8,894	2,225
- capital renovation	106	563	106	563
Authorised but not contracted for				
- computer hardware	-	1,114	-	1,114
- computer software	674	3,753	674	3,753
	<b>10,349</b>	<b>7,774</b>	<b>10,349</b>	<b>7,774</b>

**41 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:

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>CET 1/Tier 1 capital ratio</b>				
Credit risk	21.724%	20.211%	20.863%	19.515%
Credit, market, operational and large exposure risks	20.275%	18.827%	19.505%	18.241%
<b>Total capital ratio/ Risk-weighted capital ratio</b>				
Credit risk	29.702%	27.368%	28.857%	26.696%
Credit, market, operational and large exposure risks	27.722%	25.493%	26.979%	24.953%

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**41 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:

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>CET 1/Tier I capital</u></b>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	158,385	158,385	158,385	158,385
Other reserves	63,121	83,814	32,790	57,582
	1,646,778	1,667,471	1,616,447	1,641,239
Less: Deferred tax assets (net)	(198,329)	(198,141)	(198,329)	(198,141)
Less: Investment in subsidiaries	-	-	(30,200)	(30,200)
<b>Total CET 1/Tier I capital</b>	<b>1,448,449</b>	<b>1,469,330</b>	<b>1,387,918</b>	<b>1,412,898</b>
<b><u>Tier II capital</u></b>				
Subordinated Murabahah Tawarruq	448,625	429,425	448,625	429,425
Collective impairment on financing	83,345	90,873	83,157	90,500
<b>Total Tier II capital</b>	<b>531,970</b>	<b>520,298</b>	<b>531,782</b>	<b>519,925</b>
<b>Capital base</b>	<b>1,980,419</b>	<b>1,989,628</b>	<b>1,919,700</b>	<b>1,932,823</b>

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

	<b>Group</b>		<b>Bank</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Computation of Total Risk-Weighted Assets ("RWA")</b>				
Total credit RWA	6,667,598	7,269,805	6,652,557	7,240,016
Total market RWA	16,750	32,918	16,750	32,918
Total operational RWA	439,447	481,780	426,170	452,784
Large exposure risk RWA for equity holdings	20,048	20,048	20,048	20,048
<b>Total Risk-Weighted Assets (ii)</b>	<b>7,143,843</b>	<b>7,804,551</b>	<b>7,115,525</b>	<b>7,745,766</b>
<b>Computation of Capital Ratios</b>				
Core capital (iii)	1,448,449	1,469,330	1,387,918	1,412,898
Capital base (i)	1,980,419	1,989,628	1,919,700	1,932,823
<b>CET 1/Tier 1 capital ratio</b>	<b>20.275%</b>	<b>18.827%</b>	<b>19.505%</b>	<b>18.241%</b>
<b>Total capital ratio</b>	<b>27.722%</b>	<b>25.493%</b>	<b>26.979%</b>	<b>24.953%</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 41 CAPITAL ADEQUACY (Cont'd.)

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

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

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

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

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

<sup>3</sup> 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.

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



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### 41 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>					
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	2,102,259	2,102,259	66,732	66,732	5,339
Banks, Development Financial Institutions & MDBs	403,514	403,514	155,477	155,477	12,438
Corporates	4,765,687	4,765,687	4,216,589	4,216,589	337,327
Regulatory Retail	1,865,275	1,865,275	1,389,064	1,389,064	111,125
Residential Mortgages	446,167	446,167	163,940	163,940	13,115
Higher Risk Assets <sup>1</sup>	437,757	437,757	656,636	656,636	52,531
Other Assets	295,165	295,165	119,418	119,418	9,553
Defaulted Exposures <sup>2</sup>	237,008	237,008	257,997	257,997	20,640
	<b>10,552,832</b>	<b>10,552,832</b>	<b>7,025,853</b>	<b>7,025,853</b>	<b>562,068</b>
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	14,113	14,113	11,962	11,962	957
Off-balance sheet exposures other than OTC hedging financial instruments	262,645	262,645	231,990	231,990	18,559
	<b>276,758</b>	<b>276,758</b>	<b>243,952</b>	<b>243,952</b>	<b>19,516</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,829,590</b>	<b>10,829,590</b>	<b>7,269,805</b>	<b>7,269,805</b>	<b>581,584</b>

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2015 (Cont'd.)						
(ii) Large Exposures Risk Requirement		41,998	41,998	20,048	20,048	1,604
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	183,475	174,781	8,693	17,643	17,643	1,411
Foreign Currency Risk <sup>4</sup>	15,215	14,654	561	15,275	15,275	1,222
			<b>9,254</b>	<b>32,918</b>	<b>32,918</b>	<b>2,633</b>
(iv) Operational Risk				<b>481,780</b>	<b>481,780</b>	<b>38,542</b>
(v) Total RWA and Capital Requirements				<b>7,804,551</b>	<b>7,804,551</b>	<b>624,364</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

<sup>3</sup> 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.

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

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

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

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

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

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

<sup>3</sup> 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.

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

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2015	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	2,059,621	2,059,621	56,050	56,050	4,484
Banks, Development Financial Institutions & MDBs	431,431	431,431	161,061	161,061	12,885
Corporates	4,774,763	4,774,763	4,225,666	4,225,666	338,053
Regulatory Retail	1,865,275	1,865,275	1,389,064	1,389,064	111,125
Residential Mortgages	446,167	446,167	163,940	163,940	13,115
Higher Risk Assets <sup>1</sup>	437,757	437,757	656,636	656,636	52,531
Other Assets	244,198	244,198	85,650	85,650	6,852
Defaulted Exposures <sup>2</sup>	237,008	237,008	257,997	257,997	20,640
	10,496,220	10,496,221	6,996,064	6,996,064	559,685
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	14,113	14,113	11,962	11,962	957
Off-balance sheet exposures other than OTC hedging financial instruments	262,645	262,645	231,990	231,990	18,559
	276,758	276,758	243,952	243,952	19,516
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,772,979</b>	<b>10,772,979</b>	<b>7,240,016</b>	<b>7,240,016</b>	<b>579,201</b>

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
<b>2015 (Cont'd.)</b>						
<b>(ii) Large Exposures Risk Requirement</b>		<b>41,998</b>	<b>41,998</b>	<b>20,048</b>	<b>20,048</b>	<b>1,604</b>
<b>(iii) Market Risk</b>	<b>Long</b>	<b>Short</b>				
Benchmark Rate Risk	183,475	174,781	8,693	17,643	17,643	1,411
Foreign Currency Risk <sup>4</sup>	15,215	14,654	561	15,275	15,275	1,222
			<b>9,254</b>	<b>32,918</b>	<b>32,918</b>	<b>2,633</b>
<b>(iv) Operational Risk</b>				<b>452,784</b>	<b>452,784</b>	<b>36,223</b>
<b>(v) Total RWA and Capital Requirements</b>				<b>7,745,766</b>	<b>7,745,766</b>	<b>619,661</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

<sup>3</sup> 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.

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

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### 41 CAPITAL ADEQUACY (Cont'd.)

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

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

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### 41 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
2016 (Cont'd.)		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
<b>Bank Risk-Weights</b>									
0%	2,508,159	39,749	292,834	6,250	4,757	-	143,025	2,994,774	-
20%	244,475	190,957	264,281	-	-	-	44,952	744,665	148,933
35%	-	-	-	-	431,213	-	-	431,213	150,925
50%	-	232,615	123,051	(202)	94,451	-	-	449,915	224,957
75%	-	-	-	1,936,233	-	-	-	1,936,233	1,452,175
100%	-	-	3,674,808	379	66,905	-	86,667	3,828,759	3,828,759
150%	-	-	224,404	5,148	-	334,986	-	564,538	846,808
	<b>2,752,634</b>	<b>463,321</b>	<b>4,579,378</b>	<b>1,947,808</b>	<b>597,326</b>	<b>334,986</b>	<b>274,644</b>	<b>10,950,097</b>	<b>6,652,557</b>



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### 41 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>2015</b>										
<b>Group Risk-Weights</b>										
	0%	1,800,646	39,413	331,184	16,959	2,129	-	158,548	2,348,879	-
	20%	280,250	91,072	244,746	-	-	-	21,499	637,566	127,513
	35%	-	-	-	-	387,966	-	-	387,966	135,788
	50%	21,364	275,833	171,562	(501)	57,717	-	-	525,975	262,987
	75%	-	-	-	1,903,906	-	-	-	1,903,906	1,427,929
	100%	-	-	4,324,861	15	4,725	-	115,118	4,444,719	4,444,719
	150%	-	-	128,677	7,244	-	444,658	-	580,579	870,869
		<b>2,102,260</b>	<b>406,318</b>	<b>5,201,030</b>	<b>1,927,623</b>	<b>452,537</b>	<b>444,658</b>	<b>295,165</b>	<b>10,829,590</b>	<b>7,269,805</b>

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### 41 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.)

2015 (Cont'd.)	Exposures after Netting and Credit Risk Mitigation						Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			RM'000
<b>Bank Risk-Weights</b>									
0%	1,779,371	39,413	331,184	16,959	2,129	-	158,548	2,327,604	-
20%	280,250	118,989	244,746	-	-	-	-	643,985	128,797
35%	-	-	-	-	387,966	-	-	387,966	135,788
50%	-	275,833	171,562	(501)	57,717	-	-	504,611	252,305
75%	-	-	-	1,903,906	-	-	-	1,903,906	1,427,929
100%	-	-	4,333,938	15	4,725	-	85,650	4,424,328	4,424,328
150%	-	-	128,677	7,244	-	444,658	-	580,579	870,869
	<b>2,059,621</b>	<b>434,235</b>	<b>5,210,107</b>	<b>1,927,623</b>	<b>452,537</b>	<b>444,658</b>	<b>244,198</b>	<b>10,772,979</b>	<b>7,240,016</b>

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**41 CAPITAL ADEQUACY (Cont'd.)**

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

	<b>Group</b>		<b>Bank</b>	
	<b>Principal RM'000</b>	<b>Risk-weighted RM'000</b>	<b>Principal RM'000</b>	<b>Risk-weighted RM'000</b>
<b>2016</b>				
0%	3,007,998	-	2,994,774	-
20%	716,866	143,373	744,665	148,933
35%	431,213	150,924	431,213	150,925
50%	449,623	224,811	449,915	224,957
75%	1,936,233	1,452,175	1,936,233	1,452,175
100%	3,849,506	3,849,506	3,828,759	3,828,759
150%	564,539	846,809	564,538	846,808
Risk-weighted assets for credit risk	10,955,978	6,667,598	10,950,097	6,652,557
Risk-weighted assets for market risk		16,750		16,750
Risk-weighted assets for operational risk		439,447		426,170
Large exposure risk-weighted assets for equity holdings		20,048		20,048
Total risk-weighted assets		7,143,843		7,115,525
<b>2015</b>				
0%	2,348,879	-	2,327,604	-
20%	637,566	127,513	643,985	128,797
35%	387,966	135,788	387,966	135,788
50%	525,975	262,987	504,611	252,305
75%	1,903,906	1,427,929	1,903,906	1,427,929
100%	4,444,719	4,444,719	4,424,328	4,424,328
150%	580,579	870,869	580,579	870,869
Risk-weighted assets for credit risk	10,829,590	7,269,805	10,772,979	7,240,016
Risk-weighted assets for market risk		32,918		32,918
Risk-weighted assets for operational risk		481,780		452,784
Large exposure risk-weighted assets for equity holdings		20,048		20,048
Total risk-weighted assets		7,804,551		7,745,766

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**41 CAPITAL ADEQUACY (Cont'd.)**

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

	2016		2015	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
<b>Group and Bank</b>				
Benchmark Rate Risk	8,208	657	17,643	1,411
Foreign Exchange Risk	8,542	683	15,275	1,222
Total	16,750	1,340	32,918	2,633

**42 SEGMENT INFORMATION**

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

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

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

Segment capital expenditure comprises additions to property and equipment.

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**42 SEGMENT INFORMATION (Cont'd.)**

**(a) Primary Segment - By Business Segments:**

The Group comprises the following main business segments:

**(i) Treasury and Capital Market**

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

**(ii) Corporate and Investment Banking**

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

**(iii) Commercial Banking**

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

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### 42 SEGMENT INFORMATION (Cont'd.)

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

Group 2016	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	93,473	178,803	63,827	154,517		490,620
Revenue from other segments	206,948	1,330	6,041	60,358	(274,677)	-
<b>Total Revenue</b>	<b>300,421</b>	<b>180,133</b>	<b>69,868</b>	<b>214,875</b>	<b>(274,677)</b>	<b>490,620</b>
Segment results	2,687	16,287	37,757	(549)		56,182
Unallocated expenses						(84,439)
<b>Income from operations</b>						<b>(28,257)</b>
Taxation						(20)
<b>Net loss for the year</b>						<b>(28,277)</b>
<b>Other information</b>						
Segment assets	3,715,110	3,421,013	737,198	2,691,439	(242,437)	10,322,323
Unallocated corporate assets						472,980
<b>Total assets</b>						<b>10,795,303</b>
Segment liabilities	6,958,054	80,474	179,358	1,652,627	(227,401)	8,643,112
Unallocated corporate Liabilities						505,413
<b>Total liabilities</b>						<b>9,148,525</b>
<b>Other segment items</b>						
Purchase of property and equipment				(9,307)		
Purchase of intangible assets				(1,431)		
Depreciation of property and equipment				9,267		
Amortisation of intangible assets				2,689		
Other non-cash expense other than depreciation	289	(26,042)	12,657	(65,012)	-	(78,108)

#### (b) Secondary Segment - By Geographical Locations

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

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### 42 SEGMENT INFORMATION (Cont'd.)

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

Group 2015	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	85,906	175,740	75,400	146,594	-	483,640
Revenue from other segments	214,572	1,606	4,191	56,501	(276,869)	-
<b>Total Revenue</b>	<b>300,478</b>	<b>177,346</b>	<b>79,591</b>	<b>203,095</b>	<b>(276,869)</b>	<b>483,640</b>
Segment results	2,589	(25,650)	(61,751)	123,068	-	38,256
Unallocated expenses						(75,416)
<b>Income from operations</b>						<b>(37,160)</b>
Taxation						(20)
<b>Net loss for the year</b>						<b>(37,180)</b>
<b>Other information</b>						
Segment assets	2,944,063	3,766,393	1,053,760	2,524,004	(188,577)	10,099,643
Unallocated corporate assets						568,385
<b>Total assets</b>						<b>10,668,028</b>
Segment liabilities	6,863,027	213,265	142,534	1,478,970	(169,897)	8,527,899
Unallocated corporate Liabilities						472,658
<b>Total liabilities</b>						<b>9,000,557</b>
<b>Other segment items</b>						
Purchase of property and equipment	-	-	-	(3,170)	-	(3,170)
Purchase of intangible assets	-	-	-	(1,747)	-	(1,747)
Depreciation of property and equipment	-	-	-	10,168	-	10,168
Amortisation of intangible assets	-	-	-	3,552	-	3,552
Other non-cash expense other than depreciation	262	(60,129)	(86,969)	35,807	-	(111,029)

#### (b) Secondary Segment - By Geographical Locations

Group 2015	Operating Revenue	Loss Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	483,640	(37,160)	10,668,028

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**43 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.

	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>			
<b>2016</b>			
<b>Financial assets</b>			
Securities available-for-sale	1,018,377	-	1,018,377
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
<b>Total</b>	<b>2,311,214</b>	<b>5,265,769</b>	<b>7,576,983</b>
<b>Financial liabilities</b>			
Deposits from customers	4,329,342	-	4,329,342
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
	<b>4,330,505</b>	<b>448,509</b>	<b>4,779,014</b>
<b>2015</b>			
<b>Financial assets</b>			
Securities available-for-sale	1,058,265	-	1,058,265
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
<b>Total</b>	<b>2,041,916</b>	<b>6,087,520</b>	<b>8,129,436</b>
<b>Financial liabilities</b>			
Deposits from customers	3,647,051	-	3,647,051
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	<b>3,647,510</b>	<b>429,337</b>	<b>4,076,847</b>



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

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
<b>Bank</b>			
<b>2016</b>			
<b>Financial assets</b>			
Securities available-for-sale	1,005,153	-	1,005,153
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
<b>Total</b>	<b>2,297,990</b>	<b>5,265,769</b>	<b>7,563,759</b>
<b>Financial liabilities</b>			
Deposits from customers	4,295,095	-	4,295,095
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
	<b>4,296,258</b>	<b>448,509</b>	<b>4,744,767</b>
<b>2015</b>			
<b>Financial assets</b>			
Securities available-for-sale	994,127	-	994,127
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
<b>Total</b>	<b>1,977,778</b>	<b>6,087,520</b>	<b>8,065,298</b>
<b>Financial liabilities</b>			
Deposits from customers	3,563,341	-	3,563,341
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	<b>3,563,800</b>	<b>429,337</b>	<b>3,993,137</b>

**Description of significant unobservable inputs to valuation:**

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

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

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

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

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

	Group			
	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>				
Securities held-to-maturity	61,251	60,334	61,251	61,088
Financing, advances and other receivables	6,494,270	6,492,316	7,002,145	7,000,816
	6,555,521	6,552,650	7,063,396	7,061,904
<b>Financial Liabilities</b>				
Deposits from customers	4,329,342	4,329,342	3,640,007	3,639,561
Subordinated Murabahah Tawarruq	451,070	448,509	429,538	429,337
	4,780,412	4,777,851	4,069,545	4,068,898

	Bank			
	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>				
Securities held-to-maturity	61,251	60,334	61,251	61,088
Financing, advances and other receivables	6,494,270	6,492,316	7,002,145	7,000,816
	6,555,521	6,552,650	7,063,396	7,061,904
<b>Financial Liabilities</b>				
Deposits from customers	4,295,095	4,295,095	3,556,307	3,555,851
Subordinated Murabahah Tawarruq	451,070	448,509	429,538	429,337
	4,746,165	4,743,604	3,985,845	3,985,188

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

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

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

**(a) Cash and Short-Term Funds**

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

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

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

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

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

**(d) Securities Held-To-Maturity**

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

**(e) Hedging Financial Instruments**

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

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

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

**(f) Financing, Advances and Other Receivables**

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

**(g) Deposits from Customers, Deposits and Placement of Banks and Other Financial Institutions**

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

**(h) Subordinated Murabahah Tawaruq**

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

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**44 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:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	18,038	17,903
Between one and five years	23,146	22,441
	<b>41,184</b>	<b>40,344</b>

	<b>Bank</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	17,634	17,500
Between one and five years	22,495	21,790
	<b>40,129</b>	<b>39,290</b>

**45 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.

**46 HOLDING COMPANY**

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

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**47 MATURITY ANALYSIS**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**47 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
<b>2015 (Cont'd.)</b>			
<b>Assets</b>			
Cash and short-term funds	1,558,023	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	211,618
Investment accounts due from designated financial institutions	7,490	-	7,490
Securities available-for-sale	142,882	992,340	1,135,222
Securities held-to-maturity	-	61,251	61,251
Financing, advances and receivables	4,626,854	2,375,291	7,002,145
Musarakah capital investment	-	5,898	5,898
Other assets	-	686,380	686,380
<b>Total Assets</b>	<b>6,546,867</b>	<b>4,121,161</b>	<b>10,668,028</b>
<b>Liabilities</b>			
Deposits from customers	3,634,538	5,469	3,640,007
Investment accounts of customers	7,490	-	7,490
Deposits and placements of banks and other financial institutions	4,849,350	-	4,849,350
Subordinated Murabahah Tawarruq	-	429,538	429,538
Other liabilities	-	74,172	74,172
<b>Total Liabilities</b>	<b>8,491,378</b>	<b>509,179</b>	<b>9,000,557</b>
<b>Net</b>	<b>(1,944,511)</b>	<b>3,611,982</b>	<b>1,667,471</b>

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**47 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.)

	<b>Less than 12 months RM'000</b>	<b>Over 12 months RM'000</b>	<b>Total RM'000</b>
<b>Bank</b>			
<b>2016</b>			
<b>Assets</b>			
Cash and short-term funds	2,341,840	-	2,341,840
Deposits and placements with banks and other financial institutions	199,166	-	199,166
Investment accounts due from designated financial institutions	8,563	-	8,563
Securities available-for-sale	135,763	923,775	1,059,538
Securities held-to-maturity	56,187	5,065	61,252
Financing, advances and receivables	3,567,256	2,927,014	6,494,270
Musarakah capital investment	5,898	-	5,898
Other assets	633,968	-	633,968
<b>Total Assets</b>	<b>6,948,641</b>	<b>3,855,854</b>	<b>10,804,495</b>
<b>Liabilities</b>			
Deposits from customers	4,295,090	5	4,295,095
Investment accounts of customers	8,563	-	8,563
Deposits and placements of banks and other financial institutions	4,336,014	-	4,336,014
Subordinated Murabahah Tawarruq	-	451,070	451,070
Other liabilities	97,304	-	97,304
<b>Total Liabilities</b>	<b>8,736,971</b>	<b>451,075</b>	<b>9,188,046</b>
<b>Net</b>	<b>(1,788,330)</b>	<b>3,404,779</b>	<b>1,616,449</b>



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**47 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.)

	<b>Less than 12 months RM'000</b>	<b>Over 12 months RM'000</b>	<b>Total RM'000</b>
<b>Bank</b>			
<b>2015</b>			
<b>Assets</b>			
Cash and short-term funds	1,558,023	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	239,536
Investment accounts due from designated financial institutions	7,490	-	7,490
Securities available-for-sale	121,383	930,987	1,052,370
Securities held-to-maturity	-	61,251	61,251
Financing, advances and receivables	4,626,854	2,375,291	7,002,145
Musarakah capital investment	-	5,898	5,898
Other assets	-	703,383	703,383
<b>Total Assets</b>	<b>6,553,286</b>	<b>4,076,810</b>	<b>10,630,096</b>
<b>Liabilities</b>			
Deposits from customers	3,550,838	5,469	3,556,307
Investment accounts of customers	7,490	-	7,490
Deposits and placements of banks and other financial institutions	4,922,132	-	4,922,132
Subordinated Murabahah Tawarruq	-	429,538	429,538
Other liabilities	-	73,390	73,390
<b>Total Liabilities</b>	<b>8,480,459</b>	<b>508,397</b>	<b>8,988,857</b>
<b>Net</b>	<b>(1,927,173)</b>	<b>3,568,413</b>	<b>1,641,239</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 48 FINANCIAL RISK MANAGEMENT

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

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

#### (a) CREDIT RISK

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

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

For on-balance sheet financial 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.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

2016

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

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
2,341,840	2,341,840
171,073	199,165
1,018,377	1,005,153
61,251	61,251
6,494,270	6,494,270
190,369	189,975
201,000	201,000
5,956	5,956
10,484,136	10,498,610
6,987	6,987
126,637	126,637
477,884	477,884
611,508	611,508
11,095,644	11,110,118

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

2015

Cash and short-term funds	Deposits and placements with banks and other financial institutions	Securities available-for-sale	Securities held-to-maturity	Financing, advances and other receivables	Other assets	Statutory deposits with Bank Negara Malaysia	Hedging financial instruments	- Ijarah rental swap	<b>Total On-Balance Sheet</b>	Financial guarantees	Contingent liabilities	Commitments *	<b>Total Off-Balance Sheet</b>	<b>Total On and Off-Balance Sheet</b>
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Total gross maximum exposure	
Group	Bank
RM'000	RM'000
1,558,023	1,558,023
211,618	239,536
971,627	907,489
61,251	61,251
7,002,145	7,002,145
211,325	210,372
242,000	242,000
9,267	9,267
10,267,255	10,230,083
28,618	28,618
95,845	95,845
539,907	539,907
664,370	664,370
10,931,625	10,894,453

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

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

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015 Group</b>					
Cash and short-term funds	1,505,005	4,947	48,071	-	1,558,023
Deposits and placements with banks and other financial institutions	23,623	-	187,995	-	211,618
Securities available-for-sale					
- Unquoted	730,851	142,774	98,001	-	971,626
Securities held-to-maturity					
- Unquoted	10,114	-	51,137	-	61,251
Financing, advances and other receivables	7,075,509	6,639	12,209	(92,212)	7,002,145
Other assets	66,787	144,538	-	-	211,325
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	242,000
Hedging financial instruments					
- Ijarah rental swap	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>9,663,156</b>	<b>298,898</b>	<b>397,413</b>	<b>(92,212)</b>	<b>10,267,255</b>
Financial guarantees	28,618	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	95,845
Commitments *	539,772	135	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,235</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>10,327,391</b>	<b>299,033</b>	<b>397,413</b>	<b>(92,212)</b>	<b>10,931,625</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

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

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle East RM'000	Others RM'000	Collective assessment RM'000	
<b>2015</b>					
<b>Bank</b>					
Cash and short-term funds	1,505,005	4,947	48,071	-	1,558,023
Deposits and placements with banks and other financial institutions	51,541	-	187,995	-	239,536
Securities available-for-sale					
- Unquoted	709,352	142,774	55,363	-	907,489
Securities held-to-maturity					
- Unquoted	10,114		51,137		61,252
Financing, advances and other receivables	7,075,509	6,639	12,209	(92,212)	7,002,145
Other assets	65,834	144,538			210,372
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	242,000
Hedging financial instruments					
- Ijarah rental swap	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>9,668,622</b>	<b>298,898</b>	<b>354,775</b>	<b>(92,212)</b>	<b>10,230,083</b>
Financial guarantees	28,618	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	95,845
Commitments *	539,772	135	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,235</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>10,332,857</b>	<b>299,033</b>	<b>354,775</b>	<b>(92,212)</b>	<b>10,894,453</b>

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



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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(a) CREDIT RISK (Cont'd.)**

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

By industry sector: (Cont'd.)

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

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

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(a) CREDIT RISK (Cont'd.)**

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

By industry sector: (Cont'd.)

	Industry							Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2015 Group								
Cash and short-term funds	-	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	-	211,618	-	-	-	-	-	211,618
Securities available-for-sale	-	127,536	29,559	-	521,437	293,094	-	971,626
Securities held-to-maturity	-	56,186	-	5,065	-	-	-	61,251
Financing, advances and other receivables	1,267,524	367,248	2,139,926	468,647	-	2,851,012	(92,212)	7,002,145
Other assets	-	-	-	-	-	211,325	-	211,325
Statutory deposits with Bank Negara Malaysia	-	242,000	-	-	-	-	-	242,000
Hedging financial instruments	-	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>1,267,524</b>	<b>2,562,611</b>	<b>2,169,485</b>	<b>482,979</b>	<b>521,437</b>	<b>3,355,431</b>	<b>(92,212)</b>	<b>10,267,255</b>
Financial guarantees	-	-	21,630	2,418	-	4,571	-	28,618
Contingent liabilities	802	-	26,271	3,447	-	65,324	-	95,845
Commitments *	81,125	-	127,774	18,676	-	312,332	-	539,907
<b>Total Off-Balance Sheet</b>	<b>81,927</b>	<b>-</b>	<b>175,675</b>	<b>24,541</b>	<b>-</b>	<b>382,227</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>1,349,451</b>	<b>2,562,611</b>	<b>2,345,160</b>	<b>507,520</b>	<b>521,437</b>	<b>3,737,658</b>	<b>(92,212)</b>	<b>10,931,625</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

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

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry						Collective assessment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2015 Bank								
Cash and short-term funds	-	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	-	239,536	-	-	-	-	-	239,536
Securities available-for-sale	-	106,037	29,559	-	478,799	293,094	-	907,489
Securities held-to-maturity	-	56,186	-	5,065	-	-	-	61,251
Financing, advances and other receivables	1,267,524	367,248	2,139,926	468,647	-	2,851,012	(92,212)	7,002,145
Other assets	-	-	-	-	-	210,372	-	210,372
Statutory deposits with Bank Negara Malaysia	-	242,000	-	-	-	-	-	242,000
Hedging financial instruments	-	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>1,267,524</b>	<b>2,569,030</b>	<b>2,169,485</b>	<b>482,979</b>	<b>478,799</b>	<b>3,354,478</b>	<b>(92,212)</b>	<b>10,230,083</b>
Financial guarantees	-	-	21,630	2,418	-	4,571	-	28,618
Contingent liabilities	802	-	26,271	3,447	-	65,324	-	95,845
Commitments *	81,125	-	127,774	18,676	-	312,332	-	539,907
<b>Total Off-Balance Sheet</b>	<b>81,927</b>	<b>-</b>	<b>175,675</b>	<b>24,541</b>	<b>-</b>	<b>382,227</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>1,349,451</b>	<b>2,569,030</b>	<b>2,345,160</b>	<b>507,520</b>	<b>478,799</b>	<b>3,736,705</b>	<b>(92,212)</b>	<b>10,894,453</b>

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

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(a) CREDIT RISK (Cont'd.)**

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

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

By residual maturity: (Cont'd.)

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

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

2015 Group	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
Cash and short-term funds	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	-	-	-	-	211,618
Securities available-for-sale	31,112	121,383	300,920	518,211	-	-	971,626
Securities held-to-maturity	-	-	61,251	-	-	-	61,251
Financing, advances and other receivables	4,220,544	56,142	338,110	2,479,561	-	(92,212)	7,002,145
Other assets	-	-	-	-	211,325	-	211,325
Statutory deposits with Bank Negara Malaysia	-	-	-	-	242,000	-	242,000
Hedging financial instruments	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>6,021,297</b>	<b>177,525</b>	<b>709,549</b>	<b>2,997,772</b>	<b>453,325</b>	<b>(92,212)</b>	<b>10,267,255</b>
Financial guarantees	3,770	12,765	2,083	10,000	-	-	28,618
Contingent liabilities	25,593	27,904	31,092	2,857	8,399	-	95,845
Commitments *	-	-	-	539,907	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>29,363</b>	<b>40,669</b>	<b>33,175</b>	<b>552,764</b>	<b>8,399</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,050,660</b>	<b>218,194</b>	<b>742,724</b>	<b>3,550,536</b>	<b>461,723</b>	<b>(92,212)</b>	<b>10,931,625</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

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

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
<b>2015</b>							
<b>Bank</b>							
Cash and short-term funds	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	-	-	-	-	239,536
Securities available-for-sale	9,613	121,383	258,281	518,212	-	-	907,489
Securities held-to-maturity	-	-	61,251	-	-	-	61,251
Financing, advances and other receivables	4,220,544	56,142	338,110	2,479,561	-	(92,212)	7,002,145
Other assets	-	-	-	-	210,372	-	210,372
Statutory deposits with Bank Negara Malaysia	-	-	-	-	242,000	-	242,000
Hedging financial instruments	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>6,027,716</b>	<b>177,525</b>	<b>666,909</b>	<b>2,997,773</b>	<b>452,372</b>	<b>(92,212)</b>	<b>10,230,083</b>
Financial guarantees	3,770	12,765	2,083	10,000	-	-	28,618
Contingent liabilities	25,593	27,904	31,092	2,857	8,399	-	95,846
Commitments *	-	-	-	539,907	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>29,363</b>	<b>40,669</b>	<b>33,175</b>	<b>552,764</b>	<b>8,399</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,057,079</b>	<b>218,194</b>	<b>700,085</b>	<b>3,550,537</b>	<b>460,771</b>	<b>(92,212)</b>	<b>10,894,453</b>

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



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

##### (ii) Credit quality per class of financial assets

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

2016 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	2,341,840	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	171,073	-	-	-	-	171,073
Securities available-for-sale	941,218	67,546	-	-	9,613	1,018,377
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	3,770,394	2,274,881	338,567	1,412	478,125	6,863,378
Other assets	190,109	-	-	-	260	190,369
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	-	201,000
Hedging financial instruments	5,956	-	-	-	-	5,956
<b>Total On-Balance Sheet</b>	<b>7,682,841</b>	<b>2,342,427</b>	<b>338,567</b>	<b>1,412</b>	<b>487,998</b>	<b>10,853,244</b>
Financial guarantees	6,987	-	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	-	126,637
Commitments *	477,884	-	-	-	-	477,884
<b>Total Off-Balance Sheet</b>	<b>611,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>611,508</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,294,349</b>	<b>2,342,427</b>	<b>338,567</b>	<b>1,412</b>	<b>487,998</b>	<b>11,464,752</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

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

2015 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	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	-	-	-	211,618
Securities available-for-sale	898,093	63,921	-	-	9,613	971,627
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	4,301,460	2,214,572	339,628	8,462	550,898	7,415,020
Other assets	211,066	-	-	-	260	211,326
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	-	242,000
Hedging financial instruments	9,267	-	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>7,492,778</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>10,680,132</b>
Financial guarantees	28,618	-	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	-	95,845
Commitments *	539,907	-	-	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,157,148</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>11,344,502</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

##### (ii) Credit quality per class of financial assets

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

2016 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	2,341,840	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	199,165	-	-	-	-	199,165
Securities available-for-sale	927,994	67,546	-	-	9,613	1,005,153
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	3,770,394	2,274,881	338,566	1,412	478,125	6,863,378
Other assets	189,715	-	-	-	260	189,975
Statutory deposits with Bank Negara Malaysia	201,000	-	-	-	-	201,000
Hedging financial instruments	5,956	-	-	-	-	5,956
<b>Total On-Balance Sheet</b>	<b>7,697,314</b>	<b>2,342,427</b>	<b>338,566</b>	<b>1,412</b>	<b>487,998</b>	<b>10,867,717</b>
Financial guarantees	6,987	-	-	-	-	6,987
Contingent liabilities	126,637	-	-	-	-	126,637
Commitments *	477,884	-	-	-	-	477,884
<b>Total Off-Balance Sheet</b>	<b>611,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>611,508</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,308,822</b>	<b>2,342,427</b>	<b>338,566</b>	<b>1,412</b>	<b>487,998</b>	<b>11,479,225</b>

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

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

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

2015 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	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	-	-	-	239,536
Securities available-for-sale	833,955	63,921	-	-	9,613	907,489
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	4,301,460	2,214,572	339,628	8,462	550,898	7,415,020
Other assets	210,112	-	-	-	260	210,372
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	-	242,000
Hedging financial instruments	9,267	-	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>7,455,604</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>10,642,958</b>
Financial guarantees	28,618	-	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	-	95,845
Commitments *	539,907	-	-	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,119,974</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>11,307,328</b>

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

The principal objective of credit risk measurement for 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.

2016 Group and Bank	Total RM'000
<b>Corporate, Commercial and Retail</b>	
Excellent	125,403
Strong	2,027,143
Minimum	945,810
Pass with condition	657,498
Early care	28,303
Impaired	232,597
New/ Special Purpose Vehicle	49,912
Unrated	2,567,025
	6,633,691
Less: Collective assessment	(139,421)
Total Corporate, Commercial and Retail	6,494,270

\* Unrated segment includes retail credit exposures

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

2015 Group and Bank	Total RM'000
<b>Corporate, Commercial and Retail</b>	
Excellent	394,772
Strong	2,199,448
Minimum	1,171,600
Pass with condition	567,062
Early care	43,392
Impaired	224,046
New/ Special Purpose Vehicle	51,479
Unrated	2,442,558
	7,094,357
Less: Collective assessment	(92,212)
<b>Total Corporate, Commercial and Retail</b>	<b>7,002,145</b>

\* Unrated segment includes retail credit exposures

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

2016

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moodys	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>							
Securities available-for-sale	185,128	426,880	-	-	77,158	329,211	1,018,377
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
<b>Bank</b>							
Securities available-for-sale	171,903	426,880	-	-	77,159	329,211	1,005,153
Securities held-to-maturity	61,251	-	-	-	-	-	61,251

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

2015

#### Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>							
Securities available-for-sale	242,265	451,865	21,364	-	73,534	182,599	971,627
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
<b>Bank</b>							
Securities available-for-sale	220,990	430,366	-	-	73,534	182,599	907,489
Securities held-to-maturity	61,251	-	-	-	-	-	61,251



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

**2016**

**Group and Bank**

**Financing and advances to customers**

Corporate financing

Commercial financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
-	-	50	50
13,713	-	-	13,713
200,037	73,839	50,928	324,804
213,750	73,839	50,978	338,567

**2015**

**Group and Bank**

**Financing and advances to customers**

Corporate financing

Commercial financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
27,284	-	460	27,744
32,966	1,441	5,360	39,767
179,836	73,232	19,049	272,117
240,086	74,673	24,869	339,628

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

Impaired and past due financing by geographical regions

2016 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	467,872	337,374	228,937		140,380
Middle East	-	882	-		-
Others	10,253	311	750		-
<b>Total</b>	<b>478,125</b>	<b>338,567</b>	<b>229,687</b>	<b>139,421</b>	<b>140,380</b>

2015 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	541,304	338,756	320,418		113,021
Middle East	-	581	-		-
Others	9,594	291	246		-
<b>Total</b>	<b>550,898</b>	<b>339,628</b>	<b>320,664</b>	<b>(92,212)</b>	<b>113,021</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (a) CREDIT RISK (Cont'd.)

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

##### Impaired and past due financing by industry sector

2016 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	197,355	850	122,809		140,380
Banks and financial institutions	9,172	-	9,172		-
Construction and real estate	217,688	13,844	66,846		-
Transportation, storage and Others	7,209 46,701	 -	 -		 -
<b>Total</b>	<b>478,125</b>	<b>338,567</b>	<b>229,688</b>	<b>139,421</b>	<b>140,380</b>

2015 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	399,664	46,043	284,361		10,309
Banks and financial institutions	28	410	-		28,067
Construction and real estate	88,202	5,526	-		-
Transportation, storage and Others	25,918 37,086	4,242 283,407	17,426 18,877		63,524 11,120
<b>Total</b>	<b>550,898</b>	<b>339,628</b>	<b>320,664</b>	<b>(92,212)</b>	<b>113,020</b>

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(a) CREDIT RISK (Cont'd.)**

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

**Collateral**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established clear guidelines that have been approved by the management and the Board on the types of acceptable collateral, valuation parameters and processes and secured margins to be taken.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Bank also accept 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 73.5% as at 31 December 2016 (2015: 89.5%). The financial effect of collateral held for other financial assets is not significant.

**Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions**

In order to cater for the inherently higher credit risks associated to dealings in Musyarakah and Mudharabah contracts, the Bank has been maintaining an internal credit policy to cover the Bank's activities in such portfolio, in addition to complying with BNM's Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions. The internal policy, which sets stricter and more clearly defined guidelines, encompasses areas of managing risks associated to profit-sharing activities such as the business management, strategy, exit mechanisms, business monitoring/control, and trigger alerts for potential watchlist and impaired accounts. The credit policy is enhanced from time to time to cater for latest changes in the risk profile of the portfolio.

In terms of approval of new Musyarakah and Mudharabah contracts, the Bank has introduced greater control where all new proposals are tabled to Management Committee for approval and subsequently to Board Credit and Investment Committee for concurrence. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank uses the Bank Negara Malaysia's Liquidity Coverage Ratio Framework as a foundation in managing its liquidity.

The objective of liquidity risk management is to ensure that cash needs always can be met at reasonable cost, either by:

- (i) maturity or sale of assets, or
- (ii) the acquisition of deposits or additional funding from the Islamic money markets.

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

#### **Contractual maturity of total assets and liabilities**

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheets assets and liabilities, commitments and counter-guarantees are important factors in assessing liquidity of the Group and the Bank.

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>						
<b>Group</b>						
<b>ASSETS</b>						
Cash and short-term funds	2,222,951	-	-	-	127,452	2,350,403
Deposits and placements with banks and other financial institutions	31,204	139,869	-	-	-	171,073
Securities available-for-sale	10,079	74,910	549,931	373,844	83,638	1,092,402
Securities held-to-maturity	-	56,186	5,065	-	-	61,251
Financing, advances and receivables	3,534,357	32,890	758,981	2,168,042	-	6,494,270
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	620,006	620,006
<b>Total Assets</b>	<b>5,798,591</b>	<b>303,855</b>	<b>1,313,977</b>	<b>2,541,886</b>	<b>836,994</b>	<b>10,795,303</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,370,257	303,751	5	-	655,329	4,329,342
Deposits and placements of banks and other financial institutions	4,191,458	69,953	-	-	8,563	4,269,974
Subordinated Murabahah Tawarruq	-	-	-	451,070	-	451,070
Other liabilities	-	-	-	-	98,139	98,139
<b>Total Liabilities</b>	<b>7,561,715</b>	<b>373,704</b>	<b>5</b>	<b>451,070</b>	<b>762,031</b>	<b>9,148,525</b>
Shareholder's equity	-	-	-	-	1,646,778	1,646,778
<b>Total Liabilities and Shareholder's equity</b>	<b>7,561,715</b>	<b>373,704</b>	<b>5</b>	<b>451,070</b>	<b>2,408,809</b>	<b>10,795,303</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	165,423	29,931	96,256	97,968	221,930	611,508
<b>Net maturity mismatch</b>	<b>(1,928,547)</b>	<b>(99,780)</b>	<b>1,217,716</b>	<b>1,992,848</b>	<b>(1,793,745)</b>	<b>(611,508)</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
<b>Group</b>						
<b>ASSETS</b>						
Cash and short-term funds	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	89,800	121,818	-	-	-	211,618
Securities available-for-sale	21,499	121,383	300,920	518,212	173,208	1,135,222
Securities held-to-maturity	-	-	61,251	-	-	61,251
Financing, advances and receivables	4,151,648	475,206	343,560	2,031,731	-	7,002,145
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	693,871	693,871
<b>Total Assets</b>	<b>5,820,970</b>	<b>718,407</b>	<b>705,731</b>	<b>2,549,943</b>	<b>872,977</b>	<b>10,668,028</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,299,154	335,383	5,469	-	-	3,640,007
Deposits and placements of banks and other financial institutions	4,644,227	205,123	-	-	-	4,849,350
Subordinated Murabahah Tawarruq	-	-	-	429,538	-	429,538
Other liabilities	-	-	-	-	81,662	81,662
<b>Total Liabilities</b>	<b>7,943,381</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>81,662</b>	<b>9,000,557</b>
Shareholder's equity	-	-	-	-	1,667,471	1,667,471
<b>Total Liabilities and Shareholder's equity</b>	<b>7,943,381</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>1,749,133</b>	<b>10,668,028</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	29,363	40,669	33,176	552,764	8,398	664,370
<b>Net maturity mismatch</b>	<b>(2,151,775)</b>	<b>137,232</b>	<b>667,086</b>	<b>1,567,641</b>	<b>(884,554)</b>	<b>(664,370)</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>						
<b>Bank</b>						
<b>ASSETS</b>						
Cash and short-term funds	2,222,951	-	-	-	127,452	2,350,403
Deposits and placements with banks and other financial institutions	59,296	139,869	-	-	-	199,165
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	10,080	74,910	549,931	373,844	50,773	1,059,538
Securities held-to-maturity	-	56,186	5,065	-	-	61,251
Financing, advances and receivables	3,534,366	32,890	758,981	2,168,033	-	6,494,270
Musarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	633,968	633,968
<b>Total Assets</b>	<b>5,826,693</b>	<b>303,855</b>	<b>1,313,977</b>	<b>2,541,877</b>	<b>818,091</b>	<b>10,804,493</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,211,339	303,751	5	-	780,000	4,295,095
Deposits and placements of banks and other financial institutions	4,266,061	69,953	-	-	8,563	4,344,577
Subordinated Murabahah Tawarruq	-	-	-	451,070	-	451,070
Other liabilities	-	-	-	-	97,304	97,304
<b>Total Liabilities</b>	<b>7,477,400</b>	<b>373,704</b>	<b>5</b>	<b>451,070</b>	<b>885,867</b>	<b>9,188,046</b>
Shareholder's equity	-	-	-	-	1,616,447	1,616,447
<b>Total Liabilities and Shareholder's equity</b>	<b>7,477,400</b>	<b>373,704</b>	<b>5</b>	<b>451,070</b>	<b>2,502,314</b>	<b>10,804,493</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	165,423	29,931	96,256	97,968	221,930	611,508
<b>Net maturity mismatch</b>	<b>(1,816,130)</b>	<b>(99,780)</b>	<b>1,217,716</b>	<b>1,992,839</b>	<b>(1,906,153)</b>	<b>(611,508)</b>



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
<b>Bank</b>						
<b>ASSETS</b>						
Cash and short-term funds	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	117,717	121,819	-	-	-	239,536
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	-	121,383	258,281	518,212	154,494	1,052,370
Securities held-to-maturity	-	-	61,251	-	-	61,251
Financing, advances and receivables	4,151,648	475,206	343,560	2,031,731	-	7,002,145
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	710,873	710,873
<b>Total Assets</b>	<b>5,827,388</b>	<b>718,408</b>	<b>663,092</b>	<b>2,549,943</b>	<b>871,265</b>	<b>10,630,096</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,215,455	335,383	5,469	-	-	3,556,307
Deposits and placements of banks and other financial institutions	4,717,009	205,123	-	-	-	4,922,132
Subordinated Murabahah Tawarruq	-	-	-	429,538	-	429,538
Other liabilities	-	-	-	-	80,880	80,880
<b>Total Liabilities</b>	<b>7,932,464</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>80,880</b>	<b>8,988,857</b>
Shareholder's equity	-	-	-	-	1,641,239	1,641,239
<b>Total Liabilities and Shareholder's equity</b>	<b>7,932,464</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>1,722,119</b>	<b>10,630,096</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	29,363	40,669	33,176	552,764	8,398	664,370
<b>Net maturity mismatch</b>	<b>(2,134,439)</b>	<b>137,233</b>	<b>624,447</b>	<b>1,567,641</b>	<b>(859,252)</b>	<b>(664,370)</b>

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### 48 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
<b>2016</b>						
Deposits from customers	3,418,444	310,289	5	-	655,329	4,384,067
Deposit and placements of banks and other financial institutions	4,264,590	71,793	-	-	8,562	4,344,945
Subordinated Murabahah Tawarruq	-	-	-	539,102	-	539,102
Other liabilities	-	-	-	-	98,139	98,139
Total	7,683,034	382,081	5	539,102	762,030	9,366,253
<b>2015</b>						
Deposits from customers	2,527,261	342,591	5,955	97,823	723,553	3,697,183
Deposit and placements of banks and other financial institutions	4,736,486	211,266	-	-	-	4,947,752
Subordinated Murabahah Tawarruq	-	-	-	502,015	-	502,015
Other liabilities	-	-	-	-	81,661	81,661
Total	7,263,747	553,857	5,955	599,838	805,214	9,228,611

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

##### Contractual maturity of financial liabilities on an undiscounted basis (Cont'd.)

Bank	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2016</b>						
Deposits from customers	3,257,571	310,334	5	-	780,000	4,347,910
Deposit and placements of banks and other financial institutions	4,339,236	71,762	-	-	8,563	4,419,561
Subordinated Murabahah Tawarruq	-	-	-	539,103	-	539,103
Other liabilities	-	-	-	-	97,304	97,304
<b>Total</b>	<b>7,596,807</b>	<b>382,096</b>	<b>5</b>	<b>539,103</b>	<b>885,867</b>	<b>9,403,878</b>
<b>2015</b>						
Deposits from customers	2,528,310	342,760	5,967	-	723,553	3,600,590
Deposit and placements of banks and other financial institutions	4,809,594	211,192	-	-	-	5,020,785
Subordinated Murabahah Tawarruq	-	-	-	502,015	-	502,015
Other liabilities	-	-	-	-	78,180	78,180
<b>Total</b>	<b>7,337,904</b>	<b>553,952</b>	<b>5,967</b>	<b>502,015</b>	<b>801,733</b>	<b>9,201,570</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK (Cont'd.)

To manage the risk inherent from the above position, limits on the following ratios are imposed to ensure that the Bank has sufficient liquidity to meet the liability obligations:

- (i) The sum of assets to mature within a period of one week and liquefiable assets over the liabilities that will mature within a period of 1 week;
- (ii) The sum of assets to mature within a period of one month and liquefiable assets over the liabilities that will mature within a period of 1 month; and
- (iii) The sum of cash, bank balances, placements and deposits with banks and financial institutions, and liquefiable assets over the total deposits from the 10 largest depositors of the Bank.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK

##### Trading

All positions, when the change in fair values will affect the current financial year net profit, are classified as trading positions. Limits on the trading exposures, annual loss and holding period are imposed to manage the potential impact of the trading positions on the Bank's profit and loss. Risk Management Division will review these limits regularly and will recommend to Board Risk Management Committee changes or additional limits, when necessary.

The capital requirement for the Bank's trading exposures is guided by Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank ("CAFIB").

Rate sensitive financial instruments are normally affected by general changes in the market profit rate, known as general risk. Changes in factor related to a specific issuer, in particular issuer's credit quality, which would affect the instrument, are known as specific risk. The Bank has adopted the maturity method as defined in CAFIB in computing the general risk charge of rate sensitive instruments.

The Bank's exposures to benchmark rate risk comprise of exposures in ijarah rental swap ("IRS") and forward foreign exchange related contracts. As at 31 December 2016, the total risk weighted assets for exposures with benchmark rate risk was RM8.21 million (2015: RM17.64 million) with a total capital charge of RM0.6 million (2015: 1.41 million).

All positions in IRS were fully squared (2015: Squared). The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities held-for-trading against the movement in market benchmark rates.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK

##### (i) Benchmark Rate Risk

##### Securities held-for-trading

Group and Bank	2016			2015		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
US Dollar (USD)	-	-	-	-	-	-

##### (ii) Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuation in foreign exchange rates.

As at 31 December 2016, the total risk weighted assets for exposures with foreign exchange rate risk was RM16.75 million (2015: RM15.28 million ) with a total capital charge of RM1.34 million (2016: RM1.22 million).

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK (Cont'd.)

##### (ii) Foreign exchange risk (Cont'd.)

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2016. 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.

	2016		2015	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
<b>Group</b>				
Singapore Dollar (SGD)	1	(48)	1	(29)
US Dollar (USD)	1	(1,930)	1	5,003
Euro (EUR)	1	(1,337)	1	(993)
<b>Bank</b>				
Singapore Dollar (SGD)	1	(48)	1	(29)
US Dollar (USD)	1	(5,050)	1	(219)
Euro (EUR)	1	(11)	1	(561)

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK (Cont'd.)

##### Non-Trading

All positions, when the change in fair values will affect the Bank's equity, are classified as non-trading positions. The Bank's exposures in securities available-for-sale are classified as non-trading market risk positions. At present, these exposures are not subject to market risk capital charge requirement.

The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities available-for-sale against the movement in market benchmark rates:

##### Securities available-for-sale

	2016			2015		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
<b>Group</b>						
Ringgit Malaysia	498,670	4.05	203,021	352,000	3.45	120,077
US Dollar	480,029	3.77	191,629	541,020	4.29	244,115
<b>Bank</b>						
Ringgit Malaysia	498,670	4.05	203,021	352,000	3.37	117,437
US Dollar	466,570	3.79	187,272	523,899	4.30	236,525



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (d) RATE OF RETURN RISK

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

Group 2016	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
	<b>ASSETS</b>								
Cash and short-term funds	2,214,388	-	-	-	-	127,452	-	2,341,840	2.96
Deposits and placements with banks and other financial institutions	-	-	171,073	-	-	-	-	171,073	1.49
Securities available-for-sale	-	-	84,989	549,931	373,844	83,638	-	1,092,402	3.65
Securities held-to-maturity	-	-	56,187	5,064	-	-	-	61,251	5.21
Financing, advances and receivables	2,110,744	2,461,144	7,399	604,488	1,310,495	-	-	6,494,270	5.21
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	628,569	-	628,569	
<b>TOTAL ASSETS</b>	<b>4,325,132</b>	<b>2,461,144</b>	<b>319,648</b>	<b>1,159,483</b>	<b>1,684,339</b>	<b>845,557</b>	<b>-</b>	<b>10,795,303</b>	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2016	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
	<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>								
Deposits from customers	2,417,501	450,664	805,801	5	-	655,371	-	4,329,342	2.88
Deposits and placements of banks and other financial institutions	3,108,080	800,853	352,478	-	-	8,563	-	4,269,974	3.52
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	-	451,070	3.63
Other liabilities	-	-	-	-	-	98,139	-	98,139	
<b>Total Liabilities</b>	<b>5,525,581</b>	<b>1,702,587</b>	<b>1,158,279</b>	<b>5</b>	<b>-</b>	<b>762,073</b>	<b>-</b>	<b>9,148,525</b>	
Shareholder's equity	-	-	-	-	-	1,646,778	-	1,646,778	
<b>Total Liabilities and Shareholder's equity</b>	<b>5,525,581</b>	<b>1,702,587</b>	<b>1,158,279</b>	<b>5</b>	<b>-</b>	<b>2,408,851</b>	<b>-</b>	<b>10,795,303</b>	
On-balance sheet profit sensitivity gap	(1,191,878)	758,558	(838,632)	1,159,478	1,684,340	(1,571,866)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(1,191,878)</b>	<b>758,558</b>	<b>(838,632)</b>	<b>1,159,478</b>	<b>1,684,340</b>	<b>(1,571,866)</b>	<b>-</b>	<b>-</b>	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2015	Non-trading book					Non- profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
<b>ASSETS</b>									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	44,152	167,466	-	-	-	-	211,618	1.22
Securities available-for-sale	21,499	-	121,383	300,920	518,212	173,208	-	1,135,222	2.93
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,145	5.36
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	693,871	-	693,871	
<b>TOTAL ASSETS</b>	<b>3,680,867</b>	<b>3,014,142</b>	<b>823,158</b>	<b>440,754</b>	<b>1,789,462</b>	<b>919,645</b>	<b>-</b>	<b>10,668,028</b>	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,516,625	580,273	734,961	5,469	-	802,679	-	3,640,007	2.88
Deposits and placements of banks and other financial institutions	2,174,522	1,783,757	891,071	-	-	-	-	4,849,350	4.01
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	81,661	-	81,661	-
<b>Total Liabilities</b>	<b>4,120,686</b>	<b>2,364,030</b>	<b>1,626,032</b>	<b>5,469</b>	<b>-</b>	<b>884,340</b>	<b>-</b>	<b>9,000,557</b>	
Shareholder's equity	-	-	-	-	-	1,667,471	-	1,667,471	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,120,686</b>	<b>2,364,030</b>	<b>1,626,032</b>	<b>5,469</b>	<b>-</b>	<b>2,551,811</b>	<b>-</b>	<b>10,668,028</b>	
On-balance sheet profit sensitivity gap	(439,818)	650,111	(802,874)	435,285	1,789,462	(1,632,166)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(439,818)</b>	<b>650,111</b>	<b>(802,874)</b>	<b>435,285</b>	<b>1,789,462</b>	<b>(1,632,166)</b>	<b>-</b>	<b>-</b>	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2016	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>									
Cash and short-term funds	2,214,388	-	-	-	-	127,452	-	2,341,840	2.96
Deposits and placements with banks and other financial institutions	-	28,092	171,073	-	-	-	-	199,165	1.36
Securities available-for-sale	-	-	84,990	549,931	373,844	50,773	-	1,059,538	3.76
Securities held-to-maturity	-	-	56,186	5,065	-	-	-	61,251	5.21
Financing, advances and receivables	2,110,752	2,461,144	7,400	604,487	1,310,487	-	-	6,494,270	5.21
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	642,531	-	642,531	-
<b>TOTAL ASSETS</b>	4,325,140	2,489,236	319,649	1,159,483	1,684,331	826,654	-	10,804,493	-
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	2,258,584	450,664	805,801	5	-	780,041	-	4,295,095	2.90
Deposits and placements of banks and other financial institutions	3,182,682	800,853	352,479	-	-	8,563	-	4,344,577	3.46
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	-	451,070	3.63
Other liabilities	-	-	-	-	-	97,304	-	97,304	-
<b>Total Liabilities</b>	5,441,266	1,702,587	1,158,280	5	-	885,908	-	9,188,046	-
Shareholder's equity	-	-	-	-	-	1,616,447	-	1,616,447	-
<b>Total Liabilities and Shareholder's equity</b>	5,441,266	1,702,587	1,158,280	5	-	2,502,355	-	10,804,493	-
On-balance sheet profit sensitivity gap	(1,107,563)	786,649	(838,632)	1,159,478	1,684,331	(1,684,263)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	(1,107,563)	786,649	(838,632)	1,159,478	1,684,331	(1,684,263)	-	-	-

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2015	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	72,070	167,466	-	-	-	-	239,536	1.16
Securities available-for-sale	121,383	-	258,281	518,212	154,494	-	-	1,052,370	3.05
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,144	5.36
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	710,873	-	710,873	-
<b>TOTAL ASSETS</b>	<b>3,780,751</b>	<b>3,042,060</b>	<b>960,056</b>	<b>658,046</b>	<b>1,425,744</b>	<b>763,439</b>	<b>-</b>	<b>10,630,095</b>	<b>-</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,512,523	579,801	734,961	5,469	-	723,553	-	3,556,307	2.94
Deposits and placements of banks and other financial institutions	2,241,979	1,789,083	891,070	-	-	-	-	4,922,132	3.96
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	80,880	-	80,880	-
<b>Total Liabilities</b>	<b>4,184,040</b>	<b>2,368,884</b>	<b>1,626,031</b>	<b>5,469</b>	<b>-</b>	<b>804,433</b>	<b>-</b>	<b>8,988,857</b>	<b>-</b>
Shareholder's equity	-	-	-	-	-	1,641,239	-	1,641,239	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,184,040</b>	<b>2,368,884</b>	<b>1,626,031</b>	<b>5,469</b>	<b>-</b>	<b>2,445,672</b>	<b>-</b>	<b>10,630,096</b>	<b>-</b>
On-balance sheet profit sensitivity gap	(403,289)	673,176	(665,975)	652,577	1,425,744	(1,682,233)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(403,289)</b>	<b>673,176</b>	<b>(665,975)</b>	<b>652,577</b>	<b>1,425,744</b>	<b>(1,682,233)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and hedging financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Group and the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, US Dollar, Euro and Kuwait Dinar.

Group	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>2016</b>							
<b>ASSETS</b>							
Cash and short-term funds	2,278,988	62,852	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	171,073	-	-	-	-	171,073
Securities available-for-sale	569,114	-	523,289	-	-	-	1,092,403
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,277,439	-	216,831	-	-	-	6,494,270
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	628,568	-	-	-	-	-	628,568
<b>Total Assets</b>	<b>9,821,258</b>	<b>233,925</b>	<b>740,120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,795,303</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK (Cont'd.)

Group	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>2016 (Cont'd.)</b>							
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,919,990	235,462	167,891	-	-	5,999	4,329,342
Deposits and placements of banks and other financial institutions	4,077,469	-	164,180	28,325	-	-	4,269,974
Subordinated Murabahah Tawarruq	-	-	451,070	-	-	-	451,070
Other liabilities	98,139	-	-	-	-	-	98,139
<b>Total Liabilities</b>	<b>8,095,598</b>	<b>235,462</b>	<b>783,141</b>	<b>28,325</b>	<b>-</b>	<b>5,999</b>	<b>9,148,525</b>
Shareholder's equity	1,646,778	-	-	-	-	-	1,646,778
<b>Total Liabilities and Shareholder's equity</b>	<b>9,742,376</b>	<b>235,462</b>	<b>783,141</b>	<b>28,325</b>	<b>-</b>	<b>5,999</b>	<b>10,795,303</b>
On-balance sheet open position	78,881	(1,537)	(43,021)	(28,325)	-	(5,999)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>78,881</b>	<b>(1,537)</b>	<b>(43,021)</b>	<b>(28,325)</b>	<b>-</b>	<b>(5,999)</b>	<b>-</b>



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK (Cont'd.)

Group	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>2015</b>							
<b>ASSETS</b>							
Cash and short-term funds	1,503,524	30,509	21,472	-	-	2,518	1,558,023
Deposits and placements with banks and other financial institutions	-	167,466	23,623	-	-	20,529	211,618
Securities available-for-sale	348,225	-	768,283	18,714	-	-	1,135,222
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,703,819	-	298,326	-	-	-	7,002,145
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	693,871	-	-	-	-	-	693,871
<b>Total Assets</b>	<b>9,316,588</b>	<b>197,975</b>	<b>1,111,704</b>	<b>18,714</b>	<b>-</b>	<b>23,047</b>	<b>10,668,028</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,315,604	198,914	118,687	-	-	6,802	3,640,007
Deposits and placements of banks and other financial institutions	4,362,513	-	446,962	39,875	-	-	4,849,350
Subordinated Murabahah Tawarruq	-	-	429,538	-	-	-	429,538
Other liabilities	81,662	-	-	-	-	-	81,662
<b>Total Liabilities</b>	<b>7,759,779</b>	<b>198,914</b>	<b>995,187</b>	<b>39,875</b>	<b>-</b>	<b>6,802</b>	<b>9,000,557</b>
Shareholder's equity	1,667,471	-	-	-	-	-	1,667,471
<b>Total Liabilities and Shareholder's equity</b>	<b>9,427,250</b>	<b>198,914</b>	<b>995,187</b>	<b>39,875</b>	<b>-</b>	<b>6,802</b>	<b>10,668,028</b>
On-balance sheet open position	(110,662)	(939)	116,517	(21,161)	-	16,244	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>(110,662)</b>	<b>(939)</b>	<b>116,517</b>	<b>(21,161)</b>	<b>-</b>	<b>16,244</b>	<b>-</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>2016</b>							
<b>ASSETS</b>							
Cash and short-term funds	2,278,988	62,852	-	-	-	-	2,341,840
Deposits and placements with banks and other financial institutions	-	171,073	-	28,092	-	-	199,164
Securities available-for-sale	536,249	-	523,289	-	-	-	1,059,538
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,277,439	-	216,831	-	-	-	6,494,270
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	642,532	-	-	-	-	-	642,532
<b>Total Assets</b>	<b>9,802,358</b>	<b>233,924</b>	<b>740,119</b>	<b>28,092</b>	<b>-</b>	<b>-</b>	<b>10,804,493</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,885,743	235,462	167,891	-	-	5,999	4,295,095
Deposits and placements of banks and other financial institutions	4,082,518	-	233,734	28,325	-	-	4,344,577
Subordinated Murabahah Tawarruq	-	-	451,070	-	-	-	451,070
Other liabilities	97,304	-	-	-	-	-	97,304
<b>Total Liabilities</b>	<b>8,065,565</b>	<b>235,462</b>	<b>852,695</b>	<b>28,325</b>	<b>-</b>	<b>5,999</b>	<b>9,188,046</b>
Shareholder's equity	1,616,447	-	-	-	-	-	1,616,447
<b>Total Liabilities and Shareholder's equity</b>	<b>9,682,012</b>	<b>235,462</b>	<b>852,695</b>	<b>28,325</b>	<b>-</b>	<b>5,999</b>	<b>10,804,493</b>
On-balance sheet open position	120,344	(1,537)	(112,575)	(234)	-	(5,999)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>120,344</b>	<b>(1,537)</b>	<b>(112,575)</b>	<b>(234)</b>	<b>-</b>	<b>(5,999)</b>	<b>-</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>2015</b>							
<b>ASSETS</b>							
Cash and short-term funds	1,503,524	30,509	21,472	-	-	2,518	1,558,023
Deposits and placements with banks and other financial institutions	-	167,466	23,623	27,918	14,161	6,368	239,536
Securities available-for-sale	348,225	-	704,145	-	-	-	1,052,370
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,703,819	-	298,326	-	-	-	7,002,145
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	701,606	-	9,267	-	-	-	710,873
<b>Total Assets</b>	<b>9,324,323</b>	<b>197,975</b>	<b>1,056,833</b>	<b>27,918</b>	<b>14,161</b>	<b>8,886</b>	<b>10,630,096</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,231,903	198,914	118,687	-	-	6,803	3,556,307
Deposits and placements of banks and other financial institutions	4,368,540	-	513,716	39,876	-	-	4,922,132
Subordinated Murabahah Tawarruq	-	-	429,538	-	-	-	429,538
Other liabilities	80,880	-	-	-	-	-	80,880
<b>Total Liabilities</b>	<b>7,681,323</b>	<b>198,914</b>	<b>1,061,941</b>	<b>39,876</b>	<b>-</b>	<b>6,803</b>	<b>8,988,857</b>
Shareholder's equity	1,641,239	-	-	-	-	-	1,641,239
<b>Total Liabilities and Shareholder's equity</b>	<b>9,322,562</b>	<b>198,914</b>	<b>1,061,941</b>	<b>39,876</b>	<b>-</b>	<b>6,803</b>	<b>10,630,096</b>
On-balance sheet open position	1,761	(939)	(5,108)	(11,958)	14,161	2,083	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>1,761</b>	<b>(939)</b>	<b>(5,108)</b>	<b>(11,958)</b>	<b>14,161</b>	<b>2,083</b>	<b>-</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (f) PROFIT RATE RISK

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

The rate of return risk management function is overseen by Asset & Liability Management Committee ("ALCO"), with the secretariat resided at Risk Management Division. ALCO is chaired by Chief Executive Officer with members comprise of senior management representing major business units, Finance Division and Risk Management Division.

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

- i) The total of non rate sensitive financing over the Bank's total financing; and
- ii) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (f) PROFIT RATE RISK (Cont'd.)

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2016. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

#### Exposures to profit rate risk

2016

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
<b>Group</b>						
Rate sensitive assets	6,822	47	272	3,161	493	10,795
Rate sensitive liabilities	7,230	783	373	0	762	9,148
Monthly mismatch	(408)	(736)	(101)	3,161	(269)	
Cumulative mismatch	(2,770)	(2,628)	(7,437)	1,915	1,647	
<b>Bank</b>						
Rate sensitive assets	6,822	47	272	3,161	502	10,804
Rate sensitive liabilities	7,146	783	373	-	886	9,188
Monthly mismatch	(323)	(736)	(101)	3,161	(384)	
Cumulative mismatch	(2,517)	(2,374)	(6,929)	2,000	1,616	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (f) PROFIT RATE RISK (Cont'd.)

##### Exposures to profit rate risk (Cont'd.)

2015

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
<b>Group</b>						
Rate sensitive assets	6,702	160	663	2,574	569	10,668
Rate sensitive liabilities	6,573	1,078	539	5	805	9,001
Monthly mismatch	130	(918)	124	2,568	(236)	
Cumulative mismatch	(561)	(1,826)	(5,202)	1,904	1,667	
<b>Bank</b>						
Rate sensitive assets	6,709	160	663	2,531	567	10,630
Rate sensitive liabilities	6,562	1,078	539	5	804	8,989
Monthly mismatch	147	(918)	124	2,526	(237)	
Cumulative mismatch	(559)	(1,774)	(5,098)	1,878	1,641	

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (f) PROFIT RATE RISK (Cont'd.)

The following table indicates the sensitivity of the net revenue and the economic value of equity on over the rate of return upward and downward rate shocks.

#### Profit rate risk simulation sensitivity analysis (%)

2016 Group	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	48.50	24.26	12.13	(4.99)	(9.97)	(19.94)
Change in Economic Value of Equity	30.70	14.51	7.06	(6.69)	(13.05)	(24.81)
<b>Bank</b>						
Change in Net Revenue	49.71	24.87	12.43	(4.28)	(8.56)	(17.12)
Change in Economic Value of Equity	30.70	14.51	7.06	(6.69)	(13.05)	(24.81)
<b>2015</b>						
Group	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	(7.44)	(9.75)	(10.91)	(13.59)	(15.11)	(18.16)
Change in Economic Value of Equity	31.00	14.57	7.07	(6.67)	(12.97)	(24.54)
<b>Bank</b>						
Change in Net Revenue	(8.26)	(10.60)	(11.77)	(14.24)	(15.53)	(18.12)
Change in Economic Value of Equity	30.82	14.48	7.02	(6.63)	(12.88)	(24.37)

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(g) Credit Risk Disclosures for portfolios under the Standardised Approach**

For the calculation of credit risk-weighted assets under the Standardised Approach for Capital Adequacy Framework for Islamic Bank ("CAFIB") issued by Bank Negara Malaysia ("BNM"), external credit assessments (or external ratings) on the obligor (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios in the banking book. The Bank captures all available external ratings of obligor or issues and adheres to the conditions stipulated in the BNM CAFIB to choose the applicable rating assessment for exposures with single or multiple external ratings. The Bank then assigns the appropriate risk weight to the banking book exposure that is equivalent to the standard risk-weights in CAFIB for issue-specific rating. The Bank also applies the principles stipulated in CAFIB to determine the applicable risk weights to the exposures that do not have issue-specific rating.

**(i) Names of External Credit Assessment Institution ("ECAIs") used are:**

Standard & Poor's Rating Services ("S&P")  
Moody's Investor's Service ("Moody's")  
Fitch Ratings ("Fitch")  
Rating Agency Malaysia ("RAM")  
Malaysian Rating Corporation Berhad ("MARC")

**(ii) Types of exposures for which each ECAIs is used :**

Exposures to Sovereign and Central Banks  
Exposures to Non-Federal Government Public Sector Entities ("PSEs")  
Exposures to Multilateral Banks ("MDB's")  
Exposures to Banking Institutions and Corporates

**(iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows:**

**2016**

Exposure class	Rating of Corporates by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
Group Corporates		RM '000	RM '000	RM '000	RM '000	RM '000
		144,623	204,998	203,637	30,372	3,987,312



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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)**

2016 (Cont'd.)

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc					
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
<b>Bank</b>						
Corporates		144,623	204,998	203,637	30,372	3,995,749

2015

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc					
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
<b>Group</b>						
Corporates		133,279	192,344	127,516	39,455	4,708,436
<b>Bank</b>						
Corporates		133,279	192,344	127,516	39,455	4,717,513

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)**

2016 (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	
<b>Group</b> Sovereigns/Central Banks	13,225	2,543,605	-	-	-	209,029	
<b>Bank</b> Sovereigns/Central Banks	-	2,543,605	-	-	-	209,029	

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	
<b>Group</b> Banks, MDBs and FDIs	16,704	323,421	51,768	55	-	43,282	
<b>Bank</b> Banks, MDBs and FDIs	44,796	323,421	51,768	55	-	43,282	

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**48 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)**

2015

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	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
<b>On and Off-Balance Sheet Exposures</b>		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Group</b> Sovereigns/Central Banks		76,637	1,744,050	21,364	-	-	260,208
<b>Bank</b> Sovereigns/Central Banks		55,363	1,744,050	-	-	-	260,208

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	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
<b>On and Off-Balance Sheet Exposures</b>		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Group</b> Banks, MDBs and FDIs		(22,756)	280,855	51,358	37	-	96,825
<b>Bank</b> Banks, MDBs and FDIs		5,161	280,855	51,358	37	-	96,824

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2016

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	2,765,858	139,130	-
Banks, Development Financial Institutions & MDBs	433,307	39,749	-
Corporates	4,127,921	150,332	139,596
Regulatory Retail	1,893,397	-	6,250
Residential Mortgages	578,131	-	4,303
Higher Risk Assets <sup>1</sup>	259,408	-	-
Other Assets	303,827	-	-
Defaulted Exposures <sup>2</sup>	368,590	-	3,360
<b>Total On Balance Sheet Exposures</b>	<b>10,730,439</b>	<b>329,211</b>	<b>153,509</b>
<b>(b) Off-Balance Sheet Exposures*</b>			
OTC Derivatives <sup>3</sup>	8,871	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	216,668	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>225,539</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,955,978</b>	<b>329,211</b>	<b>153,509</b>

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2015

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	2,102,259	-	-
Banks, Development Financial Institutions & MDBs	403,514	39,413	-
Corporates	4,765,687	143,186	185,866
Regulatory Retail	1,865,275	-	16,957
Residential Mortgages	446,167	-	1,896
Higher Risk Assets <sup>1</sup>	437,757	-	-
Other Assets	295,165	-	-
Defaulted Exposures <sup>2</sup>	237,008	-	2,367
<b>Total On Balance Sheet Exposures</b>	<b>10,552,832</b>	<b>182,599</b>	<b>207,086</b>
<b>(b) Off-Balance Sheet Exposures*</b>			
OTC Derivatives <sup>3</sup>	14,113	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	262,645	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>276,758</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,829,590</b>	<b>182,599</b>	<b>207,086</b>



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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2015

Bank

#### (i) Credit Risk

##### (a) On-Balance Sheet Exposures

Sovereigns/Central Banks  
 Banks, Development Financial Institutions & MDBs  
 Corporates  
 Regulatory Retail  
 Residential Mortgages  
 Higher Risk Assets<sup>1</sup>  
 Other Assets  
 Defaulted Exposures<sup>2</sup>  
**Total On-Balance Sheet Exposures**

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
2,059,621	-	-
431,431	39,413	-
4,774,763	143,186	185,866
1,865,275	-	16,957
446,167	-	1,896
437,757	-	-
244,198	-	-
237,008	-	2,367
10,496,220	182,599	207,086





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## 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

### (i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2016	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	6,987		6,987	6,887
Transaction related contingent items	117,263		58,632	50,555
Short-term self liquidating trade related contingencies	9,374		1,875	1,875
Foreign exchange related contracts				
- One year or less	85,225	994	2,048	1,558
Profit rate related contracts				
- Over five years	199,152	4,831	6,823	5,775
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	178,657		89,329	76,982
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	299,227		59,845	65,442
	895,885	5,825	225,539	209,074

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## 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

### (i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2015	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	28,618		28,618	20,129
Transaction related contingent items	85,700		42,850	32,888
Short-term self liquidating trade related contingencies	10,146		2,029	2,029
Foreign exchange related contracts				
- One year or less	8,873	265	350	163
Profit rate related contracts				
- Over five years	245,505	9,002	13,763	11,799
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	270,554		135,277	124,479
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	269,352		53,870	52,465
	918,748	9,267	276,757	243,952

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### 48 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (j) Equities (Disclosure for banking book positions)

2016

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
<b>Privately Held</b>			
<b>(a) Subsidiaries</b>	<b>30,200</b>	<b>(15,131)</b>	
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(15,131)	Capital Deduction
<b>(b) Investment</b>	<b>64,885</b>	<b>(10,500)</b>	<b>81,578</b>
Intrared Sdn Bhd	36,100	-	54,150
Al Faiz Fund 1	28,785	(10,500)	27,428
<b>(c) Musyarakah Capital Investment</b>	<b>5,898</b>	<b>-</b>	<b>8,847</b>

2015

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
<b>Privately Held</b>			
<b>(a) Subsidiaries</b>	<b>30,200</b>	<b>(11,520)</b>	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(11,520)	Capital Deduction
<b>(b) Investment</b>	<b>155,382</b>	<b>(10,500)</b>	<b>217,322</b>
Intrared Sdn Bhd	36,100	-	54,150
KFH Global Sukuk Fund	86,638	-	129,957
Al Faiz Fund 1	32,644	(10,500)	33,215
<b>(c) Musyarakah Capital Investment</b>	<b>5,898</b>	<b>-</b>	<b>8,847</b>

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**49 SHARIAH GOVERNANCE DISCLOSURES**

**(a) Process of handling the shariah non compliance event**

The Bank has an approved documented process in handling and escalating the shariah non compliance event. This process is in-line with the requirements stated in the relevant Bank Negara Malaysia's policy documents.

Any income arising from shariah non compliance activity will be channeled to charity.

**(b) The amount and number of event of non-Shariah compliant income are as follows:**

2016		2015	
Group and Bank		Group and Bank	
Number of events occur	Amount	Number of events occur	Amount
	RM'000		RM'000
-	-	-	-
-	-	-	-