KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2022

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

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1 PERFORMANCE OVERVIEW

The Group and the Bank recorded a profit before tax of RM69.9 million and RM71.8 million respectively for the year ended 31 December 2022.

The Group's and the Bank's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2022 stood at 41.099% and 42.198%, and 41.100% and 42.199% respectively.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

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

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

In ensuring that the entire Islamic banking operations of the Bank complies with Shariah rules and principles, a sound and robust Shariah Governance Framework has been developed with emphasis on compliance with Shariah principles through an independent Shariah Committee. The framework includes instituting comprehensive policies, processes and infrastructure to ensure Shariah compliance in all aspects namely planning, development and implementation of the Bank's operations, products and activities.

In 2022, there were no Shariah non-compliance incidences reported to the Board.

Roles and Responsibilities of the Board

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Roles and Responsibilities of the Board (Cont'd.)

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 the Management Team of the highest caliber. Continuous reviews are conducted on the Bank's corporate and business governance in an effort to strengthen controls and enhance good governance practices in staying relevant to the challenges of the changing market environment.

Board Composition and Balance

The Board currently has six (6) members, comprising four (4) independent non-executive directors and one (1) non-independent non-executive director and one (1) non-independent executive director.

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile

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

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

Currently, he is the CEO of Faiha International Real Estate Company K.S.C. He was appointed as an Independent Non-Executive Director of Kuwait Finance House K.S.C.P. ("KFHK") on 23 March 2014 and has been appointed as a member of Board Executive Committee, Board Risk Committee, Board Investment Committee of KFHK and Board Merger Committee (KFHK-AUB).

Mr AlOsaimi has extensive experience in investment, leasing and knowledge in the banking and real estate development and investment. He was the Deputy General Manager of Global Retail Company (a family-owned company) from 2003 to 2020. He was an Investment Officer under the Investment Department of Aayan Leasing and Investment Company K.S.C.P in 2002 and completed an 18-month specialized training program consisting both theoretical and practical training in the fields of finance and investment at the Kuwait Investment Authority in 2001.

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

He was appointed as the Chairman/Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad on 16 February 2017.

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

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

He has over 31 years of banking experience in the management of Retail Banking and Consumer Finance business with significant exposure to the Wholesale Banking activities at Kuwait Finance House K.S.C.P. ("KFHK") and has held senior positions in KFHK. His last position in KFHK was as a Consultant to the Group Chief Executive Officer before he left the organisation on 30 September 2018.

Mr AlFouzan was appointed as a Non Independent Non-Executive Director of KFHMB on 7 October 2014 and was redesignated as an Independent Non-Executive Director of KFHMB on 7 October 2020. He is also currently the Non-Independent Director of KFHK, the Vice Chairman of Kuwait Finance House (Bahrain) B.S.C., a subsidiary of KFHK. Furthermore, he is a Board Member of Sharjah Islamic Bank in United Arab Emirates.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile (Cont'd.)

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

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

Mr AlKharji was appointed as a Non-Independent Non-Executive Director ("NINED") of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 1 June 2014. Subsequent thereto, he became the Chief Executive Officer and Managing Director ("CEO & MD") of KFHMB and upon his resignation as CEO & MD, he remained as a Board Member and was re-designated as a NINED in July 2016. He was subsequently re-designated as Non-Independent Executive Director in 2017 to comply with the definition of Executive Director under BNM's Corporate Governance Policy. He is currently a Board member of Kuveyt Turk Participation Bank Inc and KFH Capital Investment Company, subsidiaries of Kuwait Finance House K.S.C.P ("KFHK") in Turkey and Kuwait respectively.

Mr AlKharji is a seasoned banker with more than 21 years of extensive experience in various portfolios including structured finance, corporate finance, project finance and banking supervision. Prior to his appointment as the CEO & MD of KFHMB, Mr AlKharji was the Deputy General Manager of Structured Finance at KFHK. He started his career with the Central Bank of Kuwait and Burgan Bank in Kuwait. Since joining KFHK in August 2003, he had served in various senior capacities within the Group. He is currently the Group Chief Corporate Banking Officer of KFHK.

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

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

En Khalid was appointed as an Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 3 January 2011. He was then redesignated as a Non-Independent Non-Executive Director on 3 January 2020 upon the expiry of his 9-year tenure as an Independent Non-Executive Director.

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

He had previously managed three listed companies, namely, as Executive Director of Tronoh Mines Malaysia Berhad, as Deputy Executive Chairman of Furqan Business Organisation Berhad, and as Group Managing Director of Seacera Tiles Berhad. He was also previously the Independent Director of Chemical Company of Malaysia Berhad and UMW Holdings Berhad respectively.

His directorships in other public companies include Malaysian Reinsurance Berhad and MNRB Holdings Berhad. He is also a Professional Member on the Board of Employees Provident Fund ("EPF") and the Chairman of EPF's Audit Committee.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

En Abdul Khalil Bin Abdul Hamid ("En Abdul Khalil") was appointed as an Independent Non-Executive Director ("INED") of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 10 June 2016. He is an Investment Committee member of Eastspring Investments Bhd and in May 2019, was appointed as Chairman of the said committee. On 13 April 2007, En Abdul Khalil was appointed as an INED of Prudential Assurance Malaysia Berhad ("PAMB") and subsequently he was re-designated as NINED and appointed as Chairman of PAMB on 1 January 2017. En. Abdul Khalil was also an INED of Prudential BSN Takaful Bhd from 17 July 2006 until the end of his tenure on 13 July 2017. En Abdul Khalil was appointed as an INED of Mizuho Bank (Malaysia) Berhad on 11 November 2019.

En Abdul Khalil has 37 years of experience in the banking industry. He was the Executive Vice-President of Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad ("BTM") (now known as MUFG Bank (Malaysia) Bhd) from 2002 until 2012, overseeing the execution of the bank's long and short-term strategies. He was appointed as the Advisor of Operations of BTM prior to his retirement in October 2013. Before joining BTM, he was the Head of Credit Management for Affin Bank Berhad where he was responsible for the underwriting and management of commercial loans. En Abdul Khalil's career began in February 1979 where he worked for Hongkong & Shanghai Banking Corporation. He subsequently left in 1985 as a Branch Sub-Manager of customer service and joined The Bank of Nova Scotia for 10 years, leaving as Manager, Personal Banking.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Mohamed Zaheer Mohamed Azreen
Independent Non-Executive Director
(52 years of age – Sri Lankan)

Mr Mohamed Zaheer Mohamed Azreen ("Mr Azreen") is an Associate Member of Chartered Institute of 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).

Mr Azreen started his career in 1991 at KPMG in Colombo, Sri Lanka and then joined Messrs Ernst & Young ("EY"), Bahrain Office in October 1996 as 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 Kuwait Finance House, Kuwait ("KFHK") in 1999 as Investment Manager, Direct Investment Department. He was later transferred to head the Banking Performance Monitoring Unit and the Credit Due Diligence Unit of International Banking Sector which oversee the performances of the banking subsidiaries. His last position in KFHK was as the Senior Manager, FI Credit Management under Treasury Division.

He was appointed as an Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 1 March 2020.

Mr Azreen is currently a Consultant with Frontier Advisory (Pvt) Ltd, Colombo, Sri Lanka, a company that provide a range of advisory services on accounting, tax and business related matters.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2022, five (5) Board meetings were held and attended by the directors. In the said Board meetings, strategic matters as well as reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals, reviewing of the Bank's significant policies and other matters were tabled for deliberation, approval and endorsement by the members of the Board.

The agenda for every Board meeting together with meeting 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 are also aware of matters that are specifically reserved for its decision.

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

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Muad S M M AlOsaimi (Chairman)	5/5	100%
Mohammad Nasser AlFouzan	5/5	100%
Ahmed S. A A Al Kharji	4/5	80%
Khalid Sufat	4/5	80%
Abdul Khalil Abdul Hamid	5/5	100%
Mohamed Zaheer Mohamed Azreen	5/5	100%

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees

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

Board Audit Committee

The Board Audit Committee ("BAC") currently consists of two (2) INEDs and one (1) NINED. Six (6) BAC meetings were held during the financial year.

The attendance of each Director who were members during the financial year at the aforesaid BAC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Mohamed Zaheer Mohamed Azreen (Chairman)	6/6	100%
Khalid Sufat	5/6	83%
Mohammad Nasser AlFouzan	6/6	100%

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 as well as accuracy and appropriateness of data in relation to sustainability reporting to ensure information reported is according to relevant sustainability reporting standards. The BAC also reviews the effectiveness of the Bank's internal controls, risk management processes, cyber security controls, 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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

The Board Risk Management Committee ("BRMC") currently consists of three (3) INEDs. Five (5) BRMC meetings were held during the financial year.

The attendance of each Director who were members during the financial year at the aforesaid BRMC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Abdul Khalil Abdul Hamid (Chairman)	5/5	100%
Mohammad Nasser AlFouzan	5/5	100%
Mohamed Zaheer Mohamed Azreen	5/5	100%

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational, technology, legal, compliance and other emerging risks as well as to ensure that the risk identification and mitigation is in place and functioning. 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. In addition, the BRMC recommends to the Board the Bank's Sustainability Roadmap and oversees the Bank's sustainability practices towards embedding Environmental, Social and Governance considerations across the Bank's decision-making processes as well as managing sustainability risk and to ensure risk identification and mitigation are in place and functioning. The BRMC further approves the Annual Compliance Plan, framework and policies, provides oversight on overall technology and cybersecurity strategic matters, review and approve outsourcing matters, review Independent Credit Review reports and recommend other risk related matters to the Board for approval.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Nominating And Remuneration Committee

The Board Nominating And Remuneration Committee ("BNRC") currently consists of three (3) INEDs. Five (5) BNRC meetings were held during the financial year.

The attendance of each Director who were members during the financial year at the aforesaid BNRC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Mohamed Zaheer Mohamed Azreen (Chairman)	5/5	100%
Mohammad Nasser AlFouzan	5/5	100%
Abdul Khalil Abdul Hamid	5/5	100%

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

(a) to provide a formal and transparent procedure for the appointment and re-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; and

(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.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit Committee

The BCC currently consists of two (2) INEDs and one (1) NINED. Six (6) BCC meetings were held during the financial year.

The attendance of each Director who were members during the financial year at the aforesaid BCC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Khalid Sufat (Chairman)	5/6	83%
Mohamed Zaheer Mohamed Azreen	6/6	100%
Abdul Khalil Abdul Hamid	6/6	100%

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

(a) to veto/no objection/modify terms/concur with the Bank's credit and treasury investment (inclusive of investment in funds) proposal as per the Delegation of Authority Matrix, subject always to adherence to the Golden Rule of KFHK, where applicable;

(b) to review and ensure appropriate actions are being taken for recovery of corporate accounts, other impaired accounts, early alert accounts and accounts transferred to Profit Sharing Investment Account; and

(c) to approve waiver, write-off, write down and haircuts transactions in accordance with the Delegation of Authority Matrix and Write-Off, Write Down and Haircut Transactions Policy.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Corporate Governance Committee

The Board Corporate Governance Committee ("BCGC") currently consists of one (1) INED, one (1) NINED and one (1) NIED. One (1) BCGC meeting was held during the financial year.

The attendance of each Director who were members during the financial year at the aforesaid BCGC meetings is set out below:

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Muad S M M AlOsaimi (Chairman)	1/1	100%
Ahmed S A A AlKharji	1/1	100%
Khalid Sufat	1/1	100%

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

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 2022 is disclosed under Note 34 of the Audited Financial Statements.

Board Effectiveness Evaluation

The effectiveness of the Board is vital to the success of the Group. The Board conducts a rigorous evaluation process each year to assess the performance of the Board, Board Committees and each individual Board member.

Board Training

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2022 were as follows:

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	**Muad S M M AlOsaimi**	10 February 2022	Blending Islamic Finance with Environmental Social Governance ("ESG") Initiatives Post COVID Scenario	The session highlights on:- • ESG & Islamic Finance Critical Elements; • Pressure for sustainability rises; • ESG challenges; • Shariah's relevance to ESG challenges • Shariah minds – nurturing innovation towards sustainable solutions.
		20 July 2022	AML/CFT for Board of Directors	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.
		20 October 2022	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk. • Cyber security measurement and reporting.
		9-10 November 2022	Islamic Finance for Board of Directors (IF4BoD)	The session among others, highlights on the following:- • Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business. • Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential. • Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.
		1 December 2022	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.
2	**Abdul Khalil Abdul Hamid**	10 February 2022	Blending Islamic Finance with Environmental Social Governance ("ESG") Initiatives Post COVID Scenario	The session highlights on:- • ESG & Islamic Finance Critical Elements; • Pressure for sustainability rises; • ESG challenges; • Shariah's relevance to ESG challenges • Shariah minds – nurturing innovation towards sustainable solutions.
		31 March 2022	BNM Annual Report ("AR) 2021, Economic & Monetary Report ("EMR") 2021 And Financial Stability Review Second Half 2021 – Virtual Engagement Session	• Sets out initiatives & workings of the Bank in 2021 in fulfilling its mandate to promote monetary stability and financial stability conducive to the sustainable growth of Malaysian economy. • Highlights on the pace of economy in Malaysia amid reopening of economy and international borders, headline inflation, labour market conditions and monetary policy. • Highlights on financial institutions remained vigilant in managing risks where credit risks remain a key focus, good risk management practices and ensuring operational and cyber resilience remain a key focus.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	**Abdul Khalil Abdul Hamid (Cont'd)**	5 April 2022	Conversation on Climate Governance – How Is The Climate Agenda Going To Affect Me? (PLC focus)	Discussion on how will the climate agenda affect the way businesses operate and the necessity paradigm shift.
		5 April 2022	SEACEN-ASB Webinar Series : Why Is Dollar Debt Cheaper?	Discuss on the reasons behind dollar debt.
		14 April 2022	Deloitte IFRS 17 Digital Training Solution	The training discusses on the new Standard which is designed to achieve the goal of a consistent, principle-based accounting standard for insurance contracts as well as its practical implications on the financial report process.
		21 April 2022	Insights into Task Force on Climate-Related Financial Disclosures (TFCD) And Sustainable Finance	Sharing session on avenues and opportunities in sustainable finance & climate reporting in accordance with TFCD.
		26 April 2022	IMF Launch of World Economic Outlook Analytical Chapters	The seminar discusses on:- • Roles of the government to strengthen global value chains against future disruptions. • Forecasting the pace of recovery and calibrating the unwinding of pandemic time support.
		10 May 2022	Conversations on Climate Governance – How Is The Climate Agenda Going To Affect Me? (SME Focus)	The session discusses on the effect of climate agenda on the way businesses operate (cost of capital, public perceptions) and the necessity of paradigm shifts.
		23 May 2022	MetaFinance : The Next Frontier Of The Global Economy	The session discusses among others, the following areas:- • What is MetaFinance (understanding the concept) and what MetaFinance seek to accomplish. • Key potentials of MetaFinance to financial institutions in 2022 and the future, especially Asean region. • The key risks posed by MetaFinance to the financial system/stability. • Conditions that must be in place in order for MetaFinance to flourish in an economy. • Matters for Board of Directors to consider to leverage the benefits of MetaFinance for competitive advantage. • Key questions the Board of Directors should be asking the Senior Management on the matter.
		7 June 2022	Conversations on Climate Governance – Climate Change : Directors' Duties and Governance Part 1	The session discusses on how ESG (with emphasis on climate) considerations are changing fiduciary duties.
		5 July 2022	Conversations on Climate Governance – Climate Change : Directors' Duties and Governance Part 2	The session centers on how good governance practices impact on climate change and executive compensation have on effect on climate performance.
		20 July 2022	AML/CFT for Board of Directors	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	**Abdul Khalil Abdul Hamid (Cont'd)**	2 August 2022	Conversations on Climate Governance – Climate Change and the Banking Sector	The session discusses on climate change and the banking sector, new banking requirements and how corporations are going to be ready for them.
		3 September 2022	Kevin Mitnick Security Awareness Training	The training specializes on ensuring employees understand the mechanics of spam, phishing, spear phishing, malware, ransomware and social engineering and applying the knowledge in day-to-day job.
		6 September 2022	Conversations on Climate Governance – Climate Change and Accessing the Capital Markets	The session discusses on how climate considerations are impacting the capital markets and availability of funding.
		14 September 2022	Cybersecurity Leadership Talk FY2022	The presentation explores tangible ways that can enhance team's security through collaboration, automation, and escalation through technical and cultural frameworks.
		20 September 2022	Recovery And Resolution Planning (RRP) Sharing Session	The session discuss on:- • What is RRP, its benefits band intended outcomes. • What are the international approaches and developments in RRP's implementation. • How is Malaysian approach to RRP's implementation different. • Role of Board of Directors in the implementation of RRP. • Conversations that should take place between the Board of Directors and Senior Management to determine Deposit Taking-Members's level of crisis preparedness.
		29 September 2022	Prudential Governance Event	An event discussion on Prudential's strong governance processes which form the foundation of the business and are critical to maintaining trust with stakeholders.
		5 & 6 October 2022	Global Islamic Finance Forum (GIFF)	GIFF2022 aims to generate an active discourse on the work required to strengthen Islamic finance's global leadership position. Key discussions will revolve around topics such as FinTech and digitalisation, zooming in on the journey from open banking to embedded finance, and how to build digital financial services in easy steps.
		20 October 2022	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk.
		1 December 2022	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	**Khalid Sufat**	07-Mar-22	Board & Leadership Talk Series – Trust is the New Currency	This session discusses on creation of trust in every business.
		21-Mar-22	Board & Leadership Talk Series – The Future of Business Is Sustainability	This sessions covers how a sustainable business model will : • Create business value • Meet the needs of your customers • Attract and engage top talent • Slash business costs • Improve business reputation • Leverage new opportunities
		07-Apr-22	Audit Oversight Board's Conversation With AC	These dialogue sessions form part of a series of SC events to facilitate continuous engagement with key market players which provides a platform for mutual discussions on the challenges faced by the profession and the regulatory efforts undertaken to promote audit quality. The sessions were also an avenue for the sharing of AOB's more recent observations, concerns and emerging risks for the upcoming year.
		14-Apr-22	MNRB Knowledge Sharing Session – MFRS 9 Financial Instruments	The session discusses on MFRS 9 Financial Instruments relating to:- • Classification and measurement of financial assets; • Accounting for changes in own credit risk in financial liabilities; • Impairment; and • Hedge accounting.
		21-Apr-22	PNB Knowledge Sharing Session – Sustainable Investing Environmental, Social and Governance (ESG) at the Forefront	Knowledge Sharing Session on Sustainable Investing ESG
		13-May-22	Board & Leadership Talk Series – Thought Series	Board & Leadership Talk Series – Thought Series
		23 - 24 May 22	Audit Committee Conference 2022 – Beyond Effectiveness: Governance, Sustainability and Agility	• Beyond Effectiveness: Governance, Sustainability and Agility • The Future of Governance: Agility & Accountability • Tax Governance: The Oversight Strategy • Pandemic Proof Sustainability: The AC Perspective • Strategic Alignment: Internal Audit Reformation • Enhancing ESG Oversight • Championing Risk Oversight in Challenging Times. • Annual Transparency Report: Enhancing Governance through Rigorous Auditor Engagement.
		8 - 9 Jun 22	MIA International Accountants Conference – Leading ESG, Charting Sustainability	This session was focusing on ESG and sustainability from the perspectives of accountants, the MIA Conference 2022 advocates for the profession to adopt and integrate ESG issues such as climate change, and carbon reporting and sustainability into the business agenda, while harnessing technologies and digital tools, for long-term agility, resilience and relevance.
		29-Jun-22	MNRB Knowledge Sharing Session – Treaty Business, Underwriting Consideration Action Taken In Addressing Recent Flood	Knowledge sharing session on the treaty business, underwriting consideration action taken in addressing recent flood.
		07-Jul-22	MNRB Knowledge Sharing Session – Sustainability And Awareness At Work	The session covers the importance of sustainability in business's operation and to create the awareness at work.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	**Khalid Sufat (Cont'd.)**	15-Jul-22	Board & Leadership Talk Series – WellBeing Leadership	Virtual This session discusses on wellbeing leadership.
		20-Jul-22	AML/CFT for Board of Directors – Best Practices And Updates	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.
		12-Aug-22	Board & Leadership Talk Series – Cloud Is The Future	This session discusses on Cloud computing that has grown into a major paradigm in the tech world.
		09-Sep-22	Board & Leadership Talk Series – Cloud Is The Future Board & Leadership Talk Series – Agility vs Flexibility	This session discusses changing marketplace, small businesses have to be able to make changes quickly to adapt to client needs and competitor offerings.
		11-Oct-22	General Shariah Council Engagement With Board – Next Level Of Takaful Innovation & Value Creation	The engagement with Shariah Council on the Takaful innovation and value creation.
		12-Oct-22	Risk Management In Technology - Updates	This session mainly discusses on the current updates with regard to the Risk Management in Technology.
		20-Oct-22	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk. • Cyber security measurement and reporting.
		09-Nov-22	PNB Knowledge Sharing Session – Accelerating The Net Zero Transition	Knowledge sharing session covers 4 priorities business should pursue:- • The need to understand climate risk and build resilience. • The mobilisation of sustainable capital. • The need for robust reporting and audit, as well as the right high-quality data.
		01-Dec-22	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
4	**Mohammed Nasser Al-Fouzan**	10 February 2022	Blending Islamic Finance with Environmental Social Governance ("ESG") Initiatives Post COVID Scenario	The session highlights on:- • ESG & Islamic Finance Critical Elements; • Pressure for sustainability rises; • ESG challenges; • Shariah's relevance to ESG challenges • Shariah minds – nurturing innovation towards sustainable solutions.
		20 July 2022	AML/CFT for Board of Directors	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.
		20 October 2022	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk. • Cyber security measurement and reporting.
		9-10 November 2022	Islamic Finance for Board of Directors (IF4BoD)	The session among others, highlights on the following:- • Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business. • Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential. • Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.
		1 December 2022	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.
5	**Ahmad S. AlKharji**	10 February 2022	Blending Islamic Finance with Environmental Social Governance ("ESG") Initiatives Post COVID Scenario	The session highlights on:- • ESG & Islamic Finance Critical Elements; • Pressure for sustainability rises; • ESG challenges; • Shariah's relevance to ESG challenges • Shariah minds – nurturing innovation towards sustainable solutions.
		20 July 2022	AML/CFT for Board of Directors	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.
		20 October 2022	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk. • Cyber security measurement and reporting.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2022 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
5	**Ahmad S. AlKharji (Cont'd.)**	1 December 2022	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.
6	**Mohamed Zaheer Mohamed Azreen**	10 February 2022	Blending Islamic Finance with Environmental Social Governance ("ESG") Initiatives Post COVID Scenario	The session highlights on:- • ESG & Islamic Finance Critical Elements; • Pressure for sustainability rises; • ESG challenges; • Shariah's relevance to ESG challenges • Shariah minds – nurturing innovation towards sustainable solutions.
		1 – 2 June 2022	Islamic Finance for Board of Directors (IF4BoD)	• Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business. • Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential. • Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.
		20 July 2022	AML/CFT for Board of Directors	The session among others, highlights on the following:- • Expectations placed on the Board of Directors specifically ML/TF risks. ML/TF risk with respect to business strategies and delivery channels. • Best practices in implementing AML/CFT. • Update on the amended Recommendation 24 by Financial Action Task Force.
		20 October 2022	Cyber Security Training	The training highlights on the following areas:- • Cybersecurity as a strategic risk. • Legal and disclosures implications. • Board oversight structure and access to expertise. • An enterprise framework for managing cyber risk. • Cyber security measurement and reporting.
		1 December 2022	Insights of Malaysia Islamic Finance 2022 : Ruling on the Recent Shariah Matters & Future Direction	The session covers:- • Highlights of Malaysia's Islamic finance 2022. • Malaysia's Financial Sector Blueprint 2022 – 2026. • Recent ruling of BNM Shariah Advisory Council. • Future direction of Islamic financial institutions.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Remuneration

Since July 2018, the Board had approved the Bank's Rewards framework and Policy based on the recommendation of the Board Remuneration and Nomination Committee ("BNRC").

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

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

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

Components of Remunerations

The Bank's remuneration framework is structured in accordance with applicable laws and regulations and it consists of the following:

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

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Measurement of Performance

The measurement of the Bank's performance will focus on the Bank's strategy and its annual priorities in the balance scorecard as below:

a) Financial driver such as profitability, cost & asset management, stakeholder return, business growth etc.

b) Risk related and non-financial measurement such as mandatory compliance with Internal Audit, Shariah and Risk Management, key strategic initiatives, customer care / stakeholder management and people related measures.

The business and financial KPIs are developed around the risk allowed by the Bank. Key measures on risk for the Bank include the risk profile with approved indicators, credit quality and asset quality. These are tracked closely by the Bank. These key objectives and measurements are cascaded to individual employee in the Bank. To remain independent, the control functions such as Internal Audit, Compliance, Risk and Shariah do not carry any financial KPIs (Key Performance Indicator).

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

The assessment of the compliance rating for the different divisions / units in terms on compliance to regulatory, policy and procedure requirements were independently conducted by the control functions. Conversely, the control function KPIs are assessed independently by the board committees.

Variable Remuneration

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

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

The yearly performance assessment and remuneration for the identified Key Responsible Persons (KRPs) or Senior Officers in the Bank has to be approved by the Board upon recommendation by BNRC. Currently we have 13 of such Senior Officers or KRPs. These individuals are also the Bank's Material Risk Takers (MRT). Beside the Senior Officers, the Bank has also identified 24 Other Material Risk Takers (OMRT) which can materially commit or control significant amounts of the Bank's resources and among the most highly remunerated officers in the Bank. The remuneration payout of these Material Risk Takers has to be approved by the Board.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Remuneration (Cont'd.)

Variable Remuneration (Cont'd.)

The remuneration of the heads of control function (Internal Audit, Risk Management, Compliance and Shariah) have to be reviewed by the respective independent board committees.

The individual remunerations are promised on the achievement of the KPIs and determined by the pre-approved bonus matrix, stated in the approved Reward Policy. For longer term performance and remuneration adjustment, the MRT are participants of the Deferred Bonus Scheme which was approved by the Board. It is designed to avoid conflicts of interest; protect the clients' interests; and ensure there is no encouraging of excessive risk-taking. Guided by local to global benchmarks as reference, the deferred amount and period were designed to be practical to ensure it doesn't affect attraction and retention. Clawback and forfeiture features were fair and transparent for both the Bank and employees. This will discourage employees from not complying with the rules leading to a reduction or cancellation of the variable remuneration of the year for the relevant employees.

Deferral mechanism is the same across all material risk takers except for the CEO, who would have a different mechanism. Other policy statements surrounding clawback and forfeiture include: material restatement of financial results, fraud and gross negligence or misconduct, material violation of the principle of risk taking, resignation or cessation of employment and inaccuracy of financial performance.

(ii) Key Internal Control Processes

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

The BAC reviews the financial statements, 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 on the effectiveness of the design and operation of the governance, risk and control framework across the Bank. The BAC oversees the independence and objectivity of the Internal Audit function, approves the annual risk-based audit plan and periodically reviews the progress of the plan and reports issued by Internal Audit Division.

Internal Audit Function

Internal Audit function operates under the charter approved by BAC that formalised the roles and responsibilities of the function and its internal stakeholders. It includes unrestricted access to review all activities of the Bank. The Chief Internal Auditor functionally reports to the BAC and administratively to the CEO. The internal auditing function reviews the operations of the Bank to ensure consistency in the governance, risk management, internal controls systems and the application of policies and procedures.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Internal Audit Function (Cont'd.)

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 internal controls reviews on key banking operations and activities, investigations, special reviews, Shariah Governance and also participates in significant system development activities and project committees to advise on governance and internal control measures. Internal Audit plays an active role in ensuring compliance with the requirements of regulatory authorities. Internal Audit also works collaboratively with the external auditor, Risk Management and Compliance function to avoid duplication of effort.

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

Management reports

Management reports are presented to and reviewed by the Board on a regular basis. In addition to the financial statements, other reports regularly 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, standard operating procedures, 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 standard operating procedures are in place within the Bank in relation to hiring and termination of employees, formal training programmes for employees, performance management with annual and semi-annual performance appraisals, and other relevant procedures to ensure the employees are competent and adequately trained in carrying out their responsibilities.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

Risk management disclosure is in line with Malaysian Financial Reporting Standard ("MFRS") 7 Financial Instruments: Disclosures, and disclosures on capital management and MFRS 101 Presentation of Financial Statements (Revised). The Risk Management disclosure forms part of the financial statements audited by the Bank's independent auditors, Messrs. Ernst & Young PLT.

Roles and responsibilities of BRMC are to oversee Bank's activities by providing effective and robust management of risks inherent within the Bank in order to protect and enhance shareholders's value.

Highlights of major achievements

The Bank has been taking proactive measures to manage various risks posed by rapid changing business environment. These risks include Shariah non-compliance risk, credit risk, market risk, liquidity risk, reputational risk, business risk, strategic risk, operational risk, technology risk and cyber security risk, etc. These risks are systematically managed within the Bank’s risk governance, risk management framework, risk infrastructure and risk management tools.

During the year under review, the Bank has implemented a number of initiatives to address the above risks under the pandemic situation. These include:

- Proactively provide payment assistance to customers who are financially impacted by pandemic. This helps in managing Bank's credit risk as well it is in line with Shariah

- Performed assessments on Bank's information technology and cyber security resilience and established controls in line with regulatory standards in ensuring that the Bank is sufficiently protected by the risk exposure in technology and cybersecurity.

- Under effective Business Continuity Management (BCM), successfully managed business continuity with the least disruption as a result of effective communication via BCM Champions, comprehensive business continuity plans that are periodically reviewed, availability of business continuity sites, creation of split operations and allocation of Virtual Private Network (VPN), etc.

- Enhanced anti-money laundering system to be more efficient in detecting and capturing potential money laundering activities as well as conducting required screening on existing and potential customers against entities suspected to be involved in terrorism as issued by United Nations Security Council (“UNSC”) and Ministry of Home Affairs.

The Board has delegated overall responsibility of reviewing the effectiveness of risk management practices to the BRMC. The BRMC assists Board in reviewing and overseeing the effectiveness of risk management practices of the Bank whilst Risk Management Division executes continuous monitoring and evaluation of Bank’s risk management practices. Risk management policies and frameworks are formulated to identify, measure, and monitor and review various risks. The policies and frameworks are reviewed and recommended by BRMC for Board's approval.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Risk Management Framework

BRMC also reviews and assesses the adequacy of risk management policies as well as ensuring that sufficient infrastructure, resources and systems are in place to sustain effective 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 the business and regulatory environment and also to ensure that all current policies and procedures are easily available to all employees.

Three Lines of Defence Concept

The Bank adopts the concept of three (3) lines of defense 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 establishing appropriate risk management frameworks 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. The Corporate segment continues to contribute the major share of the Bank’s financing and investment assets with 66% while the Consumer financing segment contributed 34% of the Bank’s total financing and investment assets in 2022.

The Single Counterparty Exposure Limit ("SCEL") defines the maximum exposure to a single counterparty and is in accordance to regulatory requirements. In addition more stringent limits have been set internally. Upgraded Moody's Risk Rating System (CreditLens) is used to rate corporate customers in accordance with accepted industry and regulatory standards. The quality of corporate and retail exposure is closely monitored using a comprehensive set of parameters and indicators and is presented regularly to Management, the Board Committees and the Board.

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

Corporate and Retail Credit Team, consisting of independent full time credit personnel, plays a central role in analysing, reviewing and monitoring transactional credits pertaining to corporate, small medium enterprise and consumer financing activities. Counterparty risk is restricted and monitored at the customer level in accordance to the SCEL.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Credit Risk Management (Cont'd.)

The Bank's credit risk policies and procedures set the principles in governing the way the Bank and its related subsidiaries conduct their credit risk management activities. It ensures credit risk underwriting is consistent 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 Management and BRMC. With business intelligence tools employed by the Bank, proactive collection strategies, monitoring and identification of business credit risk and opportunities are more effective and efficient.

The Bank takes into consideration Environmental, Social and Governance ("ESG") and climate-change risks in the Bank's Credit Risk Strategy and has embedded the requirements in the Corporate Credit Risk Policy. Establishment of ESG programme has been initiated and shall continue in year 2023 with further refinement on the strategy and process.

In order to align and converge the Value-Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) issued by Bank Negara Malaysia and the Bank's climate-change risk initiatives, the Bank will leverage on and make reference to the VBIAF sectoral guides for more detailed guidance to conduct ESG assessments in the specific sectors.

Market Risk Management

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

Market risk exposure of the Bank is identified into two types:

(i) Traded Market Risk

Primarily the rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by Treasury.

(ii) Non-Traded Market Risk

Rate of return risk and foreign exchange risk arising mainly from retail and commercial banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Liquidity Risk Management

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over.

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

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

Operational Risk Management ("ORM")

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

The Bank has an ORM Policy that is aimed at managing the overall operational risk within the Bank, including Shariah non-compliance risk. 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 delegation of authority is regularly reviewed in order to align it with the latest structure of the Bank. The Bank also continuously reviews its technology practices and processes in order to ensure acceptable standards are in place and adhered to.

Overall corporate governance practices are monitored closely with the aim of ensuring that the Bank operates at the highest standards of business integrity, ethics and professionalism.

Compliance

Under the Bank's Regulatory Compliance Policy, the Line Management plays an important role in cultivating a compliance, ethical and integrity 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 work with central compliance function on an ongoing basis to manage compliance risks through assessing the level of compliance, identifying compliance deficiencies, gaps in work processes as well as updating on the status of any corrective actions.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Compliance (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 (AMLA) 2001. As such, the Bank is at the forefront of the Government and BNM's continuous initiatives in the prevention of the use of the banking system at any point for money laundering or terrorist financing activities.

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

- Implemented a dedicated Anti-Money Laundering ("AML") system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System ("MIS") for prompt detection and reporting of suspicious transactions;
- Established Customer Due Diligence ("CDD") policy and procedures to address the establishment of new business relationship with customers;
- Periodic review of MIS to optimise detection of potential money laundering and terrorist financing 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) United States ("US");
- Constantly updating record keeping procedures in accordance with the statutory requirements;
- Conduct regular AML/CFT training sessions to ensure high level of staff awareness at all levels and;
- Regular updates to the Management, BRMC and the Bank's Chairman on AML/CFT matters.

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

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

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

Pillar 1

Under BNM CAFIB which specifies 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 takes necessary steps to strengthen the risk and capital management capability.

Pillar 3

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

Pillar 3 (Cont'd.)

Stress Test

Stress test and scenario analysis serve as important tools to assess financial risks and management capability of the Bank to continue operating effectively under stressed scenarios. Stress test and scenario analysis assist BRMC and the Bank's Senior Management in:

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

The preparation of the stress test involves Risk Management Teams, Business Units, and the Group. Stress test results are computed based on pre-defined scenarios which are as follows:

- Economic Recession Scenario;
- Generalised Credit Quality Deterioration and Asset Price Devaluation Scenario; and
- Severe Liquidity Stress and Deposit Run-off Scenario.

The stress test reports are presented to the Senior Management and Board level committees and submitted to BNM on a semi-annually basis.

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2022.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are the provisions of offshore banking and nominees services.

During the financial year, the Bank's subsidiary involved in offshore banking has completed the members voluntary winding up process on 23 November 2022.

Other information relating to the subsidiaries are disclosed in Note 12 to the financial statements.

RESULTS

	Group RM'000	Bank RM'000
Profit before zakat and taxation from continuing operations	69,894	71,799
Taxation	8,202	8,202
Net profit for the year	78,096	80,001

DIVIDENDS

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

DIRECTORS' REPORT

DIRECTORS

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

Muad S M M AlOsaimi
Mohammad Nasser AlFouzan
Khalid Sufat
Abdul Khalil Abdul Hamid
Ahmad S A A AlKharji
Mohamed Zaheer Mohamed Azreen

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

KFH Nominees (Tempatan) Sdn Bhd
Mexdelina Hussein
Mohd Hazran Abd Hadi

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 34 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which the director is a member, or with a company in which he has a substantial financial interest except as disclosed in to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2022.

ISSUE OF SHARES

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

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than as those disclosed in the statements of changes in equity and Notes 4, 5, 7, 8, 20, 23 and 27 to 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 the Policy Document on Financial Reporting for Islamic Banking Institutions and the Policy Document on Credit Risk.

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position and income statements of the Group and of the Bank were made out, the directors took reasonable steps:

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

  (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and

  (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (Cont'd.)

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations as and when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

BUSINESS PLAN FOR 2023

The Bank will continue to focus on achieving sustainable performance, managing asset quality and optimise costs. The core business strategies will remain unchanged and the Bank will continue to organically grow its business through its identified target markets despite challenges faced in the economic conditions. Hence, the Bank will continue to focus on plans to manage the Bank's asset quality and earning sustainability.

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)
(Incorporated in Malaysia)

DIRECTORS' REPORT

OUTLOOK FOR 2023

The Malaysian economy is expected to grow between 4.0% to 5.0% in 2023. The country's strong economic fundamentals and well-diversified economy will help to support its economic growth as well as driven by steady domestic demand, a vibrant services sector, improvement in labour market, implementation of new and ongoing infrastructure projects and sustained exports.

Nevertheless, the monetary policy is expected to remain accommodative and supportive of economic growth whilst ensuring price stability in 2023.

Moving into 2023, the weaker-than-expected global growth, financial markets stability, labour shortages, global inflationary pressures, geopolitical conflicts and supply chain disruptions will be the key challenges affecting Malaysia economic situations. However, despite a challenging domestic and external environment, the Malaysian economy is likely to remain positive in 2023.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	27-Jul-22	AA+ / MARC-1	Stable

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.

AUDITORS

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

Auditors' remuneration are disclosed in Notes 31 and 33 (i) to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors on 16 February 2023.

Muad S M M AlOsaimi
Director

Mohamed Zaheer Mohamed Azreen
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

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

We, Muad S M M AlOsaimi and Mohamed Zaheer Mohamed Azreen, being two of the directors of Kuwait Finance House (Malaysia) Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 45 to 227 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2022 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 on **16 February 2023.**

Muad S M M AlOsaimi
Director

Mohamed Zaheer Mohamed Azreen
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

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

I, Mohd Hazran Abd Hadi, being the Chief Executive Officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 45 to 227, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed
at Kuala Lumpur, in the Federal Territory
on **16 February 2023**

Mohd Hazran Abd Hadi
MIA No.: CA 12518

BEFORE ME

PESURUHJAYA SUMPAH
W1007
SAIDATUL ASHIKIN BT
SEPIAN @ SOFFIAN
01 DEC 2022 – 31 DEC 2024
MALAYSIA

No. 23, 2nd Floor,
Jalan Medan Tuanku,
50300 Kuala Lumpur.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (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 (PBUH), his family and companions.

Assalamualaikum Warahmatullahi Wabarakatuh.

Kuwait Finance House (Malaysia) Berhad's Board of Directors are responsible for ensuring that the Bank conducts its business in accordance with Shariah advice and ruling of its Shariah Committee and Bank Negara Malaysia's Shariah Advisory Council ("SAC"). The Shariah Committee comprises of five (5) qualified Shariah scholars who are appointed by the Board as the term approved by Bank Negara Malaysia (BNM) as follows:

(a) Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae (Chairman)
(b) Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam (Member)
(c) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi (Member)
(d) Sheikh Isa Abdulla Yusuf Dowaishan (Member)
(e) Sheikh Prof. Dr. Azman Bin Mohd Noor (Member) - (Appointed on 1 Jan 2022)

As the Shariah Committee for Kuwait Finance House (Malaysia) Berhad ("The Bank"), it is our responsibility to form our independent opinion, based on our review of the operations of the Bank, and to report to you. Our duties and responsibilities include, among others;

(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.

To achieve this compliance assurance, the Shariah Committee held 6 meetings and issued 10 notes, in which we have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by the Bank and its subsidiaries (“the Group”) during the year ended 31 December 2022.

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

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and principles. The Shariah Division had conducted its Shariah review on randomly selected samples of all operations and transactions of the Bank with the shareholders, investors and others in accordance with the Annual Shariah Review Plan for all the Bank’s departments and its subsidiaries. The Shariah Committee has also received the periodic reports that the Shariah Review Department has prepared about the Shariah review process and operations, site visits and the compliance status of the process and implementation of the resolutions and recommendations issued by the Bank's Shariah Committee.

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

(a) the contracts, transactions and dealings entered into by the Bank and the Group during the year ended 31 December 2022 that we have reviewed are in compliance with Shariah rules, principles, resolutions and recommendations of the Bank's Shariah Committee;

(b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;

(c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account for channeling to charitable causes; and

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

(e) any known non compliance with Shariah and action taken to remedy such non compliance has been addressed adequately.

REPORT OF SHARIAH COMMITTEE (CONT'D.)

This opinion is rendered based on what has been presented to us by the Management of the Bank 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: 16 February 2023

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

Date: 16 February 2023

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

Date: 16 February 2023

Sheikh Isa Abdulla Yusuf Dowaishan
Member
Signature:

Date : 16 February 2023

Sheikh Prof. Dr. Azman Mohd Noor
Member
Signature:

Date : 16 February 2023
Kuala Lumpur, Malaysia

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Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
SST ID: W10-2002-32000062
Chartered Accountants
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Pusat Bandar Damansara
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+603 2095 9078
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(200401033666) (672174-T)

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2022 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 45 to 227.

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 2022, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Emphasis of matter

We draw attention to Note 3.4(b)(i), Note 4 and Note 45 to the financial statements. The Bank's correspondent account maintained with an international bank in the United States of America is subject to an ex parte writ of execution from a third party. As a result, the Bank's access to that account with a balance of RM110.8 million as at 31 December 2022 is currently restricted (no withdrawal allowed). Our opinion is not modified in respect of this matter.

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 Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code, including International Independence Standards.

(200401033666) (672174-T)

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

Information other than the financial statements and auditors' report thereon

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

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

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of 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:

- 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 the 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.

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(200401033666) (672174-T)

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

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

- 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.

Other matters

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

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Yap Kan Foo
No. 03574/05/2023 J
Chartered Accountant

Kuala Lumpur, Malaysia
10 March 2023

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

		Group	
	Note	2022 RM'000	2021 RM'000
ASSETS			
Cash and short-term funds	4	145,073	153,850
Deposits and placements with banks and other financial institutions	5	3,696	37,755
Gold depository	6	112,353	103,554
Debt instruments at FVOCI	7	3,090,185	3,137,512
Financing, advances and other receivables	8	3,459,219	3,669,301
Other assets	9	87,167	120,304
Hedging financial instruments	10	7,400	5,805
Statutory deposit with Bank Negara Malaysia	11	92,371	2
Right of use assets	13	53,873	61,097
Property and equipment	14	8,088	8,248
Intangible assets	15	14,122	16,773
Deferred tax assets	16	81,708	52,208
TOTAL ASSETS		**7,155,255**	**7,366,409**
LIABILITIES			
Deposits from customers	17	3,521,810	3,915,548
Investment accounts of customers	19	3,734	5,550
Deposits and placements of banks and other financial institutions	18	1,786,900	1,588,714
Hedging financial instruments	10	2,441	5,517
Lease liabilities	13	58,184	64,547
Other liabilities	20	97,660	86,366
TOTAL LIABILITIES		**5,470,729**	**5,666,242**
SHAREHOLDER'S EQUITY			
Share capital	22	1,425,272	1,425,272
Reserves	23	259,254	274,895
TOTAL SHAREHOLDER'S EQUITY		**1,684,526**	**1,700,167**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**7,155,255**	**7,366,409**

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Group	
	Note	2022 RM'000	2021 RM'000
COMMITMENTS AND CONTINGENCIES	38	718,846	1,070,200
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	40	41.099%	38.502%
Total capital ratio	40	42.198%	39.615%
NET ASSETS PER SHARE (RM)		1.18	1.19

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

	Note	Bank 2022 RM'000	Bank 2021 RM'000
ASSETS			
Cash and short-term funds	4	145,073	153,850
Deposits and placements with banks and other financial institutions	5	3,696	37,755
Investment accounts due from designated			
Gold depository	6	112,353	103,554
Debt instruments at FVOCI	7	3,090,185	3,137,512
Financing, advances and other receivables	8	3,459,219	3,669,301
Other assets	9	87,167	120,304
Hedging financial instruments	10	7,400	5,805
Statutory deposit with Bank Negara Malaysia	11	92,371	2
Investment in subsidiaries	12	-	10,200
Right of use assets	13	53,873	61,097
Property and equipment	14	8,088	8,248
Intangible assets	15	14,122	16,773
Deferred tax assets	16	81,708	52,208
TOTAL ASSETS		**7,155,255**	**7,376,609**
LIABILITIES			
Deposits from customers	17	3,521,814	3,931,455
Investment accounts of customers	19	3,734	5,550
Deposits and placements of banks and other financial institutions	18	1,786,900	1,588,714
Hedging financial instruments	10	2,441	5,517
Lease liabilities	13	58,184	64,547
Other liabilities	20	97,653	86,359
TOTAL LIABILITIES		**5,470,726**	**5,682,142**
SHAREHOLDER'S EQUITY			
Share capital	22	1,425,272	1,425,272
Reserves	23	259,257	269,195
TOTAL SHAREHOLDER'S EQUITY		**1,684,529**	**1,694,467**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**7,155,255**	**7,376,609**

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Bank	
	Note	2022 RM'000	2021 RM'000
COMMITMENTS AND CONTINGENCIES	38	718,846	1,070,200
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	40	41.100%	38.004%
Total capital ratio	40	42.199%	39.114%
NET ASSETS PER SHARE (RM)		1.18	1.19

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

INCOME STATEMENTS

		Group		Bank	
		2022	**2021**	**2022**	**2021**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Continuing Operations					
Operating revenue	24	364,884	387,998	366,789	387,998
Income derived from investment of depositors' funds and others	25	265,951	299,220	265,951	299,220
Income derived from investment of investment account funds	29	93	107	93	107
Income derived from investment of shareholder's equity	26	98,840	88,671	100,745	88,671
Total gross income		364,884	387,998	366,789	387,998
Credit loss charged on financial assets	27	(31,376)	(54,869)	(31,376)	(54,869)
Total distributable income		333,508	333,129	335,413	333,129
Income attributable to the depositors	28	(114,255)	(118,453)	(114,255)	(118,453)
Profit distributed to investment account holders	29	(55)	(64)	(55)	(64)
Total net income		219,198	214,612	221,103	214,612
Personnel expenses	30	(55,981)	(58,201)	(55,981)	(58,201)
Other overheads and expenditures	31	(91,390)	(85,300)	(91,390)	(85,300)
Finance cost	32	(1,933)	(2,778)	(1,933)	(2,778)
Profit before zakat and taxation		69,894	68,333	71,799	68,333
Taxation	35	8,202	5,354	8,202	5,354
Net profit for the year from continuing operations		**78,096**	**73,687**	**80,001**	**73,687**

INCOME STATEMENTS (CONT'D.)

		Group		Bank	
		2022	**2021**	**2022**	**2021**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Discontinued Operations					
Loss after tax for the year from discontinued operations	33	-	(87)	-	-
Profit for the year		**78,096**	**73,600**	**80,001**	**73,687**
Attributable to:					
- Equity holder of the Bank		78,096	73,600	80,001	73,687
Earning per share (sen)					
- Basic/Diluted	36	5.48	5.16		

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Net profit for the year	78,096	73,600	80,001	73,687
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Debt securities at FVOCI:				
- Net unrealised (loss)/gain	(81,469)	(162,662)	(81,469)	(162,662)
- Net realised gain reclassified to the income statements	(7,409)	(8,174)	(7,409)	(8,174)
- Changes in allowance for expected credit losses	4,641	(20,584)	4,641	(20,584)
Exchange differences on translation of foreign operations:				
- Net (loss)/profit taken to equity	(3,798)	537	-	-
Income tax relating to components of other comprehensive income (Note 16)	21,298	39,883	21,298	39,883
Other comprehensive income/(loss) for the year, net of tax	(66,737)	(151,000)	(62,939)	(151,537)
Total comprehensive income/(loss) for the year	11,359	(77,400)	17,062	(77,850)
Total comprehensive income/(loss) for the year attributable to equity holder of the Bank	11,359	(77,400)	17,062	(77,850)

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY

		Non-distributable			Distributable	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	FVOCI Reserve RM'000	(Accumulated Losses)/Retained Earnings RM'000	Total RM'000
Group						
At 1 January 2022	1,425,272	207,491	3,798	39,965	23,641	1,700,167
Profit for the financial year	-	-	-	-	78,096	78,096
Other comprehensive income	-	-	(3,798)	(62,939)	-	(66,737)
Transfer to statutory reserve	-	40,000	-	-	(40,000)	-
Fair value adjustment on amount due from related party	-	-	-	-	(27,000)	(27,000)
At 31 December 2022	1,425,272	247,491	-	(22,974)	34,737	1,684,526
At 1 January 2021	1,425,272	170,648	3,261	191,502	(13,116)	1,777,567
Profit for the financial year	-	-	-	-	73,600	73,600
Other comprehensive income	-	-	537	(151,537)	-	(151,000)
Transfer to statutory reserve	-	36,843	-	-	(36,843)	-
At 31 December 2021	1,425,272	207,491	3,798	39,965	23,641	1,700,167
Bank						
At 1 January 2022	1,425,272	207,491	-	39,965	21,739	1,694,467
Profit for the financial year	-	-	-	-	80,001	80,001
Other comprehensive income	-	-	-	(62,939)	-	(62,939)
Transfer to statutory reserve	-	40,000	-	-	(40,000)	-
Fair value adjustment on amount due from related party	-	-	-	-	(27,000)	(27,000)
At 31 December 2022	1,425,272	247,491	-	(22,974)	34,740	1,684,529
At 1 January 2021	1,425,272	170,648	-	191,502	(15,105)	1,772,317
Profit for the financial year	-	-	-	-	73,687	73,687
Other comprehensive income	-	-	-	(151,537)	-	(151,537)
Transfer to statutory reserve	-	36,843	-	-	(36,843)	-
At 31 December 2021	1,425,272	207,491	-	39,965	21,739	1,694,467

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2022	**2021**	**2022**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation				
- Continuing operations	69,894	68,333	71,799	68,333
- Discontinued operations	-	(87)	-	-
	69,894	68,246	71,799	68,333
Adjustments for:				
Impairment allowances on financing, advances and other receivables (Note 27)	31,842	86,074	31,842	86,074
Unwinding of modification loss (Note 8) (xv)(a)	(7,185)	(15,466)	(7,185)	(15,466)
Amortisation of premium less accretion of discounts (Notes 25 and 26)	2,901	5,384	2,901	5,384
Depreciation of right of use assets (Note 31)	14,025	13,336	14,025	13,336
Depreciation of property and equipment (Note 31)	2,620	3,776	2,620	3,776
Amortisation of intangible assets (Note 31)	6,184	8,948	6,184	8,948
Property and equipment written off (Note 14)	79	5,795	79	5,795
Gain on disposal of property and equipment (Note 26)	(8)	(32)	(8)	(32)
Net gain on sale of financial assets at FVOCI (Notes 25 and 26)	(7,409)	(8,174)	(7,409)	(8,174)
Net gain on sale of financial assets at FVTPL (Note 26)	(2,115)	(754)	(2,115)	(754)
Gain from liquidation of KFH Labuan (Note 26)	-	-	(5,090)	-
Impairment allowances/(writeback) on securities (Note 27)	4,641	(20,584)	4,641	(20,584)
(Writeback)/Impairment allowances on deposit and placements with banks and other financial institutions (Note 27)	(189)	227	(189)	227
Fair value adjustment on amount due from related party	(27,000)	-	(27,000)	-
Unrealised loss on foreign translations (Note 26)	10,535	10,065	10,535	10,065
Profit expense on lease liabilities (Note 32)	1,933	2,778	1,933	2,778
Operating profit before working capital changes	100,748	159,619	97,563	159,706
(Increase)/decrease in operating assets	144,968	330,605	144,968	330,605
Deposit and placement with banks and other financial institutions	33,384	(30,905)	33,384	(30,905)
Restricted cash in other financial institutions	(5,695)	(105,068)	(5,695)	(105,068)
Financing, advances and other receivables	185,425	448,700	185,425	448,700
Other assets	24,223	508	24,223	508
Statutory deposit with Bank Negara Malaysia	(92,369)	17,370	(92,369)	17,370

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
Increase/(decrease) in operating liabilities	(199,360)	(1,130,314)	(215,263)	(1,130,938)
Deposits from customers	(404,479)	(576,075)	(420,382)	(576,699)
Deposits and placements of banks and other financial institutions	194,131	(553,630)	194,131	(553,630)
Other liabilities	10,988	(609)	10,988	(609)
Cash generated from/(used in) operations	46,356	(640,090)	27,268	(640,627)
Net cash generated from/(used in) operating activities	**46,356**	**(640,090)**	**27,268**	**(640,627)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds fom disposal/purchases of securities	(34,928)	643,894	(34,928)	643,894
Proceed from liquidation of subsidiary	-	-	17,140	-
Proceeds from disposal of property and equipment	8	32	8	32
Purchase of property and equipment (Note 14)	(5,958)	(4,353)	(5,958)	(4,353)
Purchase of intangible assets (Note 15)	(114)	(311)	(114)	(311)
Net cash (used in)/generated from investing activities	**(40,992)**	**639,262**	**(23,852)**	**639,262**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of lease liabilities	(15,096)	(15,379)	(15,096)	(15,379)
Net cash used in from financing activities	**(15,096)**	**(15,379)**	**(15,096)**	**(15,379)**
Net decrease in cash and cash equivalents	**(9,732)**	**(16,207)**	**(11,680)**	**(16,744)**
Cash and cash equivalents at beginning of year	49,646	68,275	49,646	68,275
Exchange differences on translation of opening balances	(5,604)	(2,422)	(3,656)	(1,885)
Cash and cash equivalents at end of year	**34,310**	**49,646**	**34,310**	**49,646**
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 4)	145,073	153,850	145,073	153,850
Deposits and placements with banks and other financial institutions (Note 5)	3,696	37,755	3,696	37,755
Investment accounts due from designated				
Less: Deposit with contractual maturity more than 3 months	(3,696)	(36,891)	(3,696)	(36,891)
Less: Restricted cash in other financial institutions	(110,763)	(105,068)	(110,763)	(105,068)
Cash and cash equivalents	**34,310**	**49,646**	**34,310**	**49,646**

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

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

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

The holding company of the Bank is Kuwait Finance House K.S.C.P., 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.C.P. is located at Al-Qebla, Block 10, Abdullah Al-Mubarak Street, Building # 4, P.O. Box: 24989, Safat 13110, State of Kuwait.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 16 February 2023.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements of the Group and of the Bank have been prepared on historical basis except as disclosed in Note 3.3 summary of significant accounting policies.

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 46(b).

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in Accounting Policies

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

Description	Effective for annual periods beginning on or after
Amendment to MFRS 1 First-time Adoption of Malaysian Financial Reporting	1 January 2022
Amendments to MFRS 3 Business Combinations	1 January 2022
Amendments to MFRS 9 Financial Instruments	1 January 2022
Amendments to MFRS 116 Property, Plant and Equipment-Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137 Onerous Contracts-Cost of Fulfilling a Contract	1 January 2022

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

3.2 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
MFRS 17 Insurance Contracts	1 January 2023
MFRS 112 Income Taxes (Amendments for deferred tax assets and liabilities arising from a single transaction)	1 January 2023
MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Amendments for Definition of estimates)	1 January 2023
MFRS 101 Presentation of Financial Statement (Amendments for Accounting Policies, Estimates and Error)	1 January 2023
MFRS 101 Presentation of Financial Statement (Amendments for Non-Current Liabilities with covenants)	1 January 2024
MFRS 16 Leases (Amendments for Lease Liability in Sale and Leaseback)	1 January 2024
Amendment to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	Deffered

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

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

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

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

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

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets

(i) Recognition and initial measurement

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

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

(ii) Classification

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit income, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group and the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

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

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

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

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

Reclassifications

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

(iii) Derecognition

A financial asset is derecognised when the contractual right to receive the cash flows from the asset has expired. When debt securities at OCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss and recognised in "Net gains and losses on financial instruments".

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(iv) Modifications of financial assets

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

(v) Impairment

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Measurement of ECL

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

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

Restructured financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Credit-impaired financial assets

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

The Group and Bank determine whether the financial assets are credit impaired based on indicators disclosed in Note 46(a)(i)(iii).

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Presentation of allowance for ECL in the statements of financial position

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

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

Write-off

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial liabilities

Deposits from customers, deposits and placements of banks and financial institutions 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 FVTPL.

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

(d) 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.

(e) Fair value measurement

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

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

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

- In the principal market for the asset or liability, or

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(e) Fair value measurement (Cont'd.)

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 42.

(f) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control use of an identified asset for a period of time, the Bank assesses whether, throughout the period of use, the Bank has both of the following:

(a) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) The right to direct the use of the identified asset.

The Bank recognises Lease Liabilities to make lease payments and Right-Of-Use Assets representing the right to use the underlying assets.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Leases (Cont'd.)

(i) Right-of-Use Assets

The Bank measures the Right-of-Use Assets at cost:

(a) Less any accumulated depreciation and accumulated impairment losses; and
(b) Adjusted for the measurement of the lease liability.

The cost of Right-of-Use Assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-Use Assets are depreciated on a straight line basis over the lease term.

(ii) Lease Liabilities

The Bank measures the lease liability at the present value of the lease payments to be made over the lease term. The lease payments are discounted using the profit rate implicit in the lease, if that rate can be readily determined. The Bank uses its incremental borrowing rate at the lease commencement date because the implicit rate is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of the profit and reduced for the lease payments made.

The carrying amount of the Lease Liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset. When the lease liability is remeasured, the corresponding adjustment is reflected in the Right-of-Use Asset, or profit and loss if the Right-of-Use Asset is already zero.

(iii) Short term leases and leases of low value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Bank also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Leases (Cont'd.)

(iv) Presentation in the Statements of Cash Flows

The Bank discloses the cash payment for leases as follows:

(a) Cash payments for the principal portion of the lease liability are presented within financing activities.
(b) Cash payments for profit expense portion of the lease liabilities are presented as finance cost
(c) Lease payments for short-term leases and leases of low-value assets not recognised on the statements of financial position are presented within operating activities.

(g) Property and Equipment, and Depreciation

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(g) Property and Equipment, and Depreciation (Cont'd.)

* Computer hardware includes:

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

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

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

(h) Computer software

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(i) Income Tax

(i) Current tax

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

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

(ii) Deferred tax

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(i) Income Tax (Cont'd.)

(ii) Deferred tax (Cont'd.)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.
Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(j) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Revenue Recognition (Cont'd.)

(ii) Fee and Other Income Recognition

The Group and the Bank earn fee and commission income from a diverse range of services provided to its customers. Such income are generally recognised on an accrual basis based on performance obligations satisfied. 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.

(k) 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.

(l) Effective Profit Method

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Effective Profit Method (Cont'd.)

Amortised cost and gross carrying amount

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

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

(m) Presentation of profit income and expense

Profit income and expense presented in the income statements and OCI include:

- profit on financial assets and financial liabilities measured at amortised cost calculated on an effective profit basis; and
- profit on debt instruments measured at FVOCI calculated on an effective profit basis; and

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

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

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(o) Derivatives and Hedging Activities

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

(i) Foreign Exchange Contracts

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

(ii) Profit Rate and Foreign Currency Swaps

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

(iii) Hedge documentation, effectiveness assessment, and discontinuation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(iv) Fair value hedge

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

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

The list of the fair value for all derivatives and fair value hedge entered by the Group and the Bank is disclosed in Note 10.

(p) Financial Guarantees and Financing Commitments

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

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

For other financing commitments, the Group and the Bank recognise loss allowance. Those are included in Note 8 of the financial statements.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) 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”).

(r) 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 the Bank.

(s) Impairment of Non-Financial Assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 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) Cash and Cash Equivalents

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

(u) Financial Risk Management Objective and Policies

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

(v) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(v) Investment Accounts (Cont'd.)

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").

(w) Gold Depository

Gold depository account relates to physical gold kept and maintained for gold investment purchased when customer place deposit in gold saving account. The Bank buys and sells gold to maintain sufficient gold stock against customer gold saving account. The gold depository is carried at fair value less cost to sell.

3.4 Significant Accounting Estimates and Judgments

(a) Significant Accounting Estimates

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

(i) Incremental Borrowing Rate

The Group and Bank cannot readily determine the profit rate implicit in the lease, therefore, the Bank uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the profit rate that the Bank would have to pay to finance over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the Right-of-Use Asset in similar economic environment. The IBR therefore reflect what the Bank ‘would have to pay’, which requires estimation when no observable rates are available or when the rates need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable input (such as market profit rate) when available and is required to make entity-specific estimates (such as the Bank’s credit rating and underlying collateral).

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgments

(a) Significant Accounting Estimates (Cont'd.)

(ii) Impairment assessment on property and equipment, intangible assets and right of use assets

The Group and Bank review the carrying amounts of the property and equipment, intangible assets and right of use assets at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount which is the higher of its fair value less costs to sell or its value in use is estimated.

The Group and Bank carried out the impairment test based on a variety of estimation including the value-in-use of the CGU to which the property and equipment, intangible assets and right of use assets are allocated. Estimating the value-in-use requires the Group and Bank to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property and equipment, intangible assets and right of use assets of the Group and Bank as at the reporting date will be disclosed in the notes to the financial statements.

(iii) Deferred tax and income taxes

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

(b) Significant Accounting Judgments

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(i) Significant judgements on litigation

Impairment provision, if any, arising from legal proceedings as discussed in Note 45 require a high degree of judgement. When matters are at an early stage, accounting judgement can be difficult because of the high degree on uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether any impairment provision is required against the restricted cash. Professional advice is taken on the assessment of litigation to determine whether a present obligation exists.

(ii) Determination of lease term of contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank exercises judgement in determining whether it is reasonably certain that the lease contracts will be renewed or terminated.

(iii) Classification of investment securities

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

(iv) Measurement of the expected credit loss allowance

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

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

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

(v) Business models and SPPP as significant judgments

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

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(vi) 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 recognised in respect of tax losses to the entent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is applied to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

4 CASH AND SHORT-TERM FUNDS

	Group and Bank	
	2022 RM'000	**2021 RM'000**
Cash and balances with banks and other financial institutions	33,742	34,761
Money at call and interbank placements with remaining maturity less than one month	112,830	120,013
	146,572	154,774
Less : ECL Allowance	(1,499)	(924)
	145,073	153,850

Included in money at call and interbank placements is a balance of RM110.8 million in a correspondent account maintained with an international bank in the United States of America that is restricted (no withdrawal allowed) following an ongoing litigation as disclosed in Note 45.

4.1 Impairment allowance for cash and short term funds

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

	31-Dec-22			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Internal rating grade :				
Neither past due nor impaired	146,572	-	-	146,572
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	146,572	-	-	146,572

	31-Dec-21			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Internal rating grade :				
Neither past due nor impaired	154,774	-	-	154,774
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	154,774	-	-	154,774

4 CASH AND SHORT-TERM FUNDS

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

An analysis of changes in the ECL allowances as follows:

31-Dec-22 Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	924	-	-	924
Allowance made during the year (Note 27)	575	-	-	575
ECL allowance as at 31 December 2022	1,499	-	-	1,499

31-Dec-21 Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	501	-	-	501
Allowance made during the year (Note 27)	423	-	-	423
ECL allowance as at 31 December 2021	924	-	-	924

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2022 RM'000	2021 RM'000
Bank Negara Malaysia ^	3,734	5,550
Other financial institutions	-	32,432
	3,734	37,982
Less : ECL Allowance	(38)	(227)
	3,696	37,755

^ The placement with Bank Negara Malaysia are funded by investment accounts of customers as disclosed in Note 19.

5.1 Impairment allowance for deposits and placement with bank and other financial institutions

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

	31-Dec-22			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Internal rating grade :				
Neither past due nor impaired	3,734	-	-	3,734
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,734	-	-	3,734

	31-Dec-21			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Internal rating grade :				
Neither past due nor impaired	37,982	-	-	37,982
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	37,982	-	-	37,982

An analysis of changes in the ECL allowances as follows:

31-Dec-22 **Bank**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
ECL allowance as at 1 January 2022	227	-	-	227
Allowance writeback during the year (Note 27)	(189)	-	-	(189)
ECL allowance as at 31 December 2022	38	-	-	38

31-Dec-21 **Group and bank**	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
ECL allowance as at 1 January 2021	-	-	-	-
Allowance made during the year (Note 27)	227	-	-	227
ECL allowance as at 31 December 2021	227	-	-	227

6 GOLD DEPOSITORY

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

7 DEBT INSTRUMENTS MEASURED AT FVOCI

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

Group and Bank	2022 RM'000	2021 RM'000
Government Sukuk	2,365,821	2,446,393
Corporate Sukuk	724,364	691,119
	3,090,185	3,137,512

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	3,090,185	-	-	3,090,185
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,090,185	-	-	3,090,185

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	3,137,512	-	-	3,137,512
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,137,512	-	-	3,137,512

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

An analysis of changes in the fair value and the corresponding ECLs is, as follows (Cont'd.) :

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	4,716	-	-	4,716
Allowance made during the year (Note 27)	4,641	-	-	4,641
ECL allowance as at 31 December 2022	9,357	-	-	9,357

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	25,300	-	-	25,300
Allowance writeback during the year (Note 27)	(20,584)	-	-	(20,584)
ECL allowance as at 31 December 2021	4,716	-	-	4,716

8 FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group and Bank	
	2022 RM'000	2021 RM'000
(i) At amortised cost		
Term financing		
- House financing	1,129,597	1,112,270
- Personal financing	864,222	934,127
- Cashline financing	3,492	6,882
- Syndicated financing	160,500	154,100
- Hire purchase receivables	582,824	624,174
- Other term financing	1,106,193	1,207,059
Credit card	-	41
Staff financing	19,050	20,313
	3,865,878	4,058,966
Less: Modification loss	(24,522)	(31,707)
	3,841,356	4,027,259
Less: Impairment allowances		
- Stage 1 Financing	(147,965)	(123,889)
- Stage 2 Financing	(111,310)	(110,025)
- Stage 3 Financing	(121,971)	(120,381)
Net financing and advances to customers	3,460,110	3,672,964
Less: Impairment allowances		
- Stage 1 Undrawn	(95)	(1,615)
- Stage 1 Letter of Credit (Note 38)	(531)	(1,128)
- Stage 1 Financial Guarantee (Note 38)	(265)	(920)
Net financing, advances and other receivables	3,459,219	3,669,301

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

	Group and Bank	
	2022 RM'000	2021 RM'000
(ii) By contract		
Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	1,877,260	1,920,880
Murabahah (cost-plus)	1,911,789	2,051,611
Mudharabah (profit sharing)	43,705	43,705
Qard (benevolent financing) (Note 8(x))	983	1,034
Musyarakah (profit and loss sharing)	6,810	9,125
Istisna'	809	863
Ujrah	-	41
	3,841,356	4,027,259
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	288,117	337,024
- Others	934,849	1,001,191
Individuals	2,618,390	2,689,044
	3,841,356	4,027,259
(iv) By residual contractual maturity		
Maturity within one year	1,152,218	1,232,576
More than one year to three years	97,723	113,904
More than three years to five years	298,193	231,582
More than five years	2,293,222	2,449,197
	3,841,356	4,027,259
(v) By geographical distribution		
Malaysia	3,838,845	4,022,960
Middle East	1,285	2,992
Other countries	1,226	1,307
	3,841,356	4,027,259
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	2,081	2,369
- Hire purchase receivables	582,824	624,174
- Syndicated financing	160,500	154,100
- Term financing	702,651	768,686
Variable rate		
- House financing	1,127,516	1,109,901
- Term financing	1,265,784	1,368,029
	3,841,356	4,027,259

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

	Group and Bank	
	2022	**2021**
	RM'000	**RM'000**
(vii) By sector		
Construction	297,716	255,384
Electricity, gas and water	35,781	45,016
Finance, insurance and business services	17,378	65,923
Household	2,618,390	2,689,044
Manufacturing	155,820	153,697
Agriculture, hunting, forestry & fishing	-	55,972
Real Estate	277,166	254,350
Transports, storage and communication	104,733	116,320
Wholesale & retail trade and restaurants & hotels	321,723	382,451
Others	12,649	9,102
	3,841,356	4,027,259
(viii) By economic purpose		
Purchase of transport vehicles	579,259	617,922
Purchase of landed properties		
- residential	1,185,782	1,158,122
- non-residential	133,764	163,899
Purchase of fixed assets	18,352	22,744
Working capital	808,889	915,029
Construction	162,510	157,072
Personal use	859,219	916,019
Other purposes	93,581	76,452
	3,841,356	4,027,259

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

(ix) Financing by types and Shariah contract

	31-Dec-22							
Group and Bank	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Ujrah	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	1,121,848	69	-	6,715	-	809	-	1,129,441
Personal financing	-	845,667	-	-	817	-	-	846,484
Syndicated financing	-	160,500	-	-	-	-	-	160,500
Cashline financing	-	3,648	-	-	-	-	-	3,648
Hire purchase receivables	576,040	-	-	-	-	-	-	576,040
Other term financing	162,758	899,729	43,705	-	-	-	-	1,106,192
Staff financing	16,614	2,176	-	95	166	-	-	19,051
Credit card	-	-	-	-	-	-	-	-
	1,877,260	1,911,789	43,705	6,810	983	809	-	3,841,356

	31-Dec-21							
Group and Bank	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Ujrah	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	1,102,353	74	-	8,981	-	863	-	1,112,271
Personal financing	-	911,129	-	-	878	-	-	912,007
Syndicated financing	-	154,100	-	-	-	-	-	154,100
Cashline financing	-	6,882	-	-	-	-	-	6,882
Hire purchase receivables	614,587	-	-	-	-	-	-	614,587
Other term financing	186,830	976,524	43,705	-	-	-	-	1,207,059
Staff financing	17,110	2,902	-	144	156	-	-	20,312
Credit card	-	-	-	-	-	-	41	41
	1,920,880	2,051,611	43,705	9,125	1,034	863	41	4,027,259

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

	Group and Bank	
	2022 RM'000	**2021 RM'000**
(x) Purpose and Source of Qard financing		
As at 1 January	1,034	1,196
Source of Qard fund:	332	513
- Depositors' Fund	251	392
- Shareholders' Fund	81	121
Uses of Qard fund:	(383)	(675)
- Financing for asset purchase	(289)	(516)
- Staff Benevolent	(94)	(159)
As at 31 December (Note 8(ii))	983	1,034
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	272,802	317,444
- Impaired during the year	37,368	23,116
- Reclassified to performing during the year	(9,410)	(9,797)
- Amount recovered	(29,465)	(17,859)
- Amount written off	(8,404)	(40,255)
Reinstatement of previously written down accounts	741	153
At 31 December	263,632	272,802
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less Stage 3 impairment	3.78%	3.87%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Stage 1 and 2		
As at 1 January	237,577	155,510
Allowance made during the year (Note 27)	22,589	82,067
At 31 December	260,166	237,577
As % of total gross financing, advances and other receivables less Stage 3 impairment	6.99%	6.08%
Stage 3		
At 1 January	120,381	156,476
Movement of net allowance during the year (Note 27)	9,253	4,007
Allowance charged during the year	25,107	18,813
Allowance written-back during the year	(15,854)	(14,806)
Amount written off	(8,404)	(40,255)
Reinstatement of previously written down accounts	741	153
At 31 December	121,971	120,381

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

(xiii) Impaired financing by sector

	Group and Bank 2022 RM'000	Group and Bank 2021 RM'000
Finance, insurance and business services	5,169	6,351
Household	46,033	38,221
Manufacturing	73,142	84,575
Real Estate	130,358	132,901
Wholesale & retail trade and restaurants & hotels	8,930	10,754
	263,632	272,802

(xiv) Impairment allowance for financing and advances to customers

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

Group and Bank	31-Dec-22 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	3,287,695	174,895	-	3,462,590
Past due but not impaired	-	115,134	-	115,134
Individually impaired	-	-	263,632	263,632
Total	3,287,695	290,029	263,632	3,841,356

Group and Bank	31-Dec-21 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	3,518,786	191,239	-	3,710,025
Past due but not impaired	-	44,432	-	44,432
Individually impaired	-	-	272,802	272,802
Total	3,518,786	235,671	272,802	4,027,259

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

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

An analysis of changes in the ECL allowances in relation to financing and advances to customers, as follows :

Group and Bank	31-Dec-22 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	127,552	110,025	120,381	357,958
Transfer to 12-month ECL	20,916	(17,648)	(3,268)	-
Transfer to lifetime ECL not credit impaired	(5,925)	6,460	(535)	-
Transfer to lifetime ECL credit impaired	(1,220)	(874)	2,094	-
Allowance made during the year	7,533	13,347	10,962	31,842
Write-offs	-	-	(8,404)	(8,404)
Reinstatement of previously written down accounts	-	-	741	741
ECL allowance as at 31 December 2022	148,856	111,310	121,971	382,137

Group and Bank	31-Dec-21 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	66,986	88,524	156,476	311,986
Transfer to 12-month ECL	9,459	(5,533)	(3,926)	-
Transfer to lifetime ECL not credit impaired	(514)	1,243	(729)	-
Transfer to lifetime ECL credit impaired	(114)	(296)	410	-
Allowance made during the year	51,735	26,087	8,252	86,074
Write-offs	-	-	(40,255)	(40,255)
Reinstatement of previously written down accounts	-	-	153	153
ECL allowance as at 31 December 2021	127,552	110,025	120,381	357,958

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

	Group and Bank	
	2022	**2021**
	RM'000	**RM'000**
(xv) a) Modification loss		
As at 1 January	31,707	47,173
Less : Unwinding effect as at 31 December	(7,185)	(15,466)
Personal financing	(2,803)	(10,830)
Auto financing	(4,382)	(4,636)
As at 31 December	24,522	31,707
b) Exposure to Covid-19 - Impacted sector		
Non-Retail - Construction, real estate, air transportation, wholesale and retail trade, restaurant and hotels:		
On-balance sheet (net of impairment)	1,227,654	1,275,133
Undrawn (off-balance sheet)	286,251	272,489
	1,513,905	1,547,622
Retail - Household:	600,403	630,523
Total number of Retail accounts applied, offered and accepted for repayment assistance	**3,708**	**3,940**

c) Exposure to Covid-19 - Customer relief and support measures (Cont'd.)

<u>Corporate</u>

As at 31 December 2022, the outstanding balance for repayment assistances, rescheduling and restructurig granted in relation to the COVID-19 customer relief and support measures is nil.

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

(xv) c) Exposure to Covid-19 - Customer relief and support measures (Cont'd.)

Retail **As at 31 December 2022**	**Mortgages** **RM'000**	**Hire Purchase** **RM'000**	**Personal Financing** **RM'000**	**Total** **RM'000**
Outstanding balance for repayment assistances, rescheduling and restructuring ("R&R") granted:	**446,776**	**48,593**	**105,034**	**600,403**
Matured and repaying as per revised schedules	211,089	28,906	65,250	**305,245**
Extended	83,555	5,925	22,389	**111,869**
Missed payment	152,132	13,762	17,395	**183,289**
As a percentage of total:				
Matured and repaying as per revised schedules	47%	60%	62%	**50%**
Extended	19%	12%	21%	**19%**
Missed payment	34%	28%	17%	**31%**
	100%	100%	100%	**100%**

Non-Retail	**SMEs**		**Corporates**		
As at 31 December 2021	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Total** **RM'000**
Outstanding balance for automatic moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted:	**162,160**	**21,100**	**340,110**	**15,115**	**538,485**
Matured and repaying as per revised schedules	54,450	-	-	-	**54,450**
Extended	107,710	21,100	340,110	15,115	**484,035**
Missed payment	-	-	-	-	**-**
As a percentage of total:					
Matured and repaying as per revised schedules	34%	0%	0%	0%	**10%**
Extended	66%	100%	100%	100%	**90%**
Missed payment	0%	0%	0%	0%	**0%**
	100%	100%	100%	100%	**100%**

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

(xv) c) Exposure to Covid-19 - Customer relief and support measures (Cont'd.)

Retail	**Mortgages**	**Hire Purchase**	**Personal Financing**	**Total**
As at 31 December 2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Outstanding balance for automatic moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted:	**458,163**	**58,098**	**114,262**	**630,523**
Matured and repaying as per revised schedules	4,693	51,917	103,964	**160,574**
Extended	439,628	4,067	5,911	**449,606**
Missed payment	13,842	2,114	4,387	**20,343**
As a percentage of total:				
Matured and repaying as per revised schedules	1%	89%	91%	**26%**
Extended	96%	7%	5%	**71%**
Missed payment	3%	4%	4%	**3%**
	100%	100%	100%	**100%**

9 OTHER ASSETS

	Note	Group and Bank 2022 RM'000	Group and Bank 2021 RM'000
Deposits and prepayments		7,730	7,673
Amount due from a related party	(i)	78,971	111,861
Fee receivable		100	130
Sundry debtors		366	640
		87,167	120,304

(i) The amount due from a related party is unsecured, profit-free and repayable on demand.

10 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
2022			
Forward foreign exchange related contracts	413,099	7,400	2,441
- in connection with fair value hedges	332,557	5,931	985
- other derivatives without a hedging relationship	80,542	1,469	1,456
Total	413,099	7,400	2,441
2021			
Forward foreign exchange related contracts	691,650	5,805	5,517
- in connection with fair value hedges	198,094	663	375
- other derivatives without a hedging relationship	493,556	5,142	5,142
Total	691,650	5,805	5,517

The Group's and the Bank's derivatives designated for fair value hedges consists of forward foreign exchange related contracts that are used to protect against exposures to variability in foreign currency exchange rates. This hedging strategy is applied towards interbank borrowings and corporate customer deposits. The changes in the fair value of the forward foreign exchange contract and interbank borrowings or corporate customer deposits are recognised in the profit or loss. The measurement of the hedged item results in a net gain of RM2,272,000 as at 31 December 2022 (31 December 2021: Net gain of RM2,534,000).

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 INVESTMENT IN SUBSIDIARIES

	Bank	
	2022 RM'000	2021 RM'000
Unquoted shares, at cost	*	
- in Malaysia	-	10,200
	-	10,200

* Denotes the amount below RM1,000.

Details of the subsidiary is as follows:

Subsidiary	Principal activity	Country of Incorporation	Equity interest held (%)	
			2022	2021
Kuwait Finance House (Labuan) Berhad**	Offshore banking	Malaysia	-	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100

** completed the members voluntary winding up process on 23 November 2022

13 RIGHT OF USE OF ASSETS AND LEASE LIABILITIES

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Group and Bank			
	Building	Office Equipment	Motor Vehicle	Total
	RM'000	Note	RM'000	RM'000
Cost				
As at 1 January 2022	96,145	397	254	96,796
Additions	2,629	175	-	2,804
Disposals/expired	(3,650)	(397)	(55)	(4,102)
Adjustment/remeasurement	3,997	-	-	3,997
As at 31 December 2022	99,121	175	199	99,495
Accumulated depreciation				
As at 1 January 2022	35,279	348	72	35,699
Charge (Note 31)	13,843	82	100	14,025
Disposals/expired	(3,650)	(397)	(55)	(4,102)
As at 31 December 2022	45,472	33	117	45,622
Net book value				
As at 31 December 2022	53,649	142	82	53,873

	Group and Bank			
	Building	Office Equipment	Motor Vehicle	Total
	RM'000	Note	RM'000	RM'000
Cost				
As at 1 January 2021	96,892	397	872	98,161
Additions	616	-	254	870
Disposals/expired	(1,363)	-	(876)	(2,239)
Adjustment/remeasurement	-	-	4	4
As at 31 December 2021	96,145	397	254	96,796
Accumulated depreciation				
As at 1 January 2021	23,742	232	628	24,602
Charge (Note 31)	12,900	116	320	13,336
Disposals/expired	(1,363)	-	(876)	(2,239)
As at 31 December 2021	35,279	348	72	35,699
Net book value				
As at 31 December 2021	60,866	49	182	61,097

13 RIGHT OF USE OF ASSETS AND LEASE LIABILITIES (Cont'd.)

Set out below are the carrying amounts of lease liabilities and the movements during the year: (Cont'd.)

		Group and Bank			
		Building	Office Equipment	Motor Vehicle	Total
		RM'000	Note	RM'000	RM'000
As at 1 January 2022		64,306	51	190	64,547
Additions		2,629	175	-	2,804
Accretion of profit	Note 32	1,928	2	3	1,933
Payment		(14,907)	(87)	(102)	(15,096)
Adjustment/remeasurement		3,996	-	-	3,996
As at 31 December 2022		57,952	141	91	58,184

		Group and Bank			
		Building	Office Equipment	Motor Vehicle	Total
		RM'000	RM'000	RM'000	RM'000
As at 1 January 2021		75,852	171	255	76,278
Additions		616	-	254	870
Accretion of profit	Note 32	2,768	5	5	2,778
Payment		(14,930)	(125)	(324)	(15,379)
As at 31 December 2021		64,306	51	190	64,547

The following are the amounts recognised in profit or loss:

		Group and Bank	
		2022	2021
		RM'000	RM'000
Depreciation expense of right-of-use assets	Note 31	14,025	13,336
Profit expense on lease liabilities	Note 32	1,933	2,778
Total amount recognised in profit or loss		15,958	16,114

14 PROPERTY AND EQUIPMENT

Group and Bank 2022	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost							
As at 1 January	23,213	8,757	9,868	39,213	627	3,155	84,833
Additions	18	-	59	500	-	5,381	5,958
Disposals	-	(265)	(100)	-	-	-	(365)
Write-offs	(3,729)	(759)	(1,494)	(730)	-	(8)	(6,720)
Transfers	543	-	36	1,028	-	(5,026)	(3,419)
As at 31 December	20,045	7,733	8,369	40,011	627	3,502	80,287
Accumulated depreciation							
As at 1 January	22,186	8,663	9,803	35,306	627	-	76,585
Charge for the year							-
(Note 31)	528	45	36	2,011	-	-	2,620
Disposals	-	(265)	(100)	-	-	-	(365)
Write-offs	(3,663)	(756)	(1,492)	(730)	-	-	(6,641)
As at 31 December	19,051	7,687	8,247	36,587	627	-	72,199
Net book value							
As at 31 December	994	46	122	3,424	-	3,502	8,088

Group and Bank 2021	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost							
As at 1 January	27,549	10,048	12,364	39,357	627	15,574	105,519
Additions	401	34	-	559	-	3,359	4,353
Disposals	-	-	(229)	(1,260)	-	-	(1,489)
Write-offs	(4,737)	(1,325)	(2,267)	-	-	(5,794)	(14,123)
Transfers	-	-	-	557	-	(9,984)	(9,427)
As at 31 December	23,213	8,757	9,868	39,213	627	3,155	84,833
Accumulated depreciation							
As at 1 January	26,196	9,943	12,273	33,679	535	-	82,626
Charge for the year							
(Note 31)	727	45	25	2,887	92	-	3,776
Disposals	-	-	(229)	(1,260)	-	-	(1,489)
Write-offs	(4,737)	(1,325)	(2,266)	-	-	-	(8,328)
As at 31 December	22,186	8,663	9,803	35,306	627	-	76,585
Net book value							
As at 31 December	1,027	94	65	3,907	-	3,155	8,248

15 INTANGIBLE ASSETS

	Group and Bank	
	2022 RM'000	2021 RM'000
Computer software		
Cost		
As at 1 January	101,644	91,906
Additions	114	311
Transfers from property and equipment (Note 14)	3,419	9,427
As at 31 December	105,177	101,644
Accumulated amortisation		
As at 1 January	84,871	75,923
Amortisation for the year (Note 31)	6,184	8,948
As at 31 December	91,055	84,871
Carrying amount		
As at 31 December	14,122	16,773

16 DEFERRED TAXATION

	Group and Bank	
	2022 RM'000	2021 RM'000
As at 1 January	52,208	6,971
Recognised in other comprehensive income	21,298	39,883
Recognised in profit and loss (Note 35)	8,202	5,354
As at 31 December	81,708	52,208
Presented after appropriate offsetting as follows:		
Deferred tax assets	83,028	64,953
Deferred tax liabilities	(1,320)	(12,745)
Deferred tax assets (net)	81,708	52,208

16 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group and Bank:	Temporary difference in ECL RM'000	Unutilised tax losses RM'000	Other temporary differences RM'000	Total RM'000
2022				
As at 1 January	32,020	8,000	24,933	64,953
Recognised in profit or loss	(186)	12,340	(4,290)	7,864
Recognised in other comprehensive income	-	-	10,211	10,211
As at 31 December	31,834	20,340	30,854	83,028
2021				
As at 1 January	22,318	17,620	20,201	60,139
Recognised in profit or loss	9,702	(9,620)	4,732	4,814
As at 31 December	32,020	8,000	24,933	64,953

Deferred tax liabilities of the Group and Bank:	Unrealised loss/(gain) on securities FVOCI RM'000	Accelerated capital allowances RM'000	Total RM'000
2022			
As at 1 January	11,087	1,658	12,745
Recognised in profit or loss	-	(338)	(338)
Recognised in other comprehensive income	(11,087)	-	(11,087)
As at 31 December	-	1,320	1,320
2021			
As at 1 January	50,970	2,198	53,168
Recognised in profit or loss	-	(540)	(540)
Recognised in other comprehensive income	(39,883)	-	(39,883)
As at 31 December	11,087	1,658	12,745

16 DEFERRED TAXATION (Cont'd.)

Unutilised tax losses

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

	Group and Bank	
	2022	**2021**
	RM'000	**RM'000**
Unutilised tax losses	84,750	33,333

The deferred tax assets have been recognised as at 31 December 2022 as the directors are of the view that it is probable for the Group and the Bank to realise the deferred tax asset.

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

At the reporting date the Group and the Bank are yet to recognised the deferred tax asset in respect of the following items:

	Group and Bank	
	2022	**2021**
	RM'000	**RM'000**
Unutilised tax losses	501,306	665,755

The unutillised tax losses above are available for offset against future taxable profits of the Bank and the subsidiary respectively up to year of assessment 2028.

The availability of unutilised tax losses of the Group and the Bank 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	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
(i) By type of deposit				
Qard				
- Demand deposits	323,370	360,535	323,374	376,442
- Gold deposits	111,624	102,898	111,624	102,898
Murabahah				
- Term placement	2,954,812	3,328,230	2,954,812	3,328,230
- Savings deposits	132,004	123,885	132,004	123,885
	3,521,810	3,915,548	3,521,814	3,931,455
(ii) By type of customer				
Business enterprises	1,211,746	1,461,729	1,211,746	1,461,727
Individuals	335,246	369,876	335,246	369,876
Subsidiaries	-	-	4	15,909
Government and statutory bodies	1,598,437	1,548,044	1,598,437	1,548,044
Others	376,381	535,899	376,381	535,899
	3,521,810	3,915,548	3,521,814	3,931,455
(iii) By contractual maturity				
Due within six months	3,116,921	3,340,869	3,116,925	3,356,777
More than six months to one year	404,865	412,847	404,865	412,847
More than one year to three years	24	161,832	24	161,831
	3,521,810	3,915,548	3,521,814	3,931,455

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2022 RM'000	2021 RM'000
Murabahah		
Licensed Islamic banks	150,000	121,155
Other financial institutions	1,636,900	1,467,559
	1,786,900	1,588,714

19 INVESTMENT ACCOUNTS

	Group and Bank	
	2022 RM'000	2021 RM'000
As at 1 January	5,550	6,644
Net withdrawals during the year	(1,871)	(1,158)
Income from investment	93	107
Profit distributed to mudarib	(38)	(43)
As at 31 December	3,734	5,550
Investment asset:		
Wadiah placement with BNM	3,734	5,550

Profit sharing ratio and rate of return

	Investment account holder			
	Average profit sharing ratio		Average rate of return	
	Group and Bank			
	2022 (%)	2021 (%)	2022 (%)	2021 (%)
Unrestricted investment accounts:				
Less than 3 months	60	60	1.28	1.02

	Group and Bank	
By type of customer	2022 RM'000	2021 RM'000
Business enterprises	1,673	3,214
Individuals	1,992	2,250
Other enterprises	69	86
	3,734	5,550

20 OTHER LIABILITIES

	Note	Group 2022 RM'000	Group 2021 RM'000	Bank 2022 RM'000	Bank 2021 RM'000
Sundry creditors	(i)	33,967	34,763	33,960	34,760
Accrued restoration cost		4,612	5,338	4,612	5,338
Other provisions and accruals		57,579	46,012	57,579	46,008
Undistributed charity funds	(ii)	1,502	253	1,502	253
		97,660	86,366	97,653	86,359

(i) Included in sundry creditors is an amount payable to holding company of RM5.1 million (2021: RM5.0 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

	Group and Bank 2022 RM'000	Group and Bank 2021 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	253	922
Penalty charges on late payment	5,751	398
Total sources of funds during the year	6,004	1,320
Uses of charity funds:		
Compensation of late payment charges	(2,000)	-
Payment for recovery cost and other expenses	(2,430)	(995)
Contribution to non-profit organisations	(5)	(34)
Aid to needy family	(67)	(38)
Total uses of funds during the year	(4,502)	(1,067)
Undistributed charity funds as at 31 December	1,502	253

21 PROVISION FOR ZAKAT

In 2022, 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.

22 SHARE CAPITAL

Group and Bank	Number of ordinary shares 2022 Units'000	2021 Units'000	Amount 2022 RM'000	2021 RM'000
Issued and fully paid:				
As at 1 January/ As at 31 December	1,425,272	1,425,272	1,425,272	1,425,272

23 RESERVES

	Note	Group 2022 RM'000	2021 RM'000	Bank 2022 RM'000	2021 RM'000
Non-distributable					
Statutory reserve	(i)	247,491	207,491	247,491	207,491
Exchange fluctuation reserve	(ii)	-	3,798	-	-
FVOCI reserve	(iii)	(22,974)	39,965	(22,974)	39,965
		224,517	251,254	224,517	247,456
Distributable					
Retained earnings		34,737	23,641	34,740	21,739
		259,254	274,895	259,257	269,195

23 RESERVES (Cont'd.)

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

(i) Statutory reserve

The Bank transfers 50% of its current year profits to statutory reserves.

(ii) Exchange fluctuation reserve

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

(iii) FVOCI 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.

24 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.

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group and Bank	
	2022	**2021**
	RM'000	**RM'000**
Continuing Operations		
Finance income from financing, advances		
and other receivables	151,426	167,932
Unwinding of modification loss	5,442	12,008
Finance income from impaired financing	1,911	1,665
Finance income from financial assets at FVOCI	98,327	114,382
Money-at-call and deposits with financial institutions	577	519
	257,683	296,506
Amortisation of premium less		
accretion of discount	(2,197)	(4,192)
Total finance income and hibah	255,486	292,314
Gain arising from sale of securities		
- Financial assets at FVOCI	5,604	6,347
Foreign exchange gain - realised	4,861	559
	265,951	299,220

26 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Continuing Operations				
Finance income from financing, advances and other receivables	48,504	48,412	48,504	48,412
Unwinding of modification loss	1,743	3,458	1,743	3,458
Finance income from impaired financing	611	477	611	477
Finance income from financial assets at FVOCI	31,490	32,931	31,490	32,931
Money-at-call and deposits with financial institutions	186	145	186	145
	82,534	85,423	82,534	85,423
Amortisation of premium less accretion of discount	(704)	(1,192)	(704)	(1,192)
Total finance income and hibah	81,830	84,231	81,830	84,231
Fee and other income				
- Commissions	2,514	2,927	2,514	2,927
- Other fee income	4,088	3,414	4,088	3,414
- Gain from liquidation of KFH Labuan	-	-	5,090	-
Gain arising from sale of securities				
- Financial assets at FVOCI	1,805	1,827	1,805	1,827
Foreign exchange related contract gain/(loss)				
- Realised	16,644	5,551	13,459	5,551
- Unrealised	(10,535)	(10,065)	(10,535)	(10,065)
Fair value gain from financial assets as at FVTPL	2,115	754	2,115	754
Gain on disposal of property, plant and equipment	8	32	8	32
Reversal of provision on property restoration	371	-	371	-
	98,840	88,671	100,745	88,671

27 CREDIT LOSS CHARGED ON FINANCIAL ASSETS

The table below shows the ECL (charges)/writeback (net bad debt recovered) on financial instruments for the year recorded in the income statement for continuing operations:

	31-Dec-22			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Cash and short-term funds	(575)	-	-	(575)
Deposit and placements with banks and other financial institutions	189	-	-	189
Financing and advances to customers	(21,304)	(1,285)	(9,253)	(31,842)
Bad debt recovered	-		5,493	5,493
Debt instruments measured at FVOCI	(4,641)	-	-	(4,641)
Total impairment loss charges	(26,331)	(1,285)	(3,760)	(31,376)

	31-Dec-21			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Cash and short-term funds	(423)	-	-	(423)
Deposit and placements with banks and other financial institutions	(227)	-	-	(227)
Financing and advances to customers	(60,566)	(21,501)	(4,007)	(86,074)
Bad debt recovered	-	-	11,271	11,271
Debt instruments measured at FVOCI	20,584	-	-	20,584
Total impairment loss (charges)/writeback	(40,632)	(21,501)	7,264	(54,869)

28 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group and Bank	
Continuing Operations	**2022 RM'000**	**2021 RM'000**
Deposits from customers		
- Murabahah	73,006	78,842
Deposits and placements of banks and other financial institutions		
- Murabahah and wakalah	41,121	39,471
- Others	128	140
	114,255	118,453

29 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group and Bank	
	2022 RM'000	**2021 RM'000**
Income derived from investment of investment account funds	93	107
Profit distributed to mudarib	(38)	(43)
	55	64

30 PERSONNEL EXPENSES

	Group and Bank	
	2022 RM'000	2021 RM'000
Salaries and wages	35,185	36,422
Social security costs	277	268
Pension costs - defined contribution plan	6,859	7,058
Other staff related costs	13,660	14,453
	55,981	58,201

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

Name	Position	Salary and other remuneration* RM'000	Bonus RM'000	Employees Provident Fund RM'000	Benefit in kinds RM'000	Total RM'000
2022						
Mohd Hazran Abd Hadi	Chief Executive Officer	1,020	1,250	363	-	2,633
	Total	**1,020**	**1,250**	363	-	2,633
2021						
Mohd Hazran Abd Hadi	Chief Executive Officer	1,020	1,125	343	24	2,512
	Total	**1,020**	**1,125**	**343**	**24**	**2,512**

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

31 OTHER OVERHEADS AND EXPENDITURES

	Group & Bank	
	2022 RM'000	**2021 RM'000**
Promotion		
Advertisement and publicity	7,433	6,283
Establishment		
Rental	229	236
Depreciation of property and equipment (Note 14)	2,620	3,776
Amortisation of intangible assets (Note 15)	6,184	8,948
IT expenses	16,659	13,362
Hire of equipment	353	398
Depreciation of right of use asset (Note 13)	14,025	13,336
	40,070	40,056
General expenses		
Auditors remuneration		
- Statutory audit	492	476
- Non-audit services:	264	515
- Review engagements and regulatory related services	167	175
- Other services	97	340
Professional fees	2,835	1,958
Directors' remuneration (Note 34)	2,203	2,203
Shariah Committee's remuneration (Note 34)	699	534
Communication expenses	1,894	2,063
Other fees	2,508	4,851
Write-off of property and equipment	79	5,795
Legal fees	21,800	13,305
Others	11,113	7,262
	43,887	38,961
Total overheads and expenditures	91,390	85,300

32 FINANCE COST

	Group and Bank	
	2022 RM'000	**2021 RM'000**
Profit expenses on lease liabilities	1,933	2,778

33 DISCONTINUED OPERATIONS

During the financial year, the Bank's subsidiary involved in offshore banking has completed the members voluntary winding up process on 23 November 2022. Since 31 December 2019, KFH Labuan was classified as discontinued operations. The result of KFH Labuan for the year are presented below :

	Note	2022 RM'000	2021 RM'000
Income derived from investment of shareholder's equity			
Foreign exchange related contract loss			
- Realised		-	(71)
Total net loss		-	(71)
Other overheads and expenditures	(i)	-	(16)
Loss before zakat and taxation		-	(87)
Net profit for the year		-	(87)

(i) OTHER OVERHEADS AND EXPENDITURES

	2022 RM'000	2021 RM'000
Establishment		
Rental	-	3
	-	3
General expenses		
Auditors remuneration		
- Statutory audit	-	6
Others	-	7
	-	13
Total overheads and expenditures	-	16

(ii) The net cash flows attributable to the discontinued operation are as follows:

	2022 RM'000	2021 RM'000
Exchange differences on translation of opening balance	-	(3,798)

34 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group and Bank	
	2022 RM'000	2021 RM'000
Directors of the Bank		
Fees	2,203	2,203
Other remuneration	-	-
	2,203	2,203
Directors of subsidiary company		
Fees	-	-
Other remuneration	-	-
	-	-
Total directors remuneration*	2,203	2,203
Shariah Committee		
Fees	624	504
Other remuneration	75	30
Total Shariah Committee Remuneration	699	534

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

	Bank	
	Number of directors	
	2022	2021
Directors		
RM1,000 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	1	1
RM250,001 - RM300,000	-	-
RM300,001 - RM400,000	3	3
RM400,001 - RM500,000	2	2
Total	6	6

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

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

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

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
Group and Bank								
2022								
Muad S M M AlOsaimi	Chairman	360	-	-	-	-	60	420
Mohammad Nasser AlFouzan	Independent non-executive director	180	60	60	60	-	-	360
Ahmad S A A AlKharji	Non-independent executive director	180	-	-	-	-	60	240
Khalid Sufat	Non-independent non-executive director	191	63	-	-	64	63	381
Abdul Khalil Abdul Hamid	Independent non-executive director	191	-	64	63	64	-	382
Mohamed Zaheer Mohamed Azreen	Independent non-executive director	180	60	60	60	60	-	420
	Total	1,282	183	184	183	188	183	2,203

34 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 RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
Group and Bank								
2021								
Muad S M M AlOsaimi	Chairman	360	-	-	-	-	60	420
Mohammad Nasser AlFouzan	Independent non-executive director	180	60	60	60	-	-	360
Ahmad S A A AlKharji	Non-Independent executive director	180	-	-	-	-	60	240
Khalid Sufat	Non-independent non-executive director	191	63	-	-	64	63	381
Abdul Khalil Abdul Hamid	Independent non-executive director	191	-	64	63	64	-	382
Mohamed Zaheer Mohamed Azreen	Independent non-executive director	180	60	60	60	60	-	420
	Total	1,282	183	184	183	188	183	2,203

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

Name of Shariah Committee Member	Total RM '000	Fee RM '000	Fixed Allowances RM '000	Non-Fixed Allowances RM '000
2022				
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	165	144	8	13
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	140	120	8	12
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	128	120	8	-
Sheikh Isa Abdulla Yusuf Dowaishan	128	120	8	-
Prof. Dr. Azman Mohd Noor	138	120	8	10
	699	624	40	35
2021				
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	152	144	8	-
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	128	120	8	-
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	127	120	7	-
Sheikh Isa Abdulla Yusuf Dowaishan	127	120	7	-
	534	504	30	-

35 TAXATION

	Group & Bank	
	2022 **RM'000**	**2021** **RM'000**
Continuing Operation		
Deferred tax (Note 16):		
- Relating to origination and reversal of temporary differences	(7,902)	(5,354)
- Over provision in prior years	(300)	-
Total for Taxation	(8,202)	(5,354)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2021: 24%) of the estimated assessable profit for the year.

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

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

	Group		Bank	
	2022 **RM'000**	**2021** **RM'000**	**2022** **RM'000**	**2021** **RM'000**
Profit before zakat and taxation				
- Continuing operation	69,894	68,333	71,799	68,333
- Discontinued operation	-	(87)	-	-
	69,894	68,246	71,799	68,333
Taxation at Malaysian statutory tax rate of 24% (2021: 24%)	16,775	16,379	17,232	16,400
Income not subject to tax	(2,526)	(3,511)	(2,983)	(3,532)
Expenses not deductible for tax purposes	3,329	6,445	3,329	6,445
Utilization of previously unrecognized tax losses	(25,480)	(24,667)	(25,480)	(24,667)
Over provision of deferred tax in prior year	(300)	-	(300)	-
Tax expense for the year	(8,202)	(5,354)	(8,202)	(5,354)

36 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	
	2022	2021
Net profit for the year (RM'000)	78,096	73,600
Weighted average number of ordinary shares in issue ('000)	1,425,272	1,425,272
Basic/diluted earnings per share (sen)	5.48	5.16

37 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 44.

Subsidiary
Details of subsidiary are disclosed in Note 12.

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

37 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:

Bank 2022	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & joint ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(i) Income						
Profit income on placements	1	-	-	-	-	-
Profit income on financing	-	-	-	59	-	-
	1	-	-	59	-	-
(ii) Expenditure						
Profit expense on deposits	702	-	11	-	-	-
Other fees	-	-	16,500	-	-	-
	702	-	16,511	-	-	-

37 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.)

Bank 2022 (Cont'd.)	**Holding company RM'000**	**Subsidiaries RM'000**	**Subsidiaries & joint ventures of holding companies RM'000**	**Key management personnel RM'000**	**Companies with common directors RM'000**	**Directors RM'000**
(iii) Amount due to related parties						
Deposits from customers	-	4	8,292	2,027	-	464
Sundry creditors (Note 20)	5,072	-	-	-	-	-
	5,072	4	8,292	2,027	-	464
(iv) Amount due from related parties						
Financing	-	-	-	1,563	-	-
Other assets	-	-	78,971	-	-	
	-	-	78,971	1,563	-	-
(v) Others						
Purchases of intangible assets	-	-	365	-	-	-
	-	-	365	-	-	-

37 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.)

Bank 2021	**Holding company RM'000**	**Subsidiaries RM'000**	**Subsidiaries & joint ventures of holding companies RM'000**	**Key management personnel RM'000**	**Companies with common directors RM'000**	**Directors RM'000**
(i) Income						
Profit income on financing	-	-	-	55	-	-
	-	-	-	55	-	-
(ii) Expenditure						
Profit expense on deposits	568	-	13	-	-	-
Other fees	-	-	15,943	-	-	-
	568	-	15,956	-	-	-

37 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.)

Bank **2021 (Cont'd.)**	**Holding company** **RM'000**	**Subsidiaries** **RM'000**	**Subsidiaries & joint ventures of holding companies** **RM'000**	**Key management personnel** **RM'000**	**Companies with common directors** **RM'000**	**Directors** **RM'000**
(iii) Amount due to related parties						
Deposits from customers	-	17,300	14,354	1,271	-	507
Deposits and placements of banks and other Financial Instituitions	45,815	-	-	-	-	-
Sundry creditors (Note 20)	5,039	-	-	-	-	-
	50,854	17,300	14,354	1,271	-	507
(iv) Amount due from related parties						
Financing	-	-	-	1,652	-	-
Other assets	-	-	111,861	-	-	
	-	-	111,861	1,652	-	-
(v) Others						
Purchases of intangible assets	-	-	1,220	-	-	-
	-	-	1,220	-	-	-

37 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group and Bank	
	2022 RM'000	2021 RM'000
Short-term employee benefits		
- Salary and other remuneration	9,257	8,358
- Benefits-in-kind	-	23
	9,257	8,381

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 30.

(c) Credit transactions and exposures with connected parties

	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non-performing credit exposure RM'000
2022				
Financing, credit facility and leasing (except guarantee)	105,971	1	105,971	-
Off-balance sheet exposures	600	1	600	-
	106,571	2	106,571	-
Total exposure to connected parties as % capital base			6.5%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.5%	0.0%

37 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non-performing credit exposure RM'000
2021				
Financing, credit facility and leasing (except guarantee)	111,861	1	111,861	-
Off-balance sheet exposures	600	1	600	-
	112,461	2	112,461	-
Total exposure to connected parties as % capital base			6.8%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.5%	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.

38 COMMITMENTS AND CONTINGENCIES

(a) Commitments and contigencies

In the normal course of business, the Bank 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.

	2022			2021		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Group and Bank						
Direct credit substitutes	20,617	20,353	19,469	36,395	35,496	34,625
Transaction related contingencies	98,660	48,799	36,832	97,271	47,488	36,954
Irrevocable commitments to extend credit						
- maturity less than one year	134,769	12,887	12,458	184,623	22,259	18,758
- maturity more than one year	46,603	20,776	15,333	63,184	27,859	22,634
Foreign exchange related contracts *						
- less than one year	243,620	6,623	2,115	688,727	7,746	3,330
- one year to five years	174,577	8,844	3,085	-	-	-
	718,846	118,282	89,292	1,070,200	140,848	116,301
		Note 40 (d)	Note 40 (d)		Note 40 (d)	Note 40 (d)

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

38 COMMITMENTS AND CONTINGENCIES (Cont'd.)

(a) Commitments and contigencies (Cont'd.)

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

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

	Group and Bank	
	2022 RM'000	**2021 RM'000**
Financial guarantees	20,617	36,395
Letters of credit	98,660	97,271
Other undrawn commitments	181,372	247,807
Total commitment	300,649	381,473
Less : ECL allowance	(891)	(3,663)
	299,758	377,810

The credit equivalent and risk-weighted amounts are derived from using the credit conversion factors and risk weights respectively as specified 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 2022, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM7,400,360 (2021: RM5,805,274). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

38 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments

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

Financial guarantees

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

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	20,617	-	-	20,617
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	20,617	-	-	20,617

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	36,395	-	-	36,395
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	36,395	-	-	36,395

An analysis of changes in the ECLs, as follows:

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	920	-	-	920
Net remeasurement of loss allowance	(1,162)	-	-	(1,162)
New financial assets originated or purchased	596	-	-	596
Financial assets that have matured	(89)	-	-	(89)
ECL allowance as at 31 December 2022	265	-	-	265

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	673	-	-	673
Net remeasurement of loss allowance	480	-	-	480
New financial assets originated or purchased	5	-	-	5
Financial assets that have matured	(238)	-	-	(238)
ECL allowance as at 31 December 2021	920	-	-	920

38 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Letters of credit

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

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	98,660	-	-	98,660
Individually impaired	-	-	-	-
Past due but not impaired	-	-	-	-
Total	98,660	-	-	98,660

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	97,271	-	-	97,271
Individually impaired	-	-	-	-
Past due but not impaired	-	-	-	-
Total	97,271	-	-	97,271

An analysis of changes in the ECLs, as follows: (Cont'd.)

Group and Bank	31-Dec-22			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	1,128	-	-	1,128
Net remeasurement of loss allowance	(597)	-	-	(597)
ECL allowance as at 31 December 2022	531	-	-	531

Group and Bank	31-Dec-21			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	1,375	-	-	1,375
Net remeasurement of loss allowance	(247)	-	-	(247)
ECL allowance as at 31 December 2021	1,128	-	-	1,128

38 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Other undrawn commitments

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

Group and Bank	31-Dec-22 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	178,514	-	-	178,514
Past due but not impaired	-	2,636	-	2,636
Individually impaired	-	-	222	222
Total	178,514	2,636	222	181,372

Group and Bank	31-Dec-21 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	243,852	-	-	243,852
Past due but not impaired	-	3,882	-	3,882
Individually impaired	-	-	73	73
Total	243,852	3,882	73	247,807

An analysis of changes in the ECLs in relation to other undrawncommitments is, as follows:

Group and Bank	31-Dec-22 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2022	1,615	* -	* -	1,615
Net remeasurement of loss allowance	(1,524)	-	-	(1,524)
New financial assets originated or purchased	32	-	-	32
Financial assets that have matured	(28)	-	-	(28)
ECL allowance as at 31 December 2022	95	* -	* -	95

Group and Bank	31-Dec-21 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2021	1,615	-	-	1,615
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	1,615	-	-	1,615
Financial assets that have matured	(1,615)	-	-	(1,615)
ECL allowance as at 31 December 2021	1,615	* -	* -	1,615

* Denotes the amount below RM1,000.

39 CAPITAL COMMITMENTS

	Group and Bank	
	2022 RM'000	2021 RM'000
Capital expenditure:		
Authorised and contracted for		
- computer hardware	2,805	66
- purchase of equipment	3	90
- computer software	3,148	592
- capital renovation	56	56
Authorised but not contracted for		
- computer software	45,258	47,129
	51,270	47,933

40 CAPITAL ADEQUACY

The Group has adopted Bank Negara Malaysia's 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.

The minimum regulatory capital adequacy ratios before including capital conservation buffer ("CCB") and countercyclical capital buffer ("CCyB") for CET I capital ratio, Tier I capital ratio and total capital ratio are 4.5%, 6.0% and 8.0% respectively.

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

	Group		Bank	
	2022	2021	2022	2021
CET 1/ Tier 1 capital ratio	41.099%	38.502%	41.100%	38.004%
Total capital ratio	42.198%	39.615%	42.199%	39.114%

40 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
CET 1/Tier I capital				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	247,491	207,491	247,491	207,491
Other reserves	2,406	30,725	2,410	25,025
	1,675,169	1,663,488	1,675,173	1,657,788
Less: Deferred tax assets (net)	(81,708)	(52,208)	(81,708)	(52,208)
Less: Investment in subsidiaries	-	-	-	(10,200)
Total CET 1/ Tier I capital	1,593,461	1,611,280	1,593,465	1,595,380
Tier II capital				
Stage 1 & Stage 2 expected credit loss allowances*	42,611	46,589	42,611	46,589
Total Tier II capital	42,611	46,589	42,611	46,589
Capital base	1,636,072	1,657,869	1,636,076	1,641,969

* Refers to loss allowances measured at an amount to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under Standardised Approach for credit risk subject to a maximum of 1.25% of total Risk-Weighted Assets.

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

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Total Risk-Weighted Assets ("RWA")				
Total credit RWA	3,408,881	3,727,140	3,408,881	3,727,140
Total market RWA	9,378	6,023	9,378	6,023
Total operational RWA	458,884	451,812	458,821	464,750
Total Risk-Weighted Assets	3,877,143	4,184,975	3,877,080	4,197,913

40 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 2022	Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	631,675	631,675	-	-	-
Banks, development financial institutions & MDBs	134,127	134,127	70,362	70,362	5,629
Corporates	3,594,424	3,489,190	1,074,275	1,074,275	85,942
Regulatory retail	1,466,425	1,465,758	1,309,628	1,309,628	104,770
Residential mortgages	1,099,610	1,099,161	536,749	536,749	42,940
Other assets	281,337	281,337	163,250	163,250	13,060
Defaulted exposures[2]	143,235	142,454	165,325	165,325	13,226
	7,350,833	7,243,702	3,319,589	3,319,589	265,567
(b) Off-Balance Sheet Exposures*					
OTC hedging financial instruments[3]	15,468	15,468	5,200	5,200	416
Off-balance sheet exposures other than OTC hedging financial instruments	102,814	88,991	84,092	84,092	6,727
	118,282	104,459	89,292	89,292	7,143
Total On and Off-Balance Sheet Exposures	**7,469,115**	**7,348,161**	**3,408,881**	**3,408,881**	**272,710**

40 CAPITAL ADEQUACY (Cont'd.)

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

Group 2022 (Cont'd.)			Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(ii) Large Exposures Risk Requirement			-	-	-	-	-
	Long Position	Short Position					
(iii) Market Risk							
Foreign Currency Risk[4]	9,378	7,527		1,851	9,378	9,378	750
				1,851	**9,378**	**9,378**	**750**
(iv) Operational Risk					**458,884**	**458,884**	**36,711**
(v) Total RWA and Capital Requirements					**3,877,143**	**3,877,143**	**310,171**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation (Eligible financial collateral)*

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

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

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

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

40 CAPITAL ADEQUACY (Cont'd.)

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

Group 2021	Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	658,349	658,349	-	-	-
Banks, development financial institutions & MDBs	192,014	192,014	70,144	70,144	5,611
Corporates	3,612,869	3,544,811	1,216,431	1,216,431	97,314
Regulatory retail	1,586,253	1,582,883	1,415,537	1,415,537	113,243
Residential mortgages	1,059,492	1,058,765	531,692	531,692	42,535
Other assets	315,758	315,758	206,422	206,422	16,514
Defaulted exposures[2]	152,944	152,175	170,613	170,613	13,649
	7,577,679	7,504,755	3,610,839	3,610,839	288,866
(b) Off-Balance Sheet Exposures*					
OTC hedging financial instruments[3]	7,746	7,746	3,330	3,330	266
Off-balance sheet exposures other than OTC hedging financial instruments	133,102	117,390	112,971	112,971	9,038
	140,848	125,136	116,301	116,301	9,304
Total On and Off-Balance Sheet Exposures	**7,718,527**	**7,629,891**	**3,727,140**	**3,727,140**	**298,170**

40 CAPITAL ADEQUACY (Cont'd.)

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

Group 2021 (Cont'd.)				Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(ii)	**Large Exposures Risk Requirement**			-	-	-	-	-
		Long Position	**Short Position**					
(iii)	**Market Risk**							
	Foreign Currency Risk[4]	5,368	1,690		3,678	6,023	6,023	482
					3,678	**6,023**	**6,023**	**482**
(iv)	**Operational Risk**					**451,812**	**451,812**	**36,145**
(v)	**Total RWA and Capital Requirements**					**4,184,975**	**4,184,975**	**334,797**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation (Eligible financial collateral)*

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

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

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

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

40 CAPITAL ADEQUACY (Cont'd.)

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

Bank 2022	Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	631,675	631,675	-	-	-
Banks, development financial institutions & MDBs	134,127	134,127	70,362	70,362	5,629
Corporates	3,594,424	3,489,190	1,074,275	1,074,275	85,942
Regulatory retail	1,466,425	1,465,758	1,309,628	1,309,628	104,770
Residential mortgages	1,099,610	1,099,161	536,749	536,749	42,940
Other assets	281,337	281,337	163,250	163,250	13,060
Defaulted exposures[2]	143,235	142,454	165,325	165,325	13,226
	7,350,833	7,243,702	3,319,589	3,319,589	265,567
(b) Off-Balance Sheet Exposures*					
OTC Hedging financial instruments[3]	15,468	15,468	5,200	5,200	416
Off-balance sheet exposures other than OTC hedging financial instruments	102,814	88,991	84,092	84,092	6,727
	118,282	104,459	89,292	89,292	7,143
Total On and Off-Balance Sheet Exposures	**7,469,115**	**7,348,161**	**3,408,881**	**3,408,881**	**272,710**

40 CAPITAL ADEQUACY (Cont'd.)

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

Bank 2022 (Cont'd.)		Gross Exposures RM'000		Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(ii)	**Large Exposures Risk Requirement**		-	-	-	-	-
		Long	**Short**				
(iii)	**Market Risk**						
	Foreign Currency Risk[4]	9,378	7,527	1,851	9,378	9,378	750
				1,851	**9,378**	**9,378**	**750**
(iv)	**Operational Risk**				**458,821**	**458,821**	**36,706**
(v)	**Total RWA and Capital Requirements**				**3,877,080**	**3,877,080**	**310,166**

Note:
* *Credit equivalent of off-balance sheet items*
** *After netting and credit risk mitigation (Eligible financial collateral)*
[1] *Higher risk assets are defined in section B.2.2 : Definition of Exposures of CAFIB guidelines issued by Bank Negara Malaysia.*
[2] *Defaulted exposures are classified based on Appendix 3 'Definition of Default' of CAFIB guidelines issued by Bank Negara Malaysia.*
[3] *Credit equivalent amount for the OTC derivative positions are calculated based on 'current-exposure method' stipulated in CAFIB guidelines - Appendix VI issued by Bank Negara Malaysia.*
[4] *Computation is as per Part D - Market Risk of CAFIB guidelines issued by Bank Negara Malaysia.*

40 CAPITAL ADEQUACY (Cont'd.)

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

Bank 2021	Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	658,349	658,349	-	-	-
Banks, development financial Institutions & MDBs	192,014	192,014	70,144	70,144	5,611
Corporates	3,612,869	3,544,811	1,216,431	1,216,431	97,314
Regulatory retail	1,586,253	1,582,883	1,415,537	1,415,537	113,243
Residential mortgages	1,059,492	1,058,765	531,692	531,692	42,535
Other assets	315,758	315,758	206,422	206,422	16,514
Defaulted exposures[2]	152,944	152,175	170,613	170,613	13,649
	7,577,679	7,504,755	3,610,839	3,610,839	288,866
(b) Off-Balance Sheet Exposures*					
OTC hedging financial instruments[3]	7,746	7,746	3,330	3,330	266
Off-balance sheet exposures other than OTC hedging financial instruments	133,102	117,390	112,971	112,971	9,038
	140,848	125,136	116,301	116,301	9,304
Total On and Off-Balance Sheet Exposures	**7,718,527**	**7,629,891**	**3,727,140**	**3,727,140**	**298,170**

40 CAPITAL ADEQUACY (Cont'd.)

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

Bank 2021 (Cont'd.)			Gross Exposures RM'000	Net Exposures ** RM'000	Risk-Weighted Assets RM'000	Total Risk-Weighted Assets After Effects of PSIA RM'000	Capital Requirement RM'000
(ii)	**Large Exposures Risk Requirement**		-	-	-	-	-
		Long	**Short**				
(iii)	**Market Risk**						
	Foreign Currency Risk[4]	5,368	1,690	3,678	6,023	6,023	482
				3,678	**6,023**	**6,023**	**482**
(iv)	**Operational Risk**				**464,750**	**464,750**	**37,180**
(v)	**Total RWA and Capital Requirements**				**4,197,913**	**4,197,913**	**335,832**

Note:

* *Credit equivalent of off-balance sheet items*

** *After netting and credit risk mitigation (Eligible financial collateral)*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2022

40 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.)

Group and Bank	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2022									
Risk-Weights									
0%	631,675	-	1,835,424	-	-	-	118,087	2,585,186	-
20%	-	13,876	724,364	-	-	-	-	738,240	147,648
35%	-	-	-	-	630,202	-	-	630,202	220,571
50%	-	125,868	19,479	13	312,655	-	-	458,015	229,008
75%	-	-	-	644,116	-	-	-	644,116	483,087
100%	-	8,864	1,033,412	841,289	173,257	-	163,250	2,220,072	2,220,072
150%	-	-	38,724	587	-	33,019	-	72,330	108,495
Exposures after Netting and Credit Risk Mitigation	**631,675**	**148,608**	**3,651,403**	**1,486,005**	**1,116,114**	**33,019**	**281,337**	**7,348,161**	**3,408,881**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2022

40 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.)

Group and Bank	Sovereigns & Central Banks RM'000	Banks, MDBs and DFIs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
2021									
Risk-Weights									
0%	658,350	20,485	1,781,854	-	-	-	109,336	2,570,025	-
20%	-	53,956	669,886	-	-	-	-	723,842	144,768
35%	-	-	-	-	581,500	-	-	581,500	203,525
50%	-	125,272	51,670	32	304,385	-	-	481,359	240,679
75%	-	-	-	687,046	-	-	-	687,046	515,285
100%	-	46	1,207,280	913,513	185,328	-	206,422	2,512,589	2,512,589
150%	-	-	39,921	589	-	33,019	-	73,529	110,294
Exposures after Netting and Credit Risk Mitigation	**658,350**	**199,759**	**3,750,611**	**1,601,180**	**1,071,213**	**33,019**	**315,758**	**7,629,890**	**3,727,140**

40 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
2022				
0%	2,585,186	-	2,585,186	-
20%	738,240	147,648	738,240	147,648
35%	630,202	220,571	630,202	220,571
50%	458,015	229,008	458,015	229,008
75%	644,116	483,087	644,116	483,087
100%	2,220,072	2,220,072	2,220,072	2,220,071
150%	72,330	108,495	72,330	108,496
Risk-weighted assets for credit risk	7,348,161	3,408,881	7,348,161	3,408,881
Risk-weighted assets for market risk		9,378		9,378
Risk-weighted assets for operational risk		458,884		458,821
Total risk-weighted assets		3,877,143		3,877,080
2021				
0%	2,570,025	-	2,570,025	-
20%	723,842	144,768	723,842	144,768
35%	581,500	203,525	581,500	203,525
50%	481,359	240,679	481,359	240,679
75%	687,046	515,285	687,046	515,285
100%	2,512,589	2,512,589	2,512,589	2,512,589
150%	73,529	110,294	73,529	110,294
Risk-weighted assets for credit risk	7,629,890	3,727,140	7,629,890	3,727,140
Risk-weighted assets for market risk		6,023		6,023
Risk-weighted assets for operational risk		451,812		464,750
Total risk-weighted assets		4,184,975		4,197,913

40 CAPITAL ADEQUACY (Cont'd.)

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

	2022		2021	
Group and Bank	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**	**Risk-Weighted Assets Equivalent RM'000**	**Capital Required RM'000**
Foreign Exchange Risk	9,378	750	6,023	482
Total	9,378	750	6,023	482

41 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.

41 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

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.

41 SEGMENT INFORMATION (Cont'd.)

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

Group 2022	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Retail Banking and Others RM'000	Elimination RM'000	Total RM'000
External revenue	141,723	64,480	11,835	146,846	-	364,884
Revenue from other segments	102,975	476	1,764	60,964	(166,179)	-
Total Revenue	244,698	64,956	13,599	207,810	(166,179)	364,884
Segment results	70,377	36,239	6,603	59,474	(1,905)	170,788
Unallocated expenses						(100,894)
Profit before zakat and taxation						69,894
Taxation						8,202
Net profit for the year						78,096
Other information						
Segment assets	3,243,394	961,465	83,592	2,728,870	(4)	7,017,317
Unallocated corporate assets						137,938
Total assets						7,155,255
Segment liabilities	7,743,530	190,356	410,576	6,620,644	(4)	14,965,102
Unallocated corporate liabilities						(9,494,373)
Total liabilities						5,470,729
Other segment items						
Purchase of property and equipment	-	-	-	5,958	-	5,958
Purchase of intangible assets	-	-	-	114	-	114
Depreciation of property and equipment	-	-	-	2,620	-	2,620
Amortisation of intangible assets	-	-	-	6,184	-	6,184
Other non-cash expense expenses other than depreciation	-	4,903	1,624	(37,904)	-	(31,376)

(b) Secondary Segment - By Geographical Locations

Group 2022	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Outside Malaysia	536	536	136,039
Malaysia	364,348	69,358	7,019,216
	364,884	69,894	7,155,255

41 SEGMENT INFORMATION (Cont'd.)

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

Group 2021	**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	153,248	66,845	12,913	154,992	-	387,998
Revenue from other segments	95,350	447	1,354	48,064	(145,215)	-
Total Revenue	248,598	67,292	14,267	203,056	(145,215)	387,998
Segment results	83,490	47,295	8,523	25,810	-	165,118
Unallocated expenses						(96,872)
Profit before zakat and taxation						68,246
Taxation						5,354
Net loss for the year						73,600
Other information						
Segment assets	3,330,844	1,057,578	123,602	2,799,742	(26,107)	7,285,659
Unallocated corporate assets						80,750
Total assets						7,366,409
Segment liabilities	7,459,562	390,250	431,405	6,072,989	(15,907)	14,338,299
Unallocated corporate liabilities						(8,672,057)
Total liabilities						5,666,242
Other segment items						
Purchase of property and equipment	-	-	-	4,353	-	4,353
Purchase of intangible assets	-	-	-	311	-	311
Depreciation of property and equipment	-	-	-	3,776	-	3,776
Amortisation of intangible assets	-	-	-	8,948	-	8,948
Other non-cash expenses other than depreciation	-	9,790	1,638	(66,298)	-	(54,870)

(b) Secondary Segment - By Geographical Locations

Group 2021	**Operating Revenue RM'000**	**Profit Before Zakat and Taxation RM'000**	**Total Assets RM'000**
Outside Malaysia	473	473	197,617
Malaysia	387,525	67,773	7,168,792
	387,998	68,246	7,366,409

42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instrument measured at fair value

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 market data, either directly or indirectly; and

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

Group	**Total RM'000**
2022	
Financial assets	
Debt instruments measured at FVOCI	3,090,185
Hedging financial instruments	7,400
Total	3,097,585
Financial liability	
Hedging financial instruments	2,441
Total	2,441
2021	
Financial assets	
Debt instruments measured at FVOCI	3,137,512
Hedging financial instruments	5,805
Total	3,143,317
Financial liability	
Hedging financial instruments	5,517
	5,517

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

Financial instrument measured at fair value (Cont'd.)

Bank	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
2022			
Financial assets			
Debt instruments measured at FVOCI	3,090,185	-	3,090,185
Hedging financial instruments	7,400	-	7,400
Total	3,097,585	-	3,097,585
Financial liabilities			
Hedging financial instruments	2,441	-	2,441
	2,441	-	2,441
2021			
Financial assets			
Securities held at FVTPL	-	-	-
Debt instruments measured at FVOCI	3,137,512	-	3,137,512
Hedging financial instruments	5,805	-	5,805
Total	3,143,317	-	3,143,317
Financial liabilities			
Hedging financial instruments	5,517	-	5,517
	5,517	-	5,517

Bank
Description of significant unobservable inputs to valuation:

	Valuation technique	**Significant Unobservable inputs**	**Range (weighted average)**
Financing, advances and other receivables	Discounted cash flow method	Profit rate	5.7% - 6.0%

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

Financial instrument not measured at fair value (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 on-balance sheet financial assets and financial liabilities of the Group and of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all the Group and of the Bank assets and liabilities with the exception of investments in subsidiaries, interest in associates and joint ventures, property, plant and equipment and provision for current and deferred taxation.

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

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with carrying amount shown in the statement of financial position:

Group	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,453,281	3,453,281	3,459,219
Financial Liabilities				
Deposits from customers	3,497,387	-	3,497,387	3,521,810

Group	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,668,456	3,668,456	3,669,301
Financial Liabilities				
Deposits from customers	3,889,657	-	3,889,657	3,915,548

Bank	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,453,281	3,453,281	3,459,219
Financial Liabilities				
Deposits from customers	3,497,390	-	3,497,390	3,521,814

Bank	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,668,456	3,668,456	3,669,301
Financial Liabilities				
Deposits from customers	3,904,997	-	3,904,997	3,931,455

42 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) 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 profit rate curves.

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

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

(d) 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.

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	Discounted cash flow method	Profit rate	5.7% - 6.0%

(e) 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.

43 SIGNIFICANT EVENTS OCCURING 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.

44 HOLDING COMPANY

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

45 LITIGATION

An ex parte writ of execution was issued by a US district court against the Bank's correspondent account maintained with Citibank in New York (Defendant) in an effort to enforce a judgment against an unrelated defendant, which was obtained by the Plaintiffs. The Plaintiffs have argued that the Bank is an agent/instrumentality of an unrelated defendant.

The allegation made by Plaintiffs is groundless and the Bank intervened in the proceeding and moved to vacate the writ of execution. After the district court provisionally denied the motion to vacate the writ of execution, the Bank appealed to the United States Court of Appeals for the Second Circuit.

The Second Circuit vacated the writ of execution and remanded the case to the district court for further proceedings consistent with its opinion. Before the Second Circuit's mandate issued, the Plaintiffs served a restraining notice on the Bank's correspondent account.

The Bank then filed a motion to vacate the restraining notice in the Second Circuit, which was denied without prejudice for the Bank to renew its motion in the district court. The Bank then renewed its motion to vacate the restraining notice in the district court. The Plaintiffs opposed and, in the alternative, moved for a writ of attachment.

Further briefing and adjudication of the motion to vacate the restraining notice and the attachment motion is pending. This is at an early procedural stage / pre-trial stage. The directors are of the opinion that the claim can be successfully dismissed.

46 FINANCIAL RISK MANAGEMENT

The following section discusses the Bank's risk management policies. The measurement of Expected Credit Loss ("ECL") under MFRS9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the MFRS9 requirements.

As an Islamic Bank with diverse financial product offerings, the Group and the Bank are exposed to different types of financial risks arising from their financial instruments. Financial risks encompass credit risks, liquidity 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 follows:

(a) Credit Risk

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

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

Management carefully manages its exposure to credit risk. The credit risk management and control are centralised in credit risk management team which reports regularly to the Board of Directors and head of each business unit.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

(i) Expected credit loss ("ECL") measurement

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

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

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Note 46(a)(i)(iii) describe how the Bank determines whether a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Note 46(a)(i)(iv) describe how the Bank defines credit-impaired and default.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Note 46(a)(i)(v) describe the inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with MFRS 9 is that it should consider forward-looking information. Note 46(a)(i)(vi) describe how the Bank has incorporated this in its ECL models.

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

(i) Credit risk grades

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Credit rating mapping table

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.

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

Description of the grade	Bank rating	*Moody’s Rating*	*PD*
High grade	1 to 4-	Aaa to Baa3	0.03% to 0.82%
Standard grade	5 to 7-	Ba1 to Caa3	1.14% to 21.58%
Impaired	=8 or >8	Ca, C	100.00%
Unrated	Retail customers whom are not rated against the bank's internal rating		

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

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

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

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

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

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Criteria under Stage 2 highlighted as follows:

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Criteria under Stage 3 highlighted as follows: (Cont'd.)

		Retail	Non-Retail
	Primary indicators		
1	Rating deterioration since inception	• Rating deterioration will not be applicable to the retail portfolio	• Internal Rating 8, 9 and 10 • External Rating from C and worse
2	Obligor Status	• Bankruptcy	• Wound up
	Secondary indicators		
3	Credit Review / Early Warning indicators ("EWI)"	• Credit Review / Credit committee decision	• Credit Review / Credit committee decision
4	Restructures	• All facilities rescheduled & restructured ("R&R") due to financial difficulty (except for AKPK accounts or special classification determined by BNM)	• All facilities rescheduled & restructured ("R&R") due to financial difficulty (Credit Committee’s decision on final rating)
5	Cross facility contagion	• Related facilities to be tagged as Stage 3 subject to; i) principal customer is adjudged bankrupt/ deceased or; ii) under the same financing contract/letter of offer. Note: This is in view of legal/recovery process cannot be pursued simultaneously for different contracts.	• To be referred to the term of the facility offered. (Credit Committee’s decision on final rating)
	Backstop		
6	90 Days Past Due ("DPD")	• Backstop of 90 DPD will be applied to all facilities	• Backstop of 90 DPD will be applied to all facilities
7	Rating / Probability of Default ("PD") cut-off	• Rating deterioration will not be applicable to the retail portfolio	• Internal rating cut off of 8 or worse.

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Criteria under Stage 3 highlighted as follows: (Cont'd.)

Qualitative criteria:

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

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

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

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

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

(iv) Definition of default and credit-impaired assets

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

The Bank considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to take actions such as realising security (if any is held); or

- the customer is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

(iv) Definition of default and credit-impaired assets (Cont'd.)

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

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

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

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

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

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

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

The Bank relied on Moody's historical industry analysis and has identified the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio.

	2021	2022
Gross Domestic Product ("GDP") (RM Billion)	1342.2	1549.4
Kuala Lumpur Stock Exchange Index ("KLSE") (Index)	1571.9	1357.4

Predicted relationships between the key indicators and default loss rates on various portfolios of financial assets have been used in reference to Moody's economic database for the ranges of historical data of 3.25 years (13 Quarters) and forecasted data of 5 years (20 Quarters).

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

Retail – Groupings for collective measurement
- Product type (e.g. Auto Financing, Personal Financing and Home and Property Financing)

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

The following exposures are assessed individually:

Retail
- Stage 3 financing includes Auto Financing, Personal Financing and Home and Property Financing

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

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

(ii) 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.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank **2022**	**Total gross maximum exposure** **RM'000**
Cash and short-term funds	145,073
Placements of investment accounts with Bank Negara Malaysia	3,696
Securities FVOCI	3,090,185
Financing, advances and other receivables	3,460,110
Other assets	87,167
Statutory deposits with Bank Negara Malaysia	92,371
Hedging financial instruments	7,400
Total On-Balance Sheet	6,886,002
Financial guarantees	20,352
Contingent liabilities	98,129
Commitments	181,277
Total Off-Balance Sheet	299,758
Total On and Off-Balance Sheet	7,185,760
Group and Bank	
2021	
Cash and short-term funds	153,850
Placements of investment accounts with Bank Negara Malaysia	37,755
Securities FVOCI	3,137,512
Financing, advances and other receivables	3,672,964
Other assets	120,304
Statutory deposits with Bank Negara Malaysia	2
Hedging financial instruments	5,805
Total On-Balance Sheet	7,128,192
Financial guarantees	35,475
Contingent liabilities	96,143
Commitments	246,192
Total Off-Balance Sheet	377,810
Total On and Off-Balance Sheet	7,506,002

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment:

	Geographical region				
Group and Bank	**Malaysia RM'000**	**Middle East RM'000**	**Others RM'000**	**Stage 1 & 2 impairment RM'000**	**Total gross maximum exposure RM'000**
2022					
Cash and short-term funds	13,044	4,426	129,102	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	(38)	3,696
Securities FVOCI	3,090,185	-	-	-	3,090,185
Financing, advances and other receivables	3,716,874	1,285	1,226	(259,275)	3,460,110
Other assets	87,167	-	-	-	87,167
Statutory deposits with Bank Negara Malaysia	92,371	-	-	-	92,371
Hedging financial instruments	7,400	-	-	-	7,400
Total On-Balance Sheet	7,010,775	5,711	130,328	(260,812)	6,886,002
Financial guarantees	20,617	-	-	(265)	20,352
Contingent liabilities	98,660	-	-	(531)	98,129
Commitments	181,356	-	16	(95)	181,277
Total Off-Balance Sheet	300,633	-	16	(891)	299,758
Total On and Off-Balance Sheet	7,311,408	5,711	130,344	(261,703)	7,185,760

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				
Group and Bank 2021	**Malaysia RM'000**	**Middle East RM'000**	**Others RM'000**	**Stage 1 & 2 impairment RM'000**	**Total gross maximum exposure**
Cash and short-term funds	15,121	15,023	124,630	(924)	153,850
Placements of investment accounts with Bank Negara Malaysia	5,550	-	32,432	(227)	37,755
Securities FVOCI	3,116,279	21,233	-	-	3,137,512
Financing, advances and other receivables	3,902,578	2,992	1,307	(233,913)	3,672,964
Other assets	120,304	-	-	-	120,304
Statutory deposits with Bank Negara Malaysia	2	-	-	-	2
Hedging financial instruments	5,805	-	-	-	5,805
Total On-Balance Sheet	7,165,639	39,248	158,369	(235,064)	7,128,192
Financial guarantees	36,395	-	-	(920)	35,475
Contingent liabilities	97,271	-	-	(1,128)	96,143
Commitments	247,791	-	16	(1,615)	246,192
Total Off-Balance Sheet	381,457	-	16	(3,663)	377,810
Total On and Off-Balance Sheet	7,547,096	39,248	158,385	(238,727)	7,506,002

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector:

	Industry							
Group and Bank	**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**	**Stage 1 & 2 Impairment RM'000**	**Total gross maximum exposure RM'000**
2022								
Cash and short-term funds	-	146,572	-	-	-	-	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	-	3,734	-	-	-	-	(38)	3,696
Securities FVOCI	-	819,220	716,064	420,818	530,396	603,687	-	3,090,185
Financing, advances and other receivables	415,730	17,378	544,767	104,734	-	2,636,776	(259,275)	3,460,110
Other assets	-	-	-	-	-	87,167	-	87,167
Statutory deposits with Bank Negara Malaysia	-	92,371	-	-	-	-	-	92,371
Hedging financial instruments	-	7,400	-	-	-	-	-	7,400
Total On-Balance Sheet	415,730	1,086,675	1,260,831	525,552	530,396	3,327,630	(260,812)	6,886,002
Financial guarantees	20,017	-	600	-	-	-	(265)	20,352
Contingent liabilities	271	-	17,415	2,870	-	78,104	(531)	98,129
Commitments	77,687	-	54,026	210	-	49,449	(95)	181,277
Total Off-Balance Sheet	97,975	-	72,041	3,080	-	127,553	(891)	299,758
Total On and Off-Balance Sheet	513,705	1,086,675	1,332,872	528,632	530,396	3,455,183	(261,703)	7,185,760

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2022

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry							
Group and Bank	**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**	**Stage 1 & 2 Impairment RM'000**	**Total gross maximum exposure RM'000**
2021								
Cash and short-term funds	-	154,774	-	-	-	-	(924)	153,850
Placements of investment accounts with Bank Negara Malaysia	-	37,982	-	-	-	-	(227)	37,755
Securities FVOCI	-	810,705	736,177	359,457	644,053	587,120	-	3,137,512
Financing, advances and other receivables	474,629	65,923	476,539	116,320	-	2,773,466	(233,913)	3,672,964
Other assets	-	-	-	-	-	120,304	-	120,304
Statutory deposits with Bank Negara Malaysia	-	2	-	-	-	-	-	2
Hedging financial instruments	-	5,805	-	-	-	-	-	5,805
Total On-Balance Sheet	474,629	1,075,191	1,212,716	475,777	644,053	3,480,890	(235,064)	7,128,192
Financial guarantees	35,785	-	610	-	-	-	(920)	35,475
Contingent liabilities	335	-	19,271	2,720	-	74,945	(1,128)	96,143
Commitments	23,241	-	92,761	1,464	-	130,341	(1,615)	246,193
Total Off-Balance Sheet	59,361	-	112,643	4,184	-	205,286	(3,663)	377,810
Total On and Off-Balance Sheet	533,990	1,075,191	1,325,359	479,961	644,053	3,686,176	(238,727)	7,506,002

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity:

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
Group and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2022							
Cash and short-term funds	146,572	-	-	-	-	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	-	-	(38)	3,696
Securities FVOCI	192,879	193,656	764,054	1,939,596	-	-	3,090,185
Financing, advances and other receivables	1,033,846	25,618	381,177	2,278,744	-	(259,275)	3,460,110
Other assets	-	-	-	-	87,167	-	87,167
Statutory deposits with Bank Negara Malaysia	-	-	-	-	92,371	-	92,371
Hedging financial instruments	-	-	7,400	-		-	7,400
Total On-Balance Sheet	1,377,031	219,274	1,152,631	4,218,340	179,538	(260,812)	6,886,002
Financial guarantees	2	-	20,615	-	-	(265)	20,352
Contingent liabilities	270	78,254	20,136	-	-	(531)	98,129
Commitments	114,472	19,500	3,928	43,472	-	(95)	181,277
Total Off-Balance Sheet	114,744	97,754	44,679	43,472	-	(891)	299,758
Total On and Off-Balance Sheet	1,491,775	317,028	1,197,310	4,261,812	179,538	(261,703)	7,185,760

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
Group and Bank	**Less than 6 months RM'000**	**6 months to 1 year RM'000**	**1 year to 5 years RM'000**	**More than 5 years RM'000**	**RM'000**	**RM'000**	**RM'000**
2021							
Cash and short-term funds	154,774	-	-	-	-	(924)	153,850
Placements of investment accounts with Bank Negara Malaysia	37,982	-	-	-	-	(227)	37,755
Securities FVOCI	21,233	71,763	1,185,577	1,858,939	-	-	3,137,512
Financing, advances and other receivables	1,049,902	94,627	328,902	2,433,446	-	(233,913)	3,672,964
Other assets	-	-	-	-	120,304	-	120,304
Statutory deposits with Bank Negara Malaysia	-	-	-	-	2	-	2
Hedging financial instruments	-	-	5,805	-	-	-	5,805
Total On-Balance Sheet	1,263,891	166,390	1,520,284	4,292,385	120,306	(235,064)	7,128,192
Financial guarantees	10	-	36,385	-	-	(920)	35,475
Contingent liabilities	2,077	75,059	20,135	-	-	(1,128)	96,143
Commitments	143,619	32,365	33,361	38,462	-	(1,615)	246,192
Total Off-Balance Sheet	145,706	107,424	89,881	38,462	-	(3,663)	377,810
Total On and Off-Balance Sheet	1,409,597	273,814	1,610,165	4,330,847	120,306	(238,727)	7,506,002

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Overlays and adjustments for expected credit loss amid COVID-19 environment

As the current MFRS 9 models are not expected to generate levels of expected credit loss ("ECL") with sufficient reliability in view of the unprecedented and on-going COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year ended and as at 31 December 2022.

These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults when the various relief and support measures expire in 2022.

The overlays and post-model adjustments involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward looking assessment for ECL estimation purposes.

The customers who have received repayment supports remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre-COVID-19 status. The overlays and post-model adjustments were generally made at portfolio level in determining the sufficient level of ECLs.

Total overlays and adjustments for ECLs maintained by the Group as at 31 December 2022 are RM269.1 million (2021: RM269.3 million).

Model adjustments and management overlays

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being.

As a sequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio/segment. As a result, adjustments to models were needed, either within or outside the models. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above,the Bank expects that post-model and other judgemental adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2022 are set out in the following tables:

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Overlays and adjustments for expected credit loss amid COVID-19 environment

Group and Bank 2022	Modelled ECL RM'000	Post-Model Adjustment RM'000	Management Overlays RM'000	Total Judgments Adjustment RM'000	Total ECL RM'000	Judgemental adjustments as a % of total ECL RM'000
Non Retail Portfolio	56,414	91,962	62,815	154,777	211,191	73%
Retail Portfolio	67,493	(1,576)	115,923	114,347	181,840	63%
	123,907	90,386	178,738	269,124	393,031	

Group and Bank 2021	Modelled ECL RM'000	Post-Model Adjustment RM'000	Management Overlays RM'000	Total Judgments Adjustment RM'000	Total ECL RM'000	Judgemental adjustments as a % of total ECL RM'000
Non Retail Portfolio	48,110	101,100	51,201	152,301	200,411	76%
Retail Portfolio	46,460	(6,331)	123,285	116,954	163,414	72%
	94,570	94,769	174,486	269,255	363,825	
					-	

* ECL above covers Stage 1, 2 and 3.

In-model

The ECL model developed by Moodys has been consistently adopted since 2018 for respective retail and non-retail portfolios. However, the current retail model is updated recently upon a recalibration exercise recommended by the 3rd party independent party who carried out the annual validation of our ECL model since 2019. The ECL results generated by the model is updated according to latest PD and LGD benchmark in the region and its relevant macro economic variables (MEVs) according to retail and non-retail exposure.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Overlays and adjustments for expected credit loss amid COVID-19 environment

Post-model adjustments

Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. The basis estimates used for minimum PD and LGD non-retail portfolio.

Management overlays

Management overlays reflect additional ECL on top of post model adjustment assigened due to the significant uncertainty as a consequence of Covid-19. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and financing classes / segments, such as construction and portfolio under Repayment Assistance Programme (RAP).

Write off policy

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

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2022 was RM8,404,444 (2021 : RM40,255,400). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modified financial assets

There were no financial assets modified in 2022 arising from 6 months automatic moratorium granted to eligible financing customer.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iv) Credit quality analysis

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

Explanation of the terms : 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.3(b)(v).

Group and Bank	**2022**			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash & Bank Balances				**146,572**
(Less than 1 month)				
High Grade	146,572	-	-	146,572
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(1,499)	-	-	(1,499)
Carrying amount	145,073	**-**	**-**	145,073
Deposit and placement with banks				**3,734**
(More than 1 month)				
High Grade	3,734	-	-	3,734
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(38)	-	-	(38)
Carrying amount	**3,696**	**-**	**-**	**3,696**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank	2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Cash & Central Bank Balances (Less than 1 month)				154,774
High Grade	119,523	-	-	119,523
Standard Grade	35,251	-	-	35,251
Impaired	-	-	-	-
Loss allowance	(924)	-	-	(924)
Carrying amount	**153,850**	**-**	**-**	**153,850**
Deposit and placement with banks (More than 1 month)				37,982
High Grade	5,551	-	-	5,551
Standard Grade	32,431	-	-	32,431
Impaired	-	-	-	-
Loss allowance	(227)	-	-	(227)
Carrying amount	**37,755**	**-**	**-**	**37,755**

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				3,090,185
High Grade	3,090,185	-	-	3,090,185
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(9,357)	-	-	(9,357)
Carrying amount	**3,080,828**	**-**	**-**	**3,080,828**

Group and Bank	2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				3,137,512
High Grade	3,137,512	-	-	3,137,512
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(4,716)	-	-	(4,716)
Carrying amount	**3,132,796**	**-**	**-**	**3,132,796**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Financing (Gross)				**3,841,356**
High Grade	457,244	-	-	457,244
Standard Grade	351,518	174,895	-	526,413
Impaired	-	-	217,600	217,600
Unrated	2,478,406	115,660	46,033	2,640,099
Loss allowance	(147,965)	(111,310)	(121,971)	(381,246)
Carrying amount	**3,139,203**	**179,245**	**141,662**	**3,460,110**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank	2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Financing (Gross)				**4,027,259**
High Grade	241,276	-	-	241,276
Standard Grade	680,184	191,239	-	871,423
Impaired	-	-	234,581	234,581
Unrated	2,596,742	45,016	38,221	2,679,979
Loss allowance	(123,889)	(110,025)	(120,381)	(354,295)
Carrying amount	**3,394,313**	**126,230**	**152,421**	**3,672,964**

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments				**181,371**
High Grade	133,268	-	-	133,268
Standard Grade	3,545	-	-	3,545
Impaired	-	-	-	-
Unrated	44,558			44,558
Loss allowance	(95)	-	-	(95)
Carrying amount	**136,908**	**-**	**-**	**181,276**
Trade Facilities (Financial Guarantee & Letter of Credit)				**119,277**
High Grade	118,817	-	-	118,817
Standard Grade	460	-	-	460
Impaired	-	-	-	-
Loos Allowance	(796)	-	-	(796)
Carrying amount	**118,481**	**-**	**-**	**118,481**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank	2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments				**139,412**
High Grade	96,750	-	-	96,750
Standard Grade	54	-	-	54
Impaired	-	2,597	-	2,597
Unrated	40,011			40,011
Loss Allowance	(1,615)	-	-	(1,615)
Carrying amount	**135,200**	**2,597**	**-**	**137,797**
Trade Facilities (Financial Guarantee & Letter of Credit)				**133,666**
High Grade	78,518	-	-	78,518
Standard Grade	55,148	-	-	55,148
Impaired	-	-	-	-
Loss Allowance	(2,048)	-	-	(2,048)
Carrying amount	**131,618**	**-**	**-**	**131,618**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Credit quality per class of financial assets

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

Group and Bank 2022	Neither past due nor impaired rated RM'000	Neither past due nor impaired 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	146,572	-	-	-	-	146,572
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	-	-	3,734
Securities FVOCI	3,090,185	-	-	-	-	3,090,185
Financing, advances and other receivables	916,716	2,215,730	309,778	135,499	263,633	3,841,356
Other assets	87,167	-	-	-	-	87,167
Statutory deposits with Bank Negara Malaysia	92,371	-	-	-	-	92,371
Hedging financial instruments	7,400	-	-	-	-	7,400
Total On-Balance Sheet	4,344,145	2,215,730	309,778	135,499	263,633	7,268,785
Financial guarantees	20,617	-	-	-	-	20,617
Contingent liabilities	98,660	-	-	-	-	98,660
Commitments	181,372	-	-	-	-	181,372
Total Off-Balance Sheet	300,649	-	-	-	-	300,649
Total On and Off-Balance Sheet	4,644,794	2,215,730	309,778	135,499	263,633	7,569,434

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

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

Group and Bank 2021	**Neither past due nor impaired rated RM'000**	**Neither past due nor impaired 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	154,774	-	-	-	-	154,774
Placements of investment accounts with Bank Negara Malaysia	37,982	-	-	-	-	37,982
Securities FVOCI	3,137,512	-	-	-	-	3,137,512
Financing, advances and other receivables	522,017	1,832,984	138,297	1,261,159	272,802	4,027,259
Other assets	120,304	-	-	-	-	120,304
Statutory deposits with Bank Negara Malaysia	2	-	-	-	-	2
Hedging financial instruments	5,805	-	-	-	-	5,805
Total On-Balance Sheet	3,978,396	1,832,984	138,297	1,261,159	272,802	7,483,638
Financial guarantees	36,395	-	-	-	-	36,395
Contingent liabilities	97,271	-	-	-	-	97,271
Commitments	247,807	-	-	-	-	247,807
Total Off-Balance Sheet	381,473	-	-	-	-	381,473
Total On and Off-Balance Sheet	4,359,869	1,832,984	138,297	1,261,159	272,802	7,865,111

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2022

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Group and Bank
2022
Securities

Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D		Government -	
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank							
Securities FVOCI	724,364	-	-	-	-	2,365,821	3,090,185

Group and Bank
2021
Securities

Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D		Government -	
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	guaranteed	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank							
Securities FVOCI	669,886	21,233	-	-	-	2,446,393	3,137,512

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

(i) Impaired and past due financing by days past due

Group and Bank 2022	**Less than 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**Total RM'000**
Financing and advances to customers				
Retail & Consumer financing	206,053	69,343	34,382	309,778
	206,053	69,343	34,382	309,778

Group and Bank 2021	**Less than 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**Total RM'000**
Financing and advances to customers				
Retail & Consumer financing	109,654	24,142	4,501	138,297
	109,654	24,142	4,501	138,297

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Collateral held and other credit enhancements

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

The Bank prepares a valuation of the collateral obtained as part of the financing origination process. This assessment is reviewed periodically. The principal collateral types for financing and advances are:
- Margin agreement for derivatives, for which the Bank has also entered into master netting agreements;

- Charges over business assets such as premises, inventory and accounts receivable; and

- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual

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

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

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

Financing and advances	**Percentage of exposure that is subject to collateral**		
RM'000	**2022**	**2021**	**Principle type of collateral**
Financing and advances	3,459,219	3,669,301	
Corporate	59.21%	63.01%	Real Estate, Securities, Cash &
Retail	44.43%	41.97%	Real Estate & Cash

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

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

Mortgage portfolio – LTV distribution	Credit-impaired (Gross carrying amount)	
	2022	2021
LTV ratio		
Less than	-	-
51–70%	4,245,649	907,683
71–90%	10,241,384	8,200,246
91–100%	6,417,985	7,793,382
More than	-	-
Total	20,905,018	16,901,311

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established clear guidelines that have been approved by the management and the Board on the types of acceptable collateral, valuation parameters and processes and secured margins to be taken.

The main types of collateral accepted include real estate, securities, cash and sovereign guarantees. The Bank also obtains guarantees from parent companies for finance facilities extended to their subsidiaries. In line with the Bank's established credit guidelines, proper due diligence on the guarantor is conducted to ascertain their creditworthiness. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 72.0% as at 31 December 2022 (2021: 69.0%). 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.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). While the LCR encourages the short-term resilience (30 days) of a banking institution's liquidity risk profile, the NSFR aims to reduce funding risk over a time horizon of up to one year. LCR aims to ensure that banking institutions hold sufficient high-quality liquid assets (HQLA) to withstand an acute liquidity stress scenario over a 30-day horizon where a stable funding profile reduces the likelihood of a banking institution's liquidity position being severely eroded by material disruptions to its regular sources of funding.

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

Contractual maturity of total assets and liabilities

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities as at 31 December 2022 and 31 December 2021. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2022 Group	**Up to 6 months RM'000**	**>6 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Not on demand & no maturity date RM'000**	**Total RM'000**
ASSETS						
Cash and short-term funds	2,004	-	-	-	143,069	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	3,696
Debt instruments at FVOCI	192,879	193,656	764,054	1,939,596	-	3,090,185
Financing, advances and receivables	934,910	48,842	620,975	1,854,492	-	3,459,219
Other assets	-	-	-	-	449,682	449,682
Hedging Financial Instrument Assets	5,467	1,933	-	-	-	7,400
Total Assets	1,138,956	244,431	1,385,029	3,794,088	592,751	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,549,924	404,865	24	-	566,997	3,521,810
Deposits and placements of banks and other financial institutions	1,740,735	46,165	-	-	-	1,786,900
Investment accounts of customers	-	-	-	-	3,734	3,734
Hedging Financial Instrument Assets	1,418	1,023	-	-	-	2,441
Other liabilities	-	-	-	-	155,844	155,844
Total Liabilities	4,292,077	452,053	24	-	726,575	5,470,729
Shareholder's equity	-	-	-	-	1,684,526	1,684,526
Total Liabilities and Shareholder's equity	4,292,077	452,053	24	-	2,411,101	7,155,255
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	124,745	108,812	23,581	43,511	-	300,649
Net maturity mismatch	(3,277,866)	(316,434)	1,361,424	3,750,577	(1,818,350)	(300,649)

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2021 **Group**	**Up to 6 months RM'000**	**>6 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Not on demand & no maturity date RM'000**	**Total RM'000**
ASSETS						
Cash and short-term funds	14,885	-	-	-	138,965	153,850
Deposits and placements with banks and other financial institutions	37,755	-	-	-	-	37,755
Debt instruments at FVOCI	21,233	71,763	1,185,577	1,858,939	-	3,137,512
Financing, advances and receivables	1,030,260	14,233	617,161	2,007,647	-	3,669,301
Other assets	-	-	-	-	362,186	362,186
Hedging Financial Instrument Assets	5,805	-	-	-	-	5,805
Total Assets	1,109,938	85,996	1,802,738	3,866,586	501,151	7,366,409
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,753,550	412,847	161,832	-	587,319	3,915,548
Deposits and placements of banks and other financial institutions	1,558,486	30,228	-	-	-	1,588,714
Investment accounts of customers	-	-	-	-	5,550	5,550
Hedging Financial Instrument Assets	5,517	-	-	-	-	5,517
Other liabilities	-	-	-	-	150,913	150,913
Total Liabilities	4,317,553	443,075	161,832	-	743,782	5,666,242
Shareholder's equity	-	-	-	-	1,700,167	1,700,167
Total Liabilities and Shareholder's equity	4,317,553	443,075	161,832	-	2,443,949	7,366,409
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	145,706	107,424	89,882	38,461	-	381,473
Net maturity mismatch	(3,353,321)	(464,503)	1,551,024	3,828,125	(1,942,798)	(381,473)

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2022 Bank	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,004	-	-	-	143,069	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	3,696
Debt instruments at FVOCI	192,879	193,656	764,054	1,939,596	-	3,090,185
Financing, advances and receivables	934,910	48,842	620,975	1,854,492	-	3,459,219
Hedging Financial Instrument Assets	5,467	1,933	-	-	-	7,400
Other assets	-	-	-	-	449,682	449,682
Total Assets	1,138,956	244,431	1,385,029	3,794,088	592,751	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,549,928	404,865	24	-	566,997	3,521,814
Deposits and placements of banks and other financial institutions	1,740,735	46,165	-	-	-	1,786,900
Investment accounts of customers	-	-	-	-	3,734	3,734
Hedging Financial Instrument Assets	1,418	1,023	-	-	-	2,441
Other liabilities	-	-	-	-	155,837	155,837
Total Liabilities	4,292,081	452,053	24	-	726,568	5,470,726
Shareholder's equity	-	-	-	-	1,684,529	1,684,529
Total Liabilities and Shareholder's equity	4,292,081	452,053	24	-	2,411,097	7,155,255
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	124,745	108,812	23,581	43,511	-	300,649
Net maturity mismatch	(3,277,870)	(316,434)	1,361,424	3,750,577	(1,818,346)	(300,649)

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2021 Bank	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	14,885	-	-	-	138,965	153,850
Deposits and placements with banks and other financial institutions	37,755	-	-	-	-	37,755
Debt instruments at FVOCI	21,233	71,763	1,185,577	1,858,939	-	3,137,512
Financing, advances and receivables	1,030,260	14,233	617,161	2,007,647	-	3,669,301
Hedging Financial Instrument Assets	5,805	-	-	-	-	5,805
Other assets	-	-	-	-	372,386	372,386
Total Assets	1,109,938	85,996	1,802,738	3,866,586	511,351	7,376,609
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,753,550	412,847	161,831	-	603,227	3,931,455
Deposits and placements of banks and other financial institutions	1,558,486	30,228	-	-	-	1,588,714
Investment accounts of customers	-	-	-	-	5,550	5,550
Hedging Financial Instrument Assets	5,517	-	-	-	-	5,517
Other liabilities	-	-	-	-	150,906	150,906
Total Liabilities	4,317,553	443,075	161,831	-	759,683	5,682,142
Shareholder's equity	-	-	-	-	1,694,467	1,694,467
Total Liabilities and Shareholder's equity	4,317,553	443,075	161,831	-	2,454,150	7,376,609
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	145,706	107,424	89,882	38,461	-	381,473
Net maturity mismatch	(3,353,321)	(464,503)	1,551,025	3,828,125	(1,942,799)	(381,473)

46 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 RM'000	> 6 -12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity RM'000	Total RM'000
2022						
Deposits from customers	2,585,628	413,398	26	-	566,997	3,566,049
Deposit and placements of banks and other financial institutions	1,768,624	47,279	-	-	-	1,815,903
Investment accounts of customers	-	-	-	-	3,734	3,734
Other liabilities	-	-	-	-	155,844	155,844
Total	4,354,252	460,677	26	-	726,575	5,541,530
2021						
Deposits from customers	2,778,767	418,532	170,931	-	587,319	3,955,549
Deposit and placements of banks and other financial institutions	1,573,531	30,666	-	-	-	1,604,197
Investment accounts of customers	-	-	-	-	5,550	5,550
Other liabilities	-	-	-	-	150,913	150,913
Total	4,352,298	449,198	170,931	-	743,782	5,716,209

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis (Cont'd.)

Bank	Up to 6 months RM'000	> 6 -12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity RM'000	Total RM'000
2022						
Deposits from customers	2,585,632	413,398	26	-	566,997	3,566,053
Deposit and placements of banks and other financial institutions	1,768,624	47,279	-	-	-	1,815,903
Investment accounts of customers	-	-	-	-	3,734	3,734
Other liabilities	-	-	-	-	155,837	155,837
Total	4,354,256	460,677	26	-	726,568	5,541,527
2021						
Deposits from customers	2,778,767	418,532	170,930	-	603,227	3,971,456
Deposit and placements of banks and other financial institutions	1,573,531	30,666	-	-	-	1,604,197
Investment accounts of customers	-	-	-	-	5,550	5,550
Other liabilities	-	-	-	-	150,906	150,906
Total	4,352,298	449,198	170,930	-	759,683	5,732,109

46 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.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

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

i. Traded Market Risk

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

ii. Non-Traded Market Risk

Rate of Return in the Banking Book

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

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

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	2,004	-	-	-	-	143,069	-	145,073	
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	-	3,696	**2.78**
Securities FVOCI	-	187,853	198,682	764,054	1,939,596	-	-	3,090,185	**4.30**
Financing, advances and receivables	1,386,102	583,611	5,731	310,281	1,047,841	125,653	-	3,459,219	**5.12**
Other assets	-	-	-	-	-	449,682	-	449,682	
Hedging Financial Instrument Assets	-	2,442	4,958	-	-	-	-	7,400	
TOTAL ASSETS	1,391,802	773,906	209,371	1,074,335	2,987,437	718,404	-	7,155,255	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (continued)

Group 2022	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,169,682	1,166,829	768,550	305,125	-	111,624	-	3,521,810	**2.82**
Deposits and placements of banks and other financial institutions	1,366,149	314,179	106,572	-	-	-	-	1,786,900	**3.23**
Investment accounts of customers	3,734	-	-	-	-	-	-	3,734	
Hedging Financial Instrument Liabilities	985	93	1,363	-	-	-	-	2,441	
Other liabilities	-	-	-	-	-	155,844	-	155,844	
Total Liabilities	2,540,550	1,481,101	876,485	305,125	-	267,468	-	5,470,729	
Shareholder's equity	-	-	-	-	-	1,684,526	-	1,684,526	
Total Liabilities and Shareholder's equity	2,540,550	1,481,101	876,485	305,125	-	1,951,994	-	7,155,255	
On-balance sheet profit sensitivity gap	(1,148,748)	(707,195)	(667,114)	769,210	2,987,437	(1,233,590)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,148,748)	(707,195)	(667,114)	769,210	2,987,437	(1,233,590)	-	-	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

Group 2021	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	13,794	-	-	-	-	140,056	-	153,850	0.75
Deposits and placements with banks and other financial institutions	6,414	-	31,341	-	-	-	-	37,755	0.35
Securities FVOCI	-	-	92,996	1,185,577	1,858,939	-	-	3,137,512	4.30
Financing, advances and receivables	1,402,219	616,214	26,700	280,541	1,191,208	152,419	-	3,669,301	5.02
Other assets	-	-	-	-	-	362,186	-	362,186	
Hedging Financial Instrument Assets	5,532	54	219	-	-	-	-	5,805	
TOTAL ASSETS	1,427,959	616,268	151,256	1,466,118	3,050,147	654,661	-	7,366,409	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2021	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	910,067	1,545,606	870,584	486,393	-	102,898	-	3,915,548	1.84
Deposits and placements of banks and other financial institutions	860,541	185,920	542,253	-	-	-	-	1,588,714	1.94
Investment accounts of customers	5,550	-	-	-	-	-	-	5,550	
Hedging Financial Instrument Liabilities	5,142	-	375	-	-	-	-	5,517	
Other liabilities	-	-	-	-	-	150,913	-	150,913	
Total Liabilities	1,781,300	1,731,526	1,413,212	486,393	-	253,811	-	5,666,242	
Shareholder's equity	-	-	-	-	-	1,700,167	-	1,700,167	
Total Liabilities and Shareholder's equity	1,781,300	1,731,526	1,413,212	486,393	-	1,953,978	-	7,366,409	
On-balance sheet profit sensitivity gap	(353,341)	(1,115,258)	(1,261,956)	979,725	3,050,147	(1,299,317)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(353,341)	(1,115,258)	(1,261,956)	979,725	3,050,147	(1,299,317)	-	-	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	2,004	-	-	-	-	143,069	-	145,073	
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	-	3,696	**2.78**
Securities FVOCI	-	187,853	198,682	764,054	1,939,596	-	-	3,090,185	**4.30**
Financing, advances and receivables	1,386,102	583,611	5,731	310,281	1,047,841	125,653	-	3,459,219	**5.12**
Hedging Financial Instrument Assets	-	2,442	4,958	-	-	-	-	7,400	
Other assets	-	-	-	-	-	449,682	-	449,682	
TOTAL ASSETS	1,391,802	773,906	209,371	1,074,335	2,987,437	718,404	-	7,155,255	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,169,684	1,166,829	768,550	305,127	-	111,624	-	3,521,814	**2.82**
Deposits and placements of banks and other financial institutions	1,366,149	314,179	106,572	-	-	-	-	1,786,900	**3.23**
Investment accounts of customers	3,734	-	-	-	-	-	-	3,734	
Hedging Financial Instrument Liabilities	985	93	1,363	-	-	-	-	2,441	
Other liabilities	-	-	-	-	-	155,837	-	155,837	
Total Liabilities	2,540,552	1,481,101	876,485	305,127	-	267,461	-	5,470,726	
Shareholder's equity	-	-	-	-	-	1,684,529	-	1,684,529	
Total Liabilities and Shareholder's equity	2,540,552	1,481,101	876,485	305,127	-	1,951,990	-	7,155,255	
On-balance sheet profit sensitivity gap	(1,148,750)	(707,195)	(667,114)	769,208	2,987,437	(1,233,586)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,148,750)	(707,195)	(667,114)	769,208	2,987,437	(1,233,586)	-	-	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

Bank 2021	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	13,794	-	-	-	-	140,056	-	153,850	**0.75**
Deposits and placements with banks and other financial institutions	6,414	-	31,341	-	-	-	-	37,755	**0.35**
Securities FVOCI	-	-	92,996	1,185,577	1,858,939	-	-	3,137,512	**4.30**
Financing, advances and receivables	1,402,219	616,214	26,700	280,541	1,191,208	152,419	-	3,669,301	**5.02**
Hedging Financial Instrument Assets	5,532	54	219	-	-	-	-	5,805	
Other assets	-	-	-	-	-	372,386	-	372,386	
TOTAL ASSETS	1,427,959	616,268	151,256	1,466,118	3,050,147	664,861	-	7,376,609	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

1,694,467

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank 2021	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	915,316	1,545,606	870,584	497,051	-	102,898	-	3,931,455	1.84
Deposits and placements of banks and other financial institutions	860,541	185,920	542,253	-	-	-	-	1,588,714	1.94
Investment accounts of customers	5,550	-	-	-	-	-	-	5,550	
Hedging Financial Instrument Liabilities	5,142	-	375	-	-	-	-	5,517	
Other liabilities	-	-	-	-	-	150,906	-	150,906	
Total Liabilities	1,786,549	1,731,526	1,413,212	497,051	-	253,804	-	5,682,142	
Shareholder's equity	-	-	-	-	-	1,694,467	-	1,694,467	
Total Liabilities and Shareholder's equity	1,786,549	1,731,526	1,413,212	497,051	-	1,948,271	-	7,376,609	
On-balance sheet profit sensitivity gap	(358,590)	(1,115,258)	(1,261,956)	969,067	3,050,147	(1,283,410)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(358,590)	(1,115,258)	(1,261,956)	969,067	3,050,147	(1,283,410)	-	-	

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

The following table indicates the sensitivity of the net revenue and the economic value of equity on over the rate of return upward and downward rate shocks

Profit Rate Risk Sensitivity Analysis

2022	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(17,433)	17,433	(223,443)	223,443
USD - United States Dollars	(849)	849	357	(357)
Other Currencies	(120)	120	118	(118)
Total	(18,402)	18,402	(222,968)	222,968
Bank				
MYR - Ringgit Malaysia	(17,433)	17,433	(223,443)	223,443
USD - United States Dollars	(849)	849	357	(357)
Other Currencies	(120)	120	118	(118)
Total	(18,402)	18,402	(222,968)	222,968

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

2021	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(17,148)	17,148	(244,940)	244,940
USD - United States Dollars	(476)	476	744	(744)
Other Currencies	(70)	70	119	(119)
Total	(17,694)	17,694	(244,077)	244,077
Bank				
MYR - Ringgit Malaysia	(17,148)	17,148	(244,748)	244,748
USD - United States Dollars	(525)	525	903	(903)
Other Currencies	(70)	70	119	(119)
Total	(17,743)	17,743	(243,726)	243,726

Note:
The earnings and economic values were computed based on the standardised approach adopted by BNM.

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the Assets & Liabilities Management Committee ("ALCO") seeks to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and hedging financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Group and the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Risk Management against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar.

Group **2022**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
ASSETS							
Cash and short-term funds	10,061	2,437	115,634	10,874	3,640	2,427	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	3,696
Securities FVOCI	3,090,185	-	-	-	-	-	3,090,185
Financing, advances and receivables	3,459,219	-	-	-	-	-	3,459,219
Other assets	344,729	-	-	-	-	112,353	457,082
Total Assets	6,907,890	2,437	115,634	10,874	3,640	114,780	7,155,255

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK (Cont'd.)

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Group 2022 (Cont'd.)	**MYR RM'000**	**SGD RM'000**	**USD RM'000**	**EUR RM'000**	**KWD RM'000**	**Others RM'000**	**Total RM'000**
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,086,278	210,057	103,385	6,732	3,547	111,811	3,521,810
Deposits and placements of banks and other financial institutions	1,639,804	137,421	9,675	-	-	-	1,786,900
Investment accounts of customers	3,734	-	-	-	-	-	3,734
Other liabilities	157,746	140	394	5	-	-	158,285
Total Liabilities	4,887,562	347,618	113,454	6,737	3,547	111,811	5,470,729
Shareholder's equity	1,684,526	-	-	-	-	-	1,684,526
Total Liabilities and Shareholder's equity	6,572,088	347,618	113,454	6,737	3,547	111,811	7,155,255
On-balance sheet open position	335,802	(345,181)	2,180	4,137	93	2,969	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	335,802	(345,181)	2,180	4,137	93	2,969	-

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK (Cont'd.)

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Group 2021	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	14,171	2,490	122,621	9,662	2,031	2,875	153,850
Deposits and placements with banks and other financial institutions	6,414	31,341	-	-	-	-	37,755
Securities FVOCI	3,116,279	-	21,233	-	-	-	3,137,512
Financing, advances and receivables	3,540,515	-	128,786	-	-	-	3,669,301
Other assets	264,437	-	-	-	-	103,554	367,991
Total Assets	6,941,816	33,831	272,640	9,662	2,031	106,429	7,366,409
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,386,585	233,473	181,357	8,807	963	104,363	3,915,548
Deposits and placements of banks and other financial institutions	1,507,492	-	81,222	-	-	-	1,588,714
Investment accounts of customers	5,550	-	-	-	-	-	5,550
Other liabilities	156,369	-	61	-	-	-	156,430
Total Liabilities	5,055,996	233,473	262,640	8,807	963	104,363	5,666,242
Shareholder's equity	1,691,975	-	8,192	-	-	-	1,700,167
Total Liabilities and Shareholder's equity	6,747,971	233,473	270,832	8,807	963	104,363	7,366,409
On-balance sheet open position	193,845	(199,642)	1,808	855	1,068	2,066	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	193,845	(199,642)	1,808	855	1,068	2,066	-

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK (Cont'd.)

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Bank 2022	**MYR RM'000**	**SGD RM'000**	**USD RM'000**	**EUR RM'000**	**KWD RM'000**	**Others RM'000**	**Total RM'000**
ASSETS							
Cash and short-term funds	10,061	2,437	115,634	10,874	3,640	2,427	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	3,696
Securities FVOCI	3,090,185	-	-	-	-	-	3,090,185
Financing, advances and receivables	3,459,219	-	-	-	-	-	3,459,219
Other assets	344,729	-	-	-	-	112,353	457,082
Total Assets	6,907,890	2,437	115,634	10,874	3,640	114,780	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,086,282	210,057	103,385	6,732	3,547	111,811	3,521,814
Deposits and placements of banks and other financial institutions	1,639,804	137,421	9,675	-	-	-	1,786,900
Investment accounts of customers	3,734	-	-	-	-	-	3,734
Other liabilities	157,739	140	394	5	-	-	158,278
Total Liabilities	4,887,559	347,618	113,454	6,737	3,547	111,811	5,470,726
Shareholder's equity	1,684,529	-	-	-	-	-	1,684,529
Total Liabilities and Shareholder's equity	6,572,088	347,618	113,454	6,737	3,547	111,811	7,155,255
On-balance sheet open position	335,802	(345,181)	2,180	4,137	93	2,969	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	335,802	(345,181)	2,180	4,137	93	2,969	-

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK (Cont'd.)

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Bank **2021**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
ASSETS							
Cash and short-term funds	14,171	2,490	122,621	9,662	2,031	2,875	153,850
Deposits and placements with banks and other financial institutions	6,414	31,341	-	-	-	-	37,755
Debt instruments at FVOCI	3,116,279	-	21,233	-	-	-	3,137,512
Financing, advances and receivables	3,540,515	-	128,786	-	-	-	3,669,301
Other assets	263,392	-	11,245	-	-	103,554	378,191
Total Assets	6,940,771	33,831	283,885	9,662	2,031	106,429	7,376,609
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,386,589	233,473	197,260	8,807	963	104,363	3,931,455
Deposits and placements of banks and other financial institutions	1,507,492	-	81,222	-	-	-	1,588,714
Investment accounts of customers	5,550	-	-	-	-	-	5,550
Other liabilities	156,361	-	62	-	-	-	156,423
Total Liabilities	5,055,992	233,473	278,544	8,807	963	104,363	5,682,142
Shareholder's equity	1,690,933	-	3,534	-	-	-	1,694,467
Total Liabilities and Shareholder's equity	6,746,925	233,473	282,078	8,807	963	104,363	7,376,609
On-balance sheet open position	193,846	(199,642)	1,807	855	1,068	2,066	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	193,846	(199,642)	1,807	855	1,068	2,066	-

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK (Cont'd.)

The table below indicates the currencies to which the Group and the Bank had significant exposure as at 31 December 2022. 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.

	2022		2021	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
Group				
Singapore Dollar (SGD)	1	(3,452)	1	(1,996)
US Dollar (USD)	1	22	1	18
Euro (EUR)	1	41	1	9
Bank				
Singapore Dollar (SGD)	1	(3,452)	1	(1,996)
US Dollar (USD)	1	22	1	18
Euro (EUR)	1	41	1	9

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Credit Risk Disclosures for portfolios under the Standardised Approach

For the calculation of credit risk-weighted assets under the Standardised Approach for Capital Adequacy Framework for Islamic Bank ("CAFIB") issued by Bank Negara Malaysia ("BNM"), external credit assessments (or external ratings) on the obligor (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios in the banking book. The Bank captures all available external ratings of obligor or issues and adheres to the conditions stipulated in the BNM CAFIB to choose the applicable rating assessment for exposures with single or multiple external ratings. The Bank then assigns the appropriate risk weight to the banking book exposure that is equivalent to the standard risk-weights in CAFIB for issue-specific rating. The Bank also applies the principles stipulated in CAFIB to determine the applicable risk weights to the exposures that do not have issue-specific rating.

(i) Names of External Credit Assessment Institution ("ECAIs") used are:

Standard & Poor's Rating Services ("S&P")
Moody's Investor's Service ("Moody's")
Fitch Ratings ("Fitch")
Rating Agency Malaysia ("RAM")
Malaysian Rating Corporation Berhad ("MARC")

(ii) Types of exposures for which each ECAIs is used :

Exposures to Sovereign and Central Banks
Exposures to Non-Federal Government Public Sector Entities ("PSEs")
Exposures to Multilateral Banks ("MDB's")
Exposures to Banking Institutions and Corporates

(iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows:

Exposure class	Rating of Corporates by approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**
Credit exposures (using corporate risk-weights)						
Group and Bank						
2022						
Corporates		724,364	-	-	-	2,927,039
Group and Bank						
2021						
Group and Bank						
Corporates		669,886	21,233	-	-	3,059,492

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

(iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows: (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**
Group and Bank							
2022							
Sovereigns/Central Banks		-	631,675	-	-	-	-

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**	**RM '000**
Group and Bank							
2022							
Banks, MDBs and FDIs		16,281	118,140	5,132	-	-	9,055

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

(iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows: (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group and Bank							
2021							
Sovereigns/Central Banks		-	646,488	5,548	-	-	6,313

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group and Bank							
2021							
Banks, MDBs and FDIs		44,006	124,054	10,414	-	-	21,285

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

Group **2022**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	631,675	530,396	-
Banks, Development Financial Institutions & MDBs	134,127	-	-
Corporates	3,594,424	1,835,424	105,234
Regulatory Retail	1,466,425	-	667
Residential Mortgages	1,099,610	-	449
Other Assets	281,337	-	-
Defaulted Exposures[2]	143,235	-	781
Total On Balance Sheet Exposures	7,350,833	2,365,820	107,131
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	15,468	-	-
Off-balance sheet exposures other than OTC derivatives[2]	102,814	-	13,823
Total Off-Balance Sheet Exposures	118,282	-	13,823
Total On and Off-Balance Sheet Exposures	7,469,115	2,365,820	120,954

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

Group 2021	Exposures before CRM RM'000	Exposures Covered by Guarantees RM'000	Exposures Covered by Eligible Financial Collateral RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	658,349	644,053	-
Banks, Development Financial Institutions & MDBs	192,014	20,485	-
Corporates	3,612,869	1,781,855	68,058
Regulatory Retail	1,586,253	-	3,370
Residential Mortgages	1,059,492	-	727
Other Assets	315,758	-	-
Defaulted Exposures[2]	152,944	-	769
Total On Balance Sheet Exposures	7,577,679	2,446,393	72,924
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	7,746	-	-
Off-balance sheet exposures other than OTC derivatives[2]	133,102	-	15,712
Total Off-Balance Sheet Exposures	140,848	-	15,712
Total On and Off-Balance Sheet Exposures	7,718,527	2,446,393	88,636

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

Bank 2022	**Exposures before CRM RM'000**	**Exposures Covered by Guarantees RM'000**	**Exposures Covered by Eligible Financial Collateral RM'000**
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	631,675	530,396	-
Banks, Development Financial Institutions & MDBs	134,127	-	-
Corporates	3,594,424	1,835,424	105,234
Regulatory Retail	1,466,425	-	667
Residential Mortgages	1,099,610	-	449
Other Assets	281,337	-	-
Defaulted Exposures[2]	143,235	-	781
Total On-Balance Sheet Exposures	7,350,833	2,365,820	107,131
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	15,468	-	-
Off-balance sheet exposures other than OTC derivatives[2]	102,814	-	13,823
Total Off Balance Sheet Exposures	118,282	-	13,823
Total On and Off-Balance Sheet Exposures	**7,469,115**	**2,365,820**	**120,954**

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

Bank **2021**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	658,349	644,053	-
Banks, Development Financial Institutions & MDBs	192,014	20,485	-
Corporates	3,612,869	1,781,855	68,058
Regulatory Retail	1,586,253	-	3,370
Residential Mortgages	1,059,492	-	727
Other Assets	315,758	-	-
Defaulted Exposures[2]	152,944	-	769
Total On-Balance Sheet Exposures	7,577,679	2,446,393	72,924

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows: (Cont'd.)

Bank **2021**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**
(i) Credit Risk (Cont'd)			
(b) Off-Balance Sheet Exposures*			
OTC Derivatives[3]	7,746	-	-
Off-balance sheet exposures other than OTC derivatives[2]	133,102	-	15,712
Total Off Balance Sheet Exposures	140,848	-	15,712
Total On and Off-Balance Sheet Exposures	**7,718,527**	**2,446,393**	**88,636**

** Credit equivalent of off-balance sheet items*

[1] Higher risk assets are defined in CAFIB guidelines issued by Bank Negara Malaysia which comprised of i) exposures structured as Musyarakah and Mudharabah contracts and ii)Investment in equity financial instruments that are non-publicly traded.

[2] Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikeliness to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

[3] Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank 2022	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Direct credit substitutes	20,617		20,353	19,469
Transaction related contingent items	98,660		48,799	36,832
Foreign exchange related contracts				
- One year or less	243,620	7,400	6,623	2,115
- Over one year to five years	174,577	-	8,844	3,085
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	46,603	-	20,776	15,333
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	134,769	-	12,887	12,458
	718,846	7,400	118,282	89,292

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk (Cont'd.)

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows: (Cont'd.)

Group and Bank 2021	**Principal Amount RM'000**	**Positive Fair Value of Derivative Contracts RM'000**	**Credit Equivalent Amount RM'000**	**Risk-Weighted Assets RM'000**
Direct credit substitutes	36,395		35,496	34,625
Transaction related contingent items	97,271		47,488	36,954
Foreign exchange related contracts				
- One year or less	688,727	5,805	7,746	3,330
- Over one year to five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	63,184	-	27,859	22,634
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	184,623	-	22,259	18,758
	1,070,200	5,805	140,848	116,301

46 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Equities (Disclosure for banking book positions)

Group and Bank
2022

Equity	Amount RM'000	Impairment RM'000	Risk-Weighted Assets RM'000
Privately Held			
(a) Subsidiaries	**-**	**-**	
Kuwait Finance House (Labuan) Berhad	-	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd. *	-	-	Capital Deduction
(b) Investment	**54,300**	**(54,300)**	**-**
Intrared Sdn Bhd	36,100	(36,100)	-
Al Faiz Fund 1	18,200	(18,200)	-

Group and Bank
2021

Equity	Amount RM'000	Impairment RM'000	Risk-Weighted Assets RM'000
Privately Held			
(a) Subsidiaries	**10,200**	**-**	
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd. *	-	-	Capital Deduction
(b) Investment	**55,430**	**(55,430)**	**-**
Intrared Sdn Bhd	36,100	(36,100)	-
Al Faiz Fund 1	19,330	(19,330)	-

* Denotes the amount below RM1,000.

47 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

There is no shariah non-compliance incidents reported in 2022 and 2021.