

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2014

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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1 PERFORMANCE OVERVIEW

The Group and the Bank registered a profit before tax of RM135.6 million and RM131.8 million respectively for the financial year ended 31 December 2014.

The Group's Total Capital Ratio and CET 1/ Tier 1 Capital Ratio as at 31 December 2014 stood at a commendable 19.60% and 25.30% respectively.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

Kuwait Finance House (Malaysia) Berhad (hereinafter referred to as "the Bank") acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. The Bank continuously pursues its efforts in implementing 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.

Roles and Responsibilities of the Board

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

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

Accountability is part and parcel of governance in the Bank as whilst the Board is accountable to the shareholder, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its shareholder, by working to enhance the Bank's performance.

The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest calibre.

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Balance

The Board currently has seven (7) members, comprising three (3) independent non-executive directors and four (4) non-independent non-executive directors.

Directors' Profile

Mohammad Nasser AlFouzan

Chairman

Non-independent non-executive director

(53 years of age - Kuwaiti) Bachelor degree in Business Administration from Kuwait University, Kuwait and a Diploma in Advance Banking from Arab Institute of Banking, Jordan. He completed the Executive Development Program at Wharton Business School, U.S.A and the Strategic Marketing Management at Harvard Business School, U.S.A.

Mr Mohammad has over 28 years of banking experience which includes the management of Retail Banking and Consumer Finance business with significant exposure to the Wholesale Banking activities at Kuwait Finance House K.S.C. ("KFHK") and holds senior positions in the various committees of KFHK Group.

In December 1996, he joined KFHK as a Department Manager in the Banking Sector and moved on to various senior positions within KFHK. He was the Chief Retail Banking Officer of KFHK, a position he has held since 2012.

He was appointed as Director and Chairman of the Bank on 7 October 2014 and 26 November 2014 respectively.

Ahmad S A A AlKharji

Member

Non-independent non-executive director

(43 years of age - Kuwaiti) Bachelors of Science in Finance and Banking from Kuwait University, Kuwait and a Master of Business Administration from the University of San Diego, California, U.S.A.

Mr Ahmad AlKharji is a seasoned banker with more than 14 years of extensive experience in structured finance, corporate finance, project finance and banking supervision, reflecting steady career progression and achievements of objectives. In August 2003, he joined the International Investment Department of KFHK as an Assistant Investment Manager and moved on to various senior positions within KFHK Group. Currently, he is the Deputy General Manager - Structured Finance & FIs - International Banking.

He was appointed as Director of the Bank on 1 June 2014.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Gopala Krishnan A/L K Sundaram
Member
Independent non-executive director

(60 years of age - Malaysian) Bachelor of Law L.L.B. (Hons.) (Mal) from Universiti Malaya, Kuala Lumpur.

Mr Gopala has served Bank Negara Malaysia ("BNM") for 30 years as a Project Advisor and Assistant Governor as well as held various senior positions in the Central Bank's Legal Department. During his tenure with BNM, he was extensively involved with legislative drafting, financial crises management, resolution of ailing financial institution and international technical assistance, among others.

He was appointed as Director of the Bank on 11 June 2012.

Khalid Sufat
Member
Independent non-executive director

(59 years of age - Malaysian) Malaysian Institute of Certified Public Accountants ("MICPA"), Chartered Association of Certified Accountants (UK).

En Khalid was appointed to the Board of the Bank on 3 January 2011. He is an Accountant by profession and a member of the Malaysian Institute of Accountants (MIA). He is also a Fellow of the Chartered Association of Certified Accountants, UK and also a member of the MICPA.

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

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Dr Paul Quigley

Member

Non-independent non-executive director

(57 years of age - Irish) PhD. in Finance from University of Birmingham, United Kingdom.

Dr Quigley joined Kuwait Finance House, Kuwait as Chief Risk Officer in July 2011. Prior to that, he was the Chief Executive Officer of the Institute of Bankers in Ireland. He had also served as the General Manager, Risk Management and Architecture at AIB Group.

He was appointed as Director of the Bank on 13 December 2012.

Mohamed Zaheer Mohamed Azreen

Member

Non-independent non-executive director

(45 years of age – Sri Lankan) Chartered Institute of Management Accountants ("CIMA") UK, Institute of Chartered Accountants ("ICASL") of Sri Lanka, Institute of Certified Management Accountants ("ICMA") of Sri Lanka, Certified Risk Analyst ("CRA") US.

Mr Azreen was appointed to the Board of the Bank on 10 April 2011. He is an Associate Member of CIMA UK, an Associate Member of ICASL of Sri Lanka, a Fellow Member of ICMA of Sri Lanka and Charter holder of CRA.

Mr Azreen started his career as article clerk and then promoted as Manager Audit and Consultancy at KPMG Ford Rhodes Thornton & Co in Colombo, Sri Lanka in 1991. He then joined Messrs Ernst & Young ("EY"), Bahrain Office in October 1996 as the Senior Accountant and was assigned the responsibilities of managing business community training unit which provide in house training to EY employees and its clients on various accounting and finance disciplines. He then joined Kuwait Finance House, Kuwait (KFHK) in 1999 as Investment Manager, Direct Investment Department. He is currently the Senior Investment Manager, Direct Investment Department whereby he is responsible in managing a portfolio in excess of USD2 billion distributed in different sectors and geographies.

Md Adnan Md Zain

Member

Independent non-executive director

(58 years of age – Malaysian) Bachelor of Economics from Universiti Putra Malaysia and Registered Financial Planner certified by the Malaysian Financial Planning Council.

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

He was appointed as Director of the Bank on 15 January 2014.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2014, fourteen (14) Board meetings were held and attended by the directors. In the said Board meetings, reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals and other matters were tabled for deliberation, approval, endorsement and reviewed by members of the Board.

The agenda for every Board meeting together with management reports, proposals and supporting documents were circulated to all directors in advance prior to the scheduled Board meetings for their perusal.

Minutes of every Board meeting were also circulated to all directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Board Committees

The Board is assisted by six (6) Board Committees with specific terms of reference and functions, as follows:

Board Audit Committee

The Board Audit Committee ("BAC") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director. Nine (9) BAC meetings were held during the financial year. The members are as follows:

Khalid Sufat - Chairman
Mohamed Zaheer Mohamed Azreen - Member
Gopala Krishnan A/L K Sundaram - Member

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

The Board Risk Management Committee (BRMC) consists of one (1) independent non-executive director and two (2) non-independent non-executive directors. Six (6) BRMC meetings were held during the financial year. The members are as follows:

Gopala Krishnan A/L K Sundaram - Chairman

Dr Paul Quigley - Member

Ahmad S A A AlKharji - Member (Appointed on 2 June 2014)

Mohamed Zaheer Mohamed Azreen - Member (Resigned on 14 March 2014)

Shaheen H A KH SH AlGhanem - Member (Appointed on 14 March 2014 and ceased to be a member on 31 May 2014)

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

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

Board Nominating And Remuneration Committee

The Board Nominating And Remuneration Committee ("BNRC") consists of three (3) independent non-executive directors and two (2) non-independent non-executive directors. The BNRC was formed on 14 March 2014 subsequent to the merger of the existing Nomination Committee ("NC") and Remuneration Committee. One (1) RC meeting was held during the financial year prior to the said merger. Seven (7) BNRC meetings were held during the financial year. The members are as follows:

Md Adnan Md Zain - Chairman

Gopala Krishnan K Sundaram - Member

Dr Paul Quigley - Member

Khalid Sufat - Member

Mohamed Zaheer Mohamed Azreen - Member

Shaheen HA KH SH AlGhanem - Member (Resigned on 15 May 2014)

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Nominating And Remuneration Committee (Cont'd.)

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

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

Board Transformation Sub-Committee

The Board Transformation Sub-Committee ("BTSC") consists of two (2) non-independent non-executive directors and two (2) independent non-executive directors. Five (5) meetings were held during the financial year. The members are as follows:

Mohamed Zaheer Mohamed Azreen - Chairman
Khalid Sufat - Member
Gopala Krishnan A/L K Sundaram - Member
Ahmad S A A AlKharji - Member (Appointed on 2 June 2014)

The roles and responsibilities of the BTSC are to provide independent oversight for the implementation of the Bank's transformation plan as a whole.

Board Credit, Investment & Recovery Committee

The Board Credit, Investment & Recovery Committee ("BCIRC") consists of two (2) non-independent non-executive directors and one (1) independent non-executive director. Ten (10) BCIRC meetings were held during the financial year. The BCIRC was formed on 14 March 2014 subsequent to the merger of the existing Board Credit & Investment Committee ("BCIC") and Board Recovery Committee ("BRC"). Two (2) BCIC meetings and two (2) BRC meetings were held during the financial year prior to the said merger. The members are as follows:

Ahmad S A A AlKharji - Chairman
Mohamed Zaheer Mohamed Azreen - Member
Md Adnan Md Zain - Member
Shaheen H A KH SH AlGhanem - Chairman (Ceased to be the Chairman on 31 May 2014)

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

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

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

Corporate Governance Committee

The Corporate Governance Committee ("CGC") was formed on 7 February 2014 in compliance with the issuance of Corporate Governance Guidelines for KFH Subsidiaries issued by KFHK. The members are as follows:-

Mr Mohammad Nasser AlFouzan (Appointed on 26 November 2014)
Dr Paul Quigley - Member
Md Adnan Md Zain - Member

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

(ii) Key Internal Control Processes

The Board Audit Committee ("BAC") of the Bank and its major subsidiaries assist the Board to evaluate the adequacy and effectiveness of the internal controls systems.

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Internal Audit Function

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

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

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

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

At the Management level, committees that have been established to compliment governance, risk and internal control systems include the Management Committee ("MANCO"), Operations Committee ("OPSCO"), Management Credit, Investment & Recovery Committee ("MCIRC"), Asset Liability Management Committee ("ALCO"), Information Technology Steering Committee ("ITSC"), Tender Committee and Provision Review Committee.

Management reports

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

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

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

Risk management disclosures provided in line with the requirements of the Malaysian Financial Reporting Standard ("MFRS") 7 *Financial Instruments: Disclosures*, and disclosures on capital management as required by MFRS 101 *Presentation of Financial Statements (Revised)* form part of the financial statements audited by the Bank's independent auditors Ernst & Young. This information (the audited texts and tables) is marked by a bar on the left-hand side throughout this report and incorporated by cross-reference into the financial statements of this report.

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

Highlights of major achievements

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

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

- Successfully revised existing USD100mil Subordinated Murabahah Tawarruq to meet the new requirements under the BNM's Capital Adequacy for Islamic Banks ("CAFIB") guideline as Tier-2 Capital;
- Revised the approving authority matrix of the Management and Board level committees as well as key personnel of the Bank for better operational efficiency and effectiveness;
- Successfully completed all of the planned business continuity and disaster recovery exercises;
- Implemented the operational risk reporting as per the BNM's Standard on Operational Risk Reporting;

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Highlights of major achievements (Cont'd.)

- Successfully reviewed the Bank's takaful coverage according to its operational requirements to optimise its resources;
- Successfully developed the Reference Rate Framework in line with Bank Negara Malaysia ("BNM") requirements;
- Enhanced the anti-money laundering system to be more efficient in detecting and capturing potential money laundering activities as well as conducting the required screening on existing and potential customers against entities suspected involved in terrorism as issued by United Nations Security Council ("UNSC") and Kementerian Dalam Negeri;
- Implemented the Single Counterparty Exposure Limit ("SCEL") database to improve the monitoring and identification processes as well as to align with changes in the business and regulatory environment;
- Enhanced Credit Transactions and Exposures with Connected Party Policy and implemented a more robust database to identify connected party transactions;
- Produced more granular portfolio reports on real estate exposure for better decision making process via the usage of a business intelligence tool;
- Enhanced the e-learning platform to ensure the staff's continued awareness on Anti-Money Laundering and Countering Financing of Terrorism ("AMLCFT") related matters; and
- Established a function within risk management to perform second level compliance assessment for Investment Banking transactions.

Moving on FY2015

Going forward, in order to further enhance risk management capabilities, the Bank has embarked on initiatives mainly to build a more robust risk management infrastructure commensurate with the business sophistication and new business areas.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Risk Management Framework

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

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

Three Lines of Defence Concept

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

Credit Risk Management

The Bank defines credit risk as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. Corporate and commercial financing segment continues to contribute major share of the Bank's financing and investment assets with 69% of the Bank's financing asset portfolio while the consumer financing segment contributed 31% of the Bank's total financing assets in 2014. For 2014, the Bank registered a moderate financing growth of 10.2% in view of the cautious approach adopted in the business strategy with emphasis on asset quality.

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

The financing and investment limits are established in accordance to the Board's approved Credit Delegation Approval Matrix for all types of financing and investment monitored by Credit Management Team and Management Credit, Investment and Recovery Committee.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

The Credit Management Team, consisting of independent full time credit personnel, plays a central role in analysing, reviewing and monitoring transactional credits pertaining to corporate, commercial and consumer financing activities. Counterparty risk is restricted and monitored at the customer level in accordance to the BNM/Single Counterparty Exposure Limit ("SCEL") which supersedes the previous BNM/GP5 definition and internal practice.

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

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

Market Risk Management

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

Market risk is defined as the risk of losses or reduction in values in on- and off-balance sheet positions arising from movements in market prices. Specifically, the following positions may be exposed to market risk:

- Financial instruments (including hedging financial instruments);
- Foreign exchange including gold;
- Inventories; and
- Commodities.

Liquidity Risk Management

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Liquidity Risk Management (Cont'd.)

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

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

Profit Rate (Rate of Return) Risk Management

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

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

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

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

- The total of fixed rate financing over the Bank's total financing;
- The 3 months rate sensitive assets over the 3 months rate sensitive liabilities; and
- PV01 measurement.

Operational Risk Management ("ORM")

Operational risk arises from the Bank's business operations. This is the risk of direct and indirect losses from causes relating to process, people, system and other external factors.

The Bank has implemented various applicable measures to manage its operational risk. The internal policies and procedures have been developed in order to identify, monitor, control and manage its operational risk and reduce the probability of operational risk incidents. The Bank has in place an effective Operational Risk Management Framework that defines detailed operational risk management processes which includes risk identification, risk assessment, control and monitoring/reporting. Several operational risk management tools such as risk incident reporting, risk control self-assessment, risk assessment scorecard and key risk indicators have been fully implemented by the Bank.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Operational Risk Management ("ORM") (Cont'd.)

The operational risk elements are embedded into day-to-day activities of the Bank. The respective business division which is the first line of defense is responsible in managing and mitigating the operational risk in their areas respectively and ensuring compliance with the Operational Risk Management Framework.

The Board has delegated certain operational authority to the Management and Board committee as well as key personnel of the Bank to manage operational risks of the Bank. The delegation of approving and signing authority by the Board to the various committees and key personnel of the Bank are clearly documented to ensure clear accountability and responsibility within the Bank. This delegation of authority is reviewed frequently to reflect the current organisational structure and business requirements.

Business Continuity Management

Business Continuity Management is a management process that identifies potential impacts that may threaten the Bank's business operations. It provides a framework for building resilience and effective measures to safeguard the interest of its stakeholders, reputation and customers. The Board of Directors and Senior Management has continuously provided close oversight on the implementation of the Business Continuity Management of the Bank.

Risk Assessment and Business Impact Analysis exercise have been conducted periodically to identify the critical business functions and systems. The business continuity plan and disaster recovery plan have been developed at all division levels of the Bank and tested annually.

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

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

As a fully licensed Islamic Bank, the Bank has a legal obligation to deter money laundering and counter financing of terrorism within the ambit of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 ("AMLATFA"). 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.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

The Bank has demonstrated its full commitment of compliance with the Anti-Money Laundering / Counter Financing of Terrorism (“AML/CFT”) requirements by establishing a robust and comprehensive framework, policies, procedures, processes and systems for the prevention and detection of money laundering and terrorist financing activities. The Head of Compliance reports directly to the Board Chairman on AML/CFT matters since January 2013. Key measures undertaken by the Bank to mitigate the AML/CFT matters include:

- Implemented a dedicated anti-money laundering (“AML”) system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System (“MIS”) for prompt detection and reporting of suspicious transactions;
- Established Know Your Customer (“KYC”) policy and procedures to address the establishment of new business relationship with customers;
- Constant review of the AML system to optimise detection of potential money laundering activities and incorporate regular screening exercise for entities suspected involved in terrorism as issued by United Nations Security Council (“UNSC”);
- Constantly updating record keeping procedures in accordance with the statutory requirements;
- Conduct regular AML/CFT training sessions to ensure high level of staff awareness on the matters. In 2014, the Bank has successfully enhanced the content of the e-learning platform to further enhance the staff awareness; and
- Regular update to the Management, BRMC and the Bank’s Chairman on AMLCFT trend of the Bank.

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

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

Capital Adequacy Framework Initiatives

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Pillar 1

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

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

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

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

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

- Revised the existing USD100mil Subordinated Murabahah Tawarruq to meet the new requirement under the Capital Adequacy for Islamic Banks ("CAFIB") as Tier-2 Capital;
- Improvement initiatives on ICAAP and Stress Test Submission; and
- Implementation of CAMELBCOM internal risk rating system covering the following areas:
 - * Capital Adequacy and Leverage
 - * Asset Quality
 - * Market Risk Sensitivity
 - * Earnings Strength and Sustainability
 - * Liabilities and Liquidity
 - * Business Strength and Sustainability
 - * Adequacy of Internal Controls and Risk Management
 - * Organization Depth and Group Structure
 - * Management and Governance

The Bank leverages on ICAAP in assessing the overall capital adequacy in relation to its risk profile and take necessary steps to strengthen the risk and capital management capability. The Bank has completed the 'Capital Appropriation and Preservation' ("CAP") initiative to operationalise the capital optimisation strategies that are incorporated into the ICAAP document with the primary objective being to reduce capital wastage and to optimise capital consumption.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

Pillar 3

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

Stress Test

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

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

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

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

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

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

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

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

RESULTS

	Group RM'000	Bank RM'000
Net profit for the year	<u>92,826</u>	<u>88,980</u>

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

DIVIDENDS

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

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DIRECTORS

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

Mohammad Nasser AlFouzan (Appointed as Director on 7 October 2014 and as Chairman on 26 November 2014)

Ahmad S A A AlKharji (Appointed on 1 June 2014)

Gopala Krishnan A/L K Sundaram

Khalid Sufat

Dr Paul Quigley

Mohamed Zaheer Mohamed Azreen

Md Adnan Md Zain

Dr. Nabeel A E A Al-Mannae (Resigned on 17 March 2014)

Shaheen H A KH SH Alghanem (Resigned on 31 May 2014)

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 34 of the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest except for those transactions carry in the ordinary course of business as disclosed in Note 37 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 2014.

CHANGES IN SHARE CAPITAL

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

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RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than those disclosed in Notes 9, 28, 29 and the statements of changes in equity of the financial statements.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

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

OTHER STATUTORY INFORMATION

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

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OTHER STATUTORY INFORMATION (Cont'd.)

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

- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Bank.

(f) In the opinion of the directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

BUSINESS PLAN FOR 2015

The Bank will focus on three strategic thrusts namely quality and sustainable assets, business growth, resources and capabilities in 2015. The Bank will further build and enhance the quality of its assets by introducing new business lines and catering the banking needs of the customers by offering market-oriented, innovative and customised products and services. The Bank will increase its visibility in the market as well as facilitating business linkages between Malaysia and middle eastern business communities and hence will contribute to the development of Islamic banking in Malaysia and globally. The Bank will embark on the enhancement of existing IT infrastructure to support the business. Human Capital initiatives is set to continue to strengthen the human resource of the Bank.

With these focused initiatives the Bank believes the customers will be better served and further heightened the competitiveness of the Bank. The Bank expects better performance in 2015.

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OUTLOOK FOR 2015

The Malaysian economy is forecasted to remain on a broadly steady growth at the range of 5.0% to 5.5% in 2015 (vs. 5.5% to 6.0% in 2014). Domestic demand will continue to be the main driver of overall growth and gross fixed investment will expand rapidly as more infrastructure projects get under way. Despite the favourable effect of lower global crude oil prices, the consumer price inflation is expected to accelerate above 4% in 2015 as the broader-based Goods and Services Tax (GST - 1 April 2015) replaces the narrow-based Sales Tax and Services Tax (SST), resulting in more goods and services being taxed. However, the cut on personal income tax, BR1M and overnight policy rate (OPR) pause will mitigate GST impact on consumer spending. It is expected that the export growth in 2015 could be modest whereby the manufacturing is likely to do better than commodities. Furthermore, the weak demand commodity exports and falling oil export revenues due to the current global price slump also pose an important risk to growth in the near term. The ringgit will remain fairly volatile in 2015 as financial markets speculate as to when the Federal Reserve will start to raise interest rates. The central bank, Bank Negara Malaysia (BNM) is expected to embark on a modest tightening of monetary policy in the second half of 2015.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	1 December 2014	AA+ / MARC-1	Stable

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Eight (8) Shariah Committee Meetings were held and forty three (43) Notes were issued during the financial year. The Shariah Committee comprises of five (5) qualified Shariah scholars who are appointed by the Board as the term approved by Bank Negara Malaysia (BNM) as follows:

- (a) Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae (Chairman)
- (b) Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam (Member)
- (c) Sheikh Isa Abdulla Yusuf Dowaishan (Member)
- (d) Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali (Member)
- (e) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi - Appointed on 1 December 2014 (Member)
- (f) Sheikh Dr. Adnan Ali Ibrahim Al Mulla - Resigned on 4 September 2014

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DISCLOSURE OF SHARIAH COMMITTEE (Cont'd.)

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

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

ZAKAT OBLIGATIONS

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

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AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 January 2015.



MOHAMMAD NASSER ALFOUZAN
Director



KHALID BIN SUFAT
Director

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

We, Mohammad Nasser AlFouzan and Khalid bin Sufat, being two of the directors of Kuwait Finance House (Malaysia) Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 33 to 202 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2014 and of the results and the cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 January 2015.



MOHAMMAD NASSER ALFOUZAN
Director



KHALID BIN SUFAT
Director

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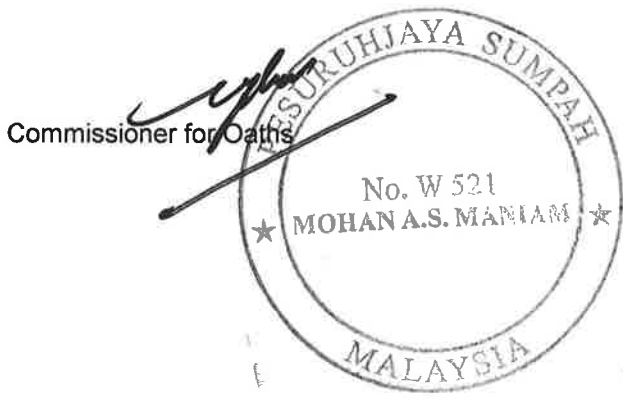
STATUTORY DECLARATION
Pursuant To Section 169 (16) of the Companies Act, 1965

I, Dato' Mohamad Aslam Khan Gulam Hassan, being the officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 33 to 202, 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 Dato' Mohamad Aslam Khan Gulam Hassan
at Kuala Lumpur, in the Federal Territory on 30 January 2015



BEFORE ME:



Commissioner for Oaths

No. 50, Jalan Hang Lekiu
50100 Kuala Lumpur

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REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

We have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad and its subsidiaries (“the Group”) during the year ended 31 December 2014. We have also conducted our review to form an opinion as to whether Kuwait Finance House (Malaysia) Berhad has complied with Shariah rules and principles and also with the Shariah rulings issued by us.

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

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

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

In our opinion:

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2014 that we have reviewed are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account and disposed of to charitable causes;
- (d) the calculation of Zakat is in compliance with Shariah rules and principles; and
- (e) any known non compliance with Shariah and action taken to remedy such non compliance as reported by the licensed person as specified in the circular on Shariah Non-Compliance Reporting.

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REPORT OF SHARIAH COMMITTEE

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

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

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae

Chairman

Signature: 

Date:

Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam


Member

Signature: 

Date:

Sheikh Isa Abdulla Yusuf Dowaishan

Member

Signature: 

Date:

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


Member

Signature: 

Date:

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

Member

Signature: 

Date:

Date: 27 January 2015
Kuala Lumpur, Malaysia

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

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise statements of financial position as at 31 December 2014 of the Group and of the Bank, and 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 a summary of significant accounting policies and other explanatory information, as set out on pages 33 to 202.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' report of the subsidiary of which we have not acted as auditors, which are indicated in Note 14 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and in respect of the subsidiaries incorporated in Malaysia, did not include any comment required to be made under Section 174(3) of the Act.

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


Other matters

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



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
30 January 2015



Chan Hooi Lam
No. 2844/02/16(J)
Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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STATEMENTS OF FINANCIAL POSITION

	Note	Group	
		2014 RM'000	2013 RM'000
ASSETS			
Cash and short-term funds	4	1,526,907	1,406,209
Deposits and placements with banks and other financial institutions	5	52,964	75,902
Securities held-for-trading	6	17,483	-
Hedging financial instruments	11	11,361	15,192
Securities available-for-sale	7	1,395,879	1,137,343
Securities held-to-maturity	8	81,494	81,486
Financing, advances and other receivables	9	6,703,522	6,010,042
Other assets	10	221,216	246,900
Statutory deposit with Bank Negara Malaysia	12	222,200	182,200
Musyarakah capital investment	13	5,898	5,898
Property and equipment	15	26,900	34,189
Intangible assets	16	7,660	14,264
Deferred tax assets	17	198,097	241,258
TOTAL ASSETS		10,471,581	9,450,883
LIABILITIES			
Deposits from customers	18	4,060,371	5,224,011
Deposits and placements of banks and other financial institutions	19	4,180,232	1,890,191
Hedging financial instruments	11	147	200
Subordinated Murabahah Tawarruq	22	352,627	415,577
Other liabilities	20	172,096	331,290
TOTAL LIABILITIES		8,765,473	7,861,269
SHAREHOLDER'S EQUITY			
Share capital	23	1,425,272	1,425,272
Reserves	24	280,836	164,342
TOTAL SHAREHOLDER'S EQUITY		1,706,108	1,589,614
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY			
		10,471,581	9,450,883

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STATEMENTS OF FINANCIAL POSITION (CONT'D.)

		Group	
Note	2014	2013	
	RM'000	RM'000	
COMMITMENTS AND CONTINGENCIES			
	38	977,418	1,172,841
CAPITAL ADEQUACY			
CET 1/ Tier 1 capital ratio	40	19.598%	18.007%
Total capital ratio	40	25.298%	21.780%
NET ASSETS PER SHARE (RM)		1.20	1.12

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
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STATEMENTS OF FINANCIAL POSITION

	Note	Bank	
		2014 RM'000	2013 RM'000
ASSETS			
Cash and short-term funds	4	1,526,002	1,431,875
Deposits and placements with banks and other financial institutions	5	78,266	75,902
Securities held-for-trading	6	17,483	-
Hedging financial instruments	11	11,361	15,192
Securities available-for-sale	7	1,271,419	1,039,008
Securities held-to-maturity	8	81,494	81,486
Financing, advances and other receivables	9	6,703,522	6,010,042
Other assets	10	220,277	246,750
Statutory deposit with Bank Negara Malaysia	12	222,200	182,200
Musarakah capital investment	13	5,898	5,898
Investment in subsidiaries	14	19,432	19,432
Property and equipment	15	26,596	33,748
Intangible assets	16	7,049	13,469
Deferred tax assets	17	198,028	241,134
TOTAL ASSETS		10,389,027	9,396,136
LIABILITIES			
Deposits from customers	18	3,963,543	5,202,146
Deposits and placements of banks and other financial institutions	19	4,217,000	1,872,368
Hedging financial instruments	11	147	200
Subordinated Murabahah Tawarruq	22	352,627	415,577
Other liabilities	20	171,173	330,448
TOTAL LIABILITIES		8,704,490	7,820,739
SHAREHOLDER'S EQUITY			
Share capital	23	1,425,272	1,425,272
Reserves	24	259,265	150,125
TOTAL SHAREHOLDER'S EQUITY		1,684,537	1,575,397
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		10,389,027	9,396,136

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STATEMENTS OF FINANCIAL POSITION (CONT'D.)

		Bank	
Note	2014 RM'000	2013 RM'000	
COMMITMENTS AND CONTINGENCIES			
38	977,418	1,172,841	
CAPITAL ADEQUACY			
CET 1/ Tier 1 capital ratio	40	18.885%	17.398%
Total capital ratio	40	24.628%	21.202%
NET ASSETS PER SHARE (RM)	1.18	1.11	

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

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INCOME STATEMENTS

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Operating revenue	25	466,135	463,999	457,617	462,114
Income derived from investment of depositors' funds and others	26	369,604	340,008	368,116	337,983
Income derived from investment of shareholder's equity	27	96,531	123,991	89,501	124,131
Total gross income		466,135	463,999	457,617	462,114
Impairment write back on financing, advances and other receivables	28	75,478	108,082	75,478	108,082
Impairment writeback/ (allowances) on investments	29	1,746	(3,399)	(766)	(14,919)
Total distributable income		543,359	568,682	532,329	555,277
Income attributable to the depositors	30	(191,687)	(181,380)	(191,924)	(181,245)
Total net income		351,672	387,302	340,405	374,032
Personnel expenses	31	(96,514)	(118,033)	(92,599)	(112,548)
Other overheads and expenditures	32	(105,764)	(106,296)	(102,199)	(101,866)
Finance cost	33	(13,784)	(14,395)	(13,784)	(14,395)
Profit before zakat and taxation		135,610	148,578	131,823	145,223
Taxation	35	(42,784)	(50,838)	(42,843)	(50,828)
Net profit for the year		92,826	97,740	88,980	94,395
Attributable to:					
- Equity holder of the Bank		92,826	97,740	88,980	94,395
Earning per share (sen)					
- Basic/ Diluted	36	6.51	6.86		

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

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STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Net profit for the year	92,826	97,740	88,980	94,395
Other comprehensive income/ (loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised gain/ (loss) on securities available-for-sale	22,070	(31,297)	20,699	(28,287)
- Net realised (gain)/ loss on securities available-for-sale reclassified to the income statement	(276)	189	(276)	127
Exchange differences on translation of foreign operations:				
- Net gain taken to equity	2,137	2,024	-	-
Income tax relating to components of other comprehensive income (Note 17)	(263)	1,663	(263)	1,663
Other comprehensive income/ (loss) for the year, net of tax	23,668	(27,421)	20,160	(26,497)
Total comprehensive income for the year	116,494	70,319	109,140	67,898
Total comprehensive income for the year attributable to equity holder of the Bank	116,494	70,319	109,140	67,898

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

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STATEMENTS OF CHANGES IN EQUITY

	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available- For-Sale Reserve RM'000		Retained Earning/ RM'000
Group						
At 1 January 2014	1,425,272	113,895	(5,088)	(26,871)	82,406	1,589,614
Total comprehensive income	-	-	2,137	21,531	92,826	116,494
Transfer to statutory reserve	-	44,490	-	-	(44,490)	-
At 31 December 2014	1,425,272	158,385	(2,951)	(5,340)	130,742	1,706,108
At 1 January 2013	2,266,125	66,697	(7,112)	2,574	(808,989)	1,519,295
Effect of capital reduction (Note 23)	(840,853)	-	-	-	840,853	-
Total comprehensive income/ (loss)	-	-	2,024	(29,445)	97,740	70,319
Transfer to statutory reserve	-	47,198	-	-	(47,198)	-
At 31 December 2013	1,425,272	113,895	(5,088)	(26,871)	82,406	1,589,614
Bank						
At 1 January 2014	1,425,272	113,895	-	(26,142)	62,372	1,575,397
Total comprehensive income	-	-	-	20,160	88,980	109,140
Transfer to statutory reserve	-	44,490	-	-	(44,490)	-
At 31 December 2014	1,425,272	158,385	-	(5,982)	106,862	1,684,537
At 1 January 2013	2,266,125	66,697	-	355	(825,678)	1,507,499
Effect of capital reduction (Note 23)	(840,853)	-	-	-	840,853	-
Total comprehensive (loss)/ income	-	-	-	(26,497)	94,395	67,898
Transfer to statutory reserve	-	47,198	-	-	(47,198)	-
At 31 December 2013	1,425,272	113,895	-	(26,142)	62,372	1,575,397

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before zakat and taxation	135,610	148,578	131,823	145,223
Adjustments for:				
Impairment charge/(write back) on financing, advances and other receivables (Note 28)	13,323	(63,910)	13,323	(63,910)
Amortisation of premium less accretion of discounts (Notes 26 and 27)	4,456	4,565	4,456	4,565
Finance cost (Note 33)	13,784	14,395	13,784	14,395
Depreciation of property and equipment (Note 32)	11,077	11,607	10,936	11,449
Amortisation of intangible assets (Note 32)	7,601	9,043	7,357	8,808
Fixed Assets written off (Note 15)	207	-	207	-
Reversal of provision on property restoration	(77)	-	(77)	-
Gain on disposal of property and equipment (Note 27)	-	(367)	-	(384)
Gain on disposal of ijarah automobile (Note 27)	(1)	(24)	(1)	(24)
Net gains on sale of securities available-for-sale (Notes 26 and 27)	-	(1,166)	-	(1,166)
Net gains on sale of securities held-for-trading (Notes 26 and 27)	(184)	(1,410)	(184)	(1,410)
Impairment (writeback)/ allowance on securities available-for-sale and others (Note 29)	(1,746)	3,399	766	3,399
Impairment on subsidiaries (Note 29)	-	-	-	11,520
Unrealised loss on foreign translations (Note 27)	5,883	3,649	5,823	3,789
Unrealised loss/ (gain) on securities held-for-trading, and hedging financial instruments (Note 27)	3,764	(10,217)	3,764	(10,217)
Operating profit before working capital changes	193,697	118,142	191,977	126,037
Decrease/ (increase) in operating assets				
Deposits and placements with banks and other financial institutions	22,938	168,244	(2,364)	152,935
Financing, advances and other receivables	(706,806)	(657,388)	(706,803)	(657,388)
Other assets	(57,494)	256,238	(58,856)	252,086
Statutory deposit with Bank Negara Malaysia	(40,000)	9,517	(40,000)	9,517

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
(Decrease)/ increase in operating liabilities				
Deposits from customers	(1,163,641)	(146,253)	(1,238,604)	(174,892)
Deposits and placements of banks and other financial institutions	2,290,041	565,715	2,344,633	667,878
Other liabilities	(159,457)	(158,894)	(159,538)	(158,892)
Cash generated from operations	379,278	155,321	330,445	217,281
Tax refunded	3,138	105	3,138	-
Tax paid	(20)	(1,880)	-	(1,880)
Zakat paid	-	-	-	-
Net cash generated from operating activities	382,396	153,546	333,583	215,401
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from (purchases)/ sales of securities	(253,800)	(133,484)	(234,535)	(144,320)
Proceeds from disposal of property and equipment	5	391	5	391
Proceeds from disposal of ijarah automobile	1	56	1	56
Purchase of property and equipment (Note 15)	(4,789)	(9,452)	(4,786)	(9,435)
Purchase of intangible assets (Note 16)	(164)	(444)	(141)	(385)
Net cash used in investing activities	(258,747)	(142,933)	(239,456)	(153,693)
Net (decrease)/ increase in cash and cash equivalents	123,649	10,613	94,127	61,708
Cash and cash equivalents at beginning of year	1,406,209	1,400,684	1,431,875	1,370,167
Exchange differences on translation of opening balances	(2,951)	(5,088)	-	-
Cash and cash equivalents at end of year (Note 4)	1,526,907	1,406,209	1,526,002	1,431,875

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is engaged in Islamic banking business as allowed under the Islamic Financial Services Act 2013. The principal activities of the subsidiaries are the provisions of offshore banking, nominees services, fund management and asset management, as set out in Note 14. There have been no significant changes in the nature of the principal activities during the financial year.

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

The holding company of the Bank is Kuwait Finance House K.S.C., a public limited liability 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. is located at 13110, Abdulla Al-Mubarak Street, Murqab, Kuwait.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 29 January 2015.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

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

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery of settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 46.

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

(a) Basis of Accounting

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

(b) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Summary of Significant Accounting Policies

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

(ii) Basis of Consolidation

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Fair value measurement

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

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

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

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

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

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

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

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

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 42.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets

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

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

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

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

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

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

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

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

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

(ii) Financing, advances and other receivables

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

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

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

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

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

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

(iii) Securities held-to-maturity

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

(iv) Securities available-for-sale

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(d) Financial assets (Cont'd.)

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

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

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

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

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

(e) Financial liabilities

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Property and Equipment, and Depreciation

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

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

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

Renovation	5 years
Furniture and fittings	5 years
Office equipment	5 years
Computer equipment hardware	5 years
Motor vehicles	5 years

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

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

(g) Intangible Assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(g) Intangible Assets (Cont'd.)

(ii) Other Intangible Assets

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

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

Intangible asset for computer software is amortised over the useful lives of 5 years.

(h) Other Assets

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

(i) Musyarakah Capital Investment and Musyarakah Financing

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Provision for Liabilities

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

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

(k) Income Tax

(i) Current tax

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

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

(ii) Deferred tax

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

Deferred tax liabilities are recognised for all temporary differences, except:

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(k) Income Tax (Cont'd.)

(ii) Deferred tax (Cont'd.)

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Revenue Recognition

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

(i) Finance Income Recognition

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

Murabahah

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

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

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

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

(ii) Fee and Other Income Recognition

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

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

(m) Profit Expense Recognition

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies

(i) Functional and Presentational Currency

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

(ii) Foreign Currency Transactions

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(n) Foreign Currencies (Cont'd.)

(iii) Foreign Operations

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

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

(o) Hedging financial instruments

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

(i) Foreign Exchange Contracts

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

Fair value hedge

Where a financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss.

Cash flow hedge

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

(p) Employee Benefits

(i) Short-Term Benefits

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

(ii) Defined Contribution Plan

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Zakat

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

(r) Profit Equalisation Reserves ("PER")

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

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

(s) Impairment of Non-Financial Assets

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

(t) Financial Instruments

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

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

(u) Cash and Cash Equivalents

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

(v) Financial Risk Management Objective and Policies

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

(w) Operating Lease

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following MFRS, Amendments to MFRS, IC Interpretation and Technical Release:

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group and the Bank, since none of the entities in the Group has any offsetting arrangements.

Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under MFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group and the Bank, since none of the entities in the Group qualifies to be an investment entity under MFRS 10.

Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets

The amendment clarifies that recoverable amount (determined based on fair value less costs of disposal) is required to be disclosed only when an impairment loss is recognised or reversed. In addition, there are new disclosure requirements about fair value measurement when impairment or reversal of impairment is recognised. These amendments have no impact on the Group and the Bank, since no impairment or reversal of impairment has been recognised for the non-financial assets of the Group and the Bank.

Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group and the Bank as the Group and the Bank has not novated its derivatives during the current or prior periods.

IC Interpretation 21: Levies

IC Interpretation 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IC Interpretation 21. This interpretation has no impact on the Group and the Bank.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Standards issued but not yet effective

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

MFRSs, Amendments to MFRSs and Interpretations	Effective for financial period beginning on or after
Amendments to MFRS 119: <i>Defined Benefit Plans: Employee Contribution</i>	1 July 2014
Amendments to MFRS contained in the documents entitled "Annual Improvements 2010 - 2012 cycle"	1 July 2014
Amendments to MFRS contained in the documents entitled "Annual Improvements 2011 - 2013 cycle"	1 July 2014
Amendments to MFRS 3: <i>Business Combination</i>	1 July 2014
Amendments to MFRS 8: <i>Operating Segments</i>	1 July 2014
Amendments to MFRS 13: <i>Fair Value Measurement</i>	1 July 2014
Amendments to MFRS 116: <i>Property, Plant and Equipment</i>	1 July 2014
Amendments to MFRS 124: <i>Related party disclosures</i>	1 July 2014
MFRS 138: <i>Intangible Asset</i>	1 July 2014
MFRS 11: <i>Accounting for acquisitions in Joint Operations</i>	1 January 2016
Amendments to MFRS 127: <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRS 10 and MFRS 128: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016
Amendments to MFRSs contained in the document entitled "Annual Improvements to MFRSs 2012–2014 Cycle"	1 January 2016
MFRS 14: <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to MFRS 116 and MFRS 138: <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 116 and MFRS 141: <i>Agriculture: Bearer Plants</i>	1 January 2016
MFRS 15: <i>Revenue from Contracts with Customers</i>	1 January 2017
MFRS 9: <i>Financial Instruments</i> (IFRS 9 Financial Instruments as issued by IASB in July 2014)	1 January 2018

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

The Group and the Bank plan to apply the abovementioned standards when they become effective:

Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions

MFRS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group and the Bank, since none of the entities within the Group and the Bank has defined benefit plans with contributions from employees or third parties.

MFRS 9: Financial Instruments (IFRS 9 Financial Instruments as issued by IASB in July)

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139.

Classification and Measurement of Financial Assets

MFRS 9 introduces an approach for classification and measurement of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. In essence, financial assets that are held in a business model whose objective is to hold the assets in order to collect contractual cash flows are measured at amortised cost. Financial assets that are held in a business model whose objective is to achieve both collecting contractual cash flows and selling the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). Financial assets that are held for trading, those that are managed on a fair value basis, and any financial assets not held in one of the two business models mentioned above are measured at fair value through profit or loss. Financial assets are also required to be reclassified when and only when the business model for managing the said financial assets changes.

Classification and Measurement of Financial Liabilities

MFRS 9 does not change the basic accounting model for financial liabilities under MFRS 139. Two measurement categories continue to exist: fair value through profit or loss (FVTPL) and amortised cost.

MFRS 9 however requires gains and losses on financial liabilities designated at FVTPL to be split into the amount of change in fair value attributable to changes in credit risk of the liability, presented in other comprehensive income, and the remaining amount presented in profit or loss. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. All other MFRS 139 requirements in respect of financial liabilities have been carried forward to MFRS 9.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 9: Financial Instruments (IFRS 9 Financial Instruments as issued by IASB in July (Cont'd.)

Impairment

MFRS 9 also introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, MFRS 9 requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

Hedge Accounting

MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

The initial application of MFRS 9 in the future may have an impact on the financial statements of the Group and of the Company. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

MFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets

The amendment is applied retrospectively and clarifies in MFRS 116 and MFRS 138 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments are not expected to have any impact to the Group and the Bank.

Amendments to MFRS 124: Related party disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have any impact to the Group and the Bank.

MFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in MFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of MFRS 9. These amendments are not expected to have any impact to the Group and the Bank.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

MFRS 15 Revenue from Contracts with Customers

MFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under MFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in MFRS 116 and MFRS 138 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group and the Bank given that the Group and the Bank have not used a revenue-based method to depreciate its non-current assets.

3.4 Significant Accounting Estimates and Judgments

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

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

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

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

(c) Deferred tax and income taxes

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

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

(d) Income recognition on Musyarakah and Mudharabah financing

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

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	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
4 CASH AND SHORT-TERM FUNDS				
Cash and balances with banks and other financial institutions	74,251	78,982	73,346	77,807
Money at call and interbank placements with contractual maturity less than one month	1,452,656	1,327,227	1,452,656	1,354,068
	1,526,907	1,406,209	1,526,002	1,431,875
5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS				
Licensed Islamic banks	-	50,005	-	50,005
Other financial institutions	52,964	25,897	78,266	25,897
	52,964	75,902	78,266	75,902
6 SECURITIES HELD-FOR-TRADING				
<u>At fair value</u>				
Unquoted Islamic private debt securities/ sukuk	17,483	-	17,483	-
7 SECURITIES AVAILABLE-FOR-SALE				
<u>At fair value</u>				
Unquoted securities				
Islamic private debt securities/ sukuk	638,747	385,991	565,093	372,571
Government guaranteed sukuk	604,320	583,149	572,029	538,057
Mutual Fund	70,558	65,515	70,558	65,515
	1,313,625	1,034,655	1,207,680	976,143
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	18,515	39,823	-	-
Collective Investment Scheme	27,639	26,765	27,639	26,765
	82,254	102,688	63,739	62,865
	1,395,879	1,137,343	1,271,419	1,039,008

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8 SECURITIES HELD-TO-MATURITY

At amortised cost
Unquoted securities:
Islamic private debt securities/ sukuk

Group and Bank	
2014	2013
RM'000	RM'000
81,494	81,486

9 FINANCING, ADVANCES AND OTHER RECEIVABLES

(i) At amortised cost

Term financing

- House financing
- Personal financing
- Leasing financing
- Syndicated financing
- Cashline financing
- Hire purchase receivables
- Other term financing

Staff financing

Less: Impairment allowances on financing

- Collective assessment
- Individual assessment

Net financing, advances and other receivables

Group and Bank	
2014	2013
RM'000	RM'000
468,663	414,635
1,378,094	1,443,259
130,791	153,057
396,596	374,233
51	4,603
322,243	184,364
4,410,615	3,932,840
11,643	10,054
7,118,696	6,517,045
(148,032)	(190,926)
(267,142)	(316,077)
6,703,522	6,010,042
1,698,017	1,883,974
5,025,767	4,196,002
77,313	80,223
314,876	353,112
1,157	805
1,566	2,929
7,118,696	6,517,045

(ii) By contract

Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)

Murabahah (cost-plus)

Mudharabah (profit sharing)

Musarakah (profit and loss sharing)

Qard (benevolent financing)

Istisna'

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

	Group and Bank	
	2014 RM'000	2013 RM'000
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	1,379,336	985,659
- Others	3,360,473	3,229,194
Individuals	2,112,654	1,989,408
Foreign entities	128,364	167,612
Domestic non-bank financial institutions	137,869	145,172
	7,118,696	6,517,045
(iv) By residual contractual maturity		
Maturity within one year	4,363,325	3,667,650
More than one year to three years	49,628	109,438
More than three years to five years	305,351	197,556
More than five years	2,400,392	2,542,401
	7,118,696	6,517,045
(v) By geographical distribution		
Malaysia	7,072,249	6,437,579
Middle East	7,251	15,725
Other countries	39,196	63,741
	7,118,696	6,517,045
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	75,996	83,277
- Hire purchase receivables	326,025	184,364
- Syndicated financing	396,596	374,233
- Term financing	1,458,317	1,560,683
Variable		
- House financing	395,664	331,358
- Term financing	4,466,098	3,983,130
	7,118,696	6,517,045

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

	Group and Bank	
	2014 RM'000	2013 RM'000
(vii) By sector		
Construction	610,463	287,930
Electricity, gas and water	93,132	119,915
Finance, insurance and business services	369,789	446,468
Household	2,125,573	2,005,347
Manufacturing	1,032,532	1,006,081
Mining and quarrying	37,845	242,931
Agriculture, hunting, forestry & fishing	236,545	231,144
Real Estate	1,378,557	1,143,918
Transports, storage and communication	489,675	486,144
Wholesale & retail trade and restaurants & hotels	505,781	284,990
Others	238,804	262,177
	7,118,696	6,517,045
(viii) By economic purpose		
Merger and acquisition	229,321	141,109
Purchase of securities	30,349	-
Purchase of transport vehicles	333,113	333,691
Purchase of landed properties		
- residential	559,194	542,858
- non-residential	575,251	491,060
Purchase of fixed assets	241,335	342,264
Working capital	2,631,284	2,051,970
Construction	592,010	584,542
Personal use	1,369,611	1,442,576
Other purposes	557,228	586,975
	7,118,696	6,517,045

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

(ix) Financing by types and Shariah contract

	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014							
House financing	433,097	100	-	33,901	-	1,565	468,663
Personal financing	-	1,377,684	-	-	410	-	1,378,094
Leasing financing	51,688	45,495	33,608	-	-	-	130,791
Syndicated financing	66,154	330,442	-	-	-	-	396,596
Cashline financing	-	51	-	-	-	-	51
Hire purchase receivables	272,568	-	-	49,675	-	-	322,243
Other term financing	865,814	3,270,584	43,705	230,512	0	-	4,410,615
Staff financing	8,697	1,411	-	788	747	-	11,643
	1,698,018	5,025,767	77,313	314,876	1,157	1,565	7,118,696

	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013							
House financing	370,089	103	-	41,514	-	2,929	414,635
Personal financing	-	1,442,883	-	-	376	-	1,443,259
Leasing financing	60,732	55,717	36,608	-	-	-	153,057
Syndicated financing	195,464	178,769	-	-	-	-	374,233
Cashline financing	-	4,603	-	-	-	-	4,603
Hire purchase receivables	138,119	-	-	46,245	-	-	184,364
Other term financing	1,111,958	2,512,757	43,615	264,510	-	-	3,932,840
Staff financing	7,612	1,170	-	843	429	-	10,054
	1,883,974	4,196,002	80,223	353,112	805	2,929	6,517,045

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

	Group and Bank	
	2014 RM'000	2013 RM'000
(x) Purpose and Source of Qard financing		
As at 1 January	805	1,161
Source of Qard fund:	621	441
- Depositors' Fund	504	360
- Shareholders' Fund	117	81
Uses of Qard fund:	(269)	(797)
- Financing for asset purchase	(218)	(767)
- Staff Benevolent	(51)	(30)
As at 31 December	1,157	805
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	690,626	933,554
- Impaired during the year	180,757	165,452
- Reclassified to performing during the year	(107,477)	(155,197)
- Amount recovered	(132,130)	(138,671)
- Amount written off	(105,151)	(114,512)
At 31 December	526,625	690,626
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment allowance	3.79%	6.04%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Collective assessment		
At 1 January	190,926	138,600
Allowance (reversed)/made during the year (Note 28)	(42,894)	52,326
At 31 December	148,032	190,926
As % of total gross financing, advances and other receivables less individual impairment allowance	2.16%	3.08%
Individual assessment		
At 1 January	316,077	546,824
Allowance made/(reversed) during the year (Note 28)	56,217	(116,236)
<i>Allowance charged during the year</i>	114,539	85,308
<i>Allowance written-back during the year</i>	(58,322)	(201,544)
Amount written off	(105,152)	(114,511)
At 31 December	267,142	316,077

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

(xiii) Impaired financing by sector

Construction	-	23,179
Electricity, gas and water	79	79
Finance, insurance and business services	34,796	22,119
Household	26,055	28,506
Manufacturing	313,902	342,124
Mining and quarrying	-	116,393
Real Estate	27,946	56,645
Transport, storage and communication	87,512	67,631
Wholesale & retail trade and restaurants & hotels	36,335	33,950

Group and Bank	
2014	2013
RM'000	RM'000
-	23,179
79	79
34,796	22,119
26,055	28,506
313,902	342,124
-	116,393
27,946	56,645
87,512	67,631
36,335	33,950
526,625	690,626

10 OTHER ASSETS

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposits and prepayments		9,723	10,333	9,569	10,173
Amount due from holding company	(i)	-	299	-	299
Amount due from subsidiaries	(i)	-	-	4	4
Amount due from other related parties	(i)	51,600	52,215	51,600	52,215
Fee receivable		119	53	119	53
Sundry debtors		936	21,943	146	21,849
Tax recoverable		-	3,038	-	3,138
Gold depository		158,838	159,019	158,839	159,019
		221,216	246,900	220,277	246,750

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

11 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2014			
Forward foreign exchange related contracts	13,868	12	22
Ijarah rental swap related contracts	255,774	11,349	125
Total	269,642	11,361	147
2013			
Ijarah rental swap related contracts	263,825	15,192	200
Total	263,825	15,192	200

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12 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

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

13 MUSYARAKAH CAPITAL INVESTMENT

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

14 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost

- in Malaysia
- outside Malaysia

Impairment on investment in subsidiaries

Bank	
2014 RM'000	2013 RM'000
30,200	30,200
15,993	15,993
46,193	46,193
(26,761)	(26,761)
19,432	19,432

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2014	2013
Kuwait Finance House (Labuan) Berhad	Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100
Kuwait Finance House (Australia) Pty Ltd ^	Under member's voluntary liquidation	Australia	100	100
KFH Asset Management Sdn. Bhd.	Asset management	Malaysia	100	100

^ Audited by member firm of Ernst & Young Global in Australia.

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15 PROPERTY AND EQUIPMENT

Group 2014	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer equipment hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	28,631	11,524	13,393	25,757	1,981	3,403	84,689
Additions	51	42	248	1,317	-	3,131	4,789
Disposals	(167)	-	-	-	-	-	(167)
Write-offs	(1,015)	(620)	(273)	(111)	-	-	(2,019)
Reclass	(1,105)	549	(41)	601	-	-	4
Transfers	1,304	462	289	751	-	(3,601)	(795)
Exchange difference	6	1	-	2	-	-	9
At 31 December	27,705	11,958	13,616	28,317	1,981	2,933	86,510
<u>Accumulated depreciation</u>							
At 1 January	16,014	5,760	9,326	18,205	1,195	-	50,500
Charge for the year (Note 32)	3,613	2,091	1,135	3,971	267	-	11,077
Disposals	(162)	-	-	-	-	-	(162)
Write-off	(940)	(526)	(252)	(94)	-	-	(1,812)
Exchange difference	5	2	-	-	-	-	7
At 31 December	18,530	7,327	10,209	22,082	1,462	-	59,610
<u>Net book value</u>							
At 31 December	9,175	4,631	3,407	6,235	519	2,933	26,900
Bank							
2014							
<u>Cost</u>							
At 1 January	28,022	11,330	13,313	25,459	1,981	3,403	83,508
Additions	51	42	244	1,317	-	3,132	4,786
Disposals	(167)	-	-	-	-	-	(167)
Write-offs	(1,014)	(620)	(273)	(112)	-	-	(2,019)
Reclass	(1,104)	549	(41)	601	-	-	5
Transfers	1,304	462	289	751	-	(3,601)	(795)
At 31 December	27,092	11,763	13,532	28,016	1,981	2,934	85,318
<u>Accumulated depreciation</u>							
At 1 January	15,610	5,671	9,273	18,011	1,195	-	49,760
Charge for the year (Note 32)	3,556	2,062	1,124	3,927	267	-	10,936
Disposals	(162)	-	-	-	-	-	(162)
Write-offs	(941)	(526)	(251)	(94)	-	-	(1,812)
At 31 December	18,063	7,207	10,146	21,844	1,462	-	58,722
<u>Net book value</u>							
At 31 December	9,029	4,556	3,386	6,172	519	2,934	26,596

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15 PROPERTY AND EQUIPMENT (Cont'd.)

Group	Renovation	Furniture & fittings	Office equipment	Computer equipment hardware	Motor vehicles	Work-in-progress	Total
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>							
At 1 January	29,762	17,361	16,235	27,783	1,321	1,819	94,281
Additions	3,342	232	341	738	660	4,139	9,452
Disposals	(4,247)	(6,172)	(3,183)	(4,168)	-	-	(17,770)
Write-offs	(282)	-	-	-	-	-	(282)
Transfers	56	104	-	1,410	-	(2,555)	(985)
Exchange difference	-	(1)	-	(6)	-	-	(7)
At 31 December	28,631	11,524	13,393	25,757	1,981	3,403	84,689
<u>Accumulated depreciation</u>							
At 1 January	16,735	9,992	10,519	18,722	961	-	56,929
Charge for the year (Note 32)	3,770	1,968	1,971	3,664	234	-	11,607
Disposals	(4,209)	(6,201)	(3,164)	(4,172)	-	-	(17,746)
Write-off	(282)	-	-	-	-	-	(282)
Exchange difference	-	1	-	(9)	-	-	(8)
At 31 December	16,014	5,760	9,326	18,205	1,195	-	50,500
<u>Net book value</u>							
At 31 December	12,617	5,764	4,067	7,552	786	3,403	34,189
Bank							
2013							
<u>Cost</u>							
At 1 January	29,134	17,173	16,159	27,429	1,321	1,558	92,774
Additions	3,339	225	336	737	660	4,139	9,436
Disposals	(4,189)	(6,172)	(3,182)	(4,117)	-	-	(17,660)
Write-offs	(319)	-	-	-	-	-	(319)
Transfers	57	104	-	1,410	-	(2,294)	(723)
At 31 December	28,022	11,330	13,313	25,459	1,981	3,403	83,508
<u>Accumulated depreciation</u>							
At 1 January	16,416	9,901	10,481	18,524	961	-	56,283
Charge for the year (Note 32)	3,702	1,939	1,956	3,618	234	-	11,449
Disposals	(4,189)	(6,169)	(3,164)	(4,131)	-	-	(17,653)
Write-offs	(319)	-	-	-	-	-	(319)
At 31 December	15,610	5,671	9,273	18,011	1,195	-	49,760
<u>Net book value</u>							
At 31 December	12,412	5,659	4,040	7,448	786	3,403	33,748

The additions for the year in respect of renovation include accrued restoration cost for the Group of RM NIL (2013: RM3,146,101) and the Bank of RM NIL (2013: RM3,109,101).

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16 INTANGIBLE ASSETS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Computer software				
<u>Cost</u>				
At 1 January	59,115	57,632	57,886	56,778
Additions	164	444	142	385
Reclass	98	-	98	-
Transfers from property and equipments	795	985	795	723
Exchange difference	81	54	-	-
At 31 December	60,253	59,115	58,921	57,886
<u>Accumulated amortisation</u>				
At 1 January	44,851	35,792	44,417	35,609
Amortisation for the year (Note 32)	7,601	9,043	7,357	8,808
Reclass	98	-	98	-
Exchange difference	43	16	-	-
At 31 December	52,593	44,851	51,872	44,417
<u>Carrying amount</u>				
At 31 December	7,660	14,264	7,049	13,469

17 DEFERRED TAXATION

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	241,258	286,641	241,134	286,538
Recognised in other comprehensive income	(263)	1,663	(263)	1,663
Recognised in profit and loss (Note 35)	(42,898)	(47,046)	(42,843)	(47,067)
At 31 December	198,097	241,258	198,028	241,134
Presented after appropriate offsetting as follows:				
Deferred tax assets	201,643	246,445	201,574	246,321
Deferred tax liabilities	(3,546)	(5,187)	(3,546)	(5,187)
Deferred tax assets (net)	198,097	241,258	198,028	241,134

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17 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group:	Unrealised loss/(gain) on securities available- for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
2014				
At 1 January	1,429	228,968	16,048	246,445
Recognised in profit or loss	-	(37,802)	(6,737)	(44,539)
Recognised in other comprehensive income	(263)	-	-	(263)
At 31 December	1,166	191,166	9,311	201,643
2013				
At 1 January	(234)	288,434	5,106	293,306
Recognised in profit or loss	-	(59,466)	10,942	(48,524)
Recognised in other comprehensive income	1,663	-	-	1,663
At 31 December	1,429	228,968	16,048	246,445
Deferred tax assets of the Bank:				
2014				
At 1 January	1,429	228,898	15,994	246,321
Recognised in profit or loss	-	(37,802)	(6,682)	(44,484)
Recognised in other comprehensive income	(263)	-	-	(263)
At 31 December	1,166	191,096	9,312	201,574
2013				
At 1 January	(234)	288,421	5,016	293,203
Recognised in profit or loss	-	(59,523)	10,978	(48,545)
Recognised in other comprehensive income	1,663	-	-	1,663
At 31 December	1,429	228,898	15,994	246,321

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17 DEFERRED TAXATION (Cont'd.)

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

	Accelerated capital allowances RM'000	Total RM'000
Deferred tax liabilities of the Group and Bank:		
2014		
At 1 January,	5,187	5,187
Recognised in profit or loss	(1,641)	(1,641)
At 31 December	3,546	3,546
2013		
At 1 January,	6,665	6,665
Recognised in profit or loss	(1,478)	(1,478)
At 31 December	5,187	5,187

Unutilised tax losses and unabsorbed capital allowance

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

	Group and Bank	
	2014 RM'000	2013 RM'000
Unutilised tax losses	791,084	936,623
	791,084	936,623

The deferred tax assets have been recognised as at 31 December 2014 as the directors are of the view that it is probable for the Bank to realise the deferred tax asset.

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

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17 DEFERRED TAXATION (Cont'd.)

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

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

	Group	
	2014 RM'000	2013 RM'000
Unutilised tax losses	24,124	24,415
Unabsorbed capital allowances	271	241
	24,395	24,656

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

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

18 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(i) By type of deposit				
Non Mudharabah				
- Demand deposits	501,170	561,296	432,717	539,869
- Gold deposits	158,748	158,910	158,748	158,910
- Wakalah deposits	10,766	1,421,572	10,382	1,421,134
Mudharabah				
- Savings deposits	56,192	81,185	56,192	81,185
- General investment deposits	-	236,630	-	236,630
- Negotiable Instrument Deposit	-	165,275	-	165,275
Murabahah	3,333,495	2,599,143	3,305,504	2,599,143
	4,060,371	5,224,011	3,963,543	5,202,146

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18 DEPOSITS FROM CUSTOMERS (Cont'd.)

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(ii) By type of customer				
Business enterprises	1,731,786	2,375,274	1,538,128	2,331,543
Individuals	387,940	1,046,038	387,940	1,046,038
Subsidiaries	-	-	96,829	21,866
Government and statutory bodies	1,443,160	1,533,534	1,443,160	1,533,534
Others	497,486	269,165	497,486	269,165
	4,060,372	5,224,011	3,963,543	5,202,146
(iii) By contractual maturity				
Due within six months	3,509,764	4,477,049	3,412,935	4,455,184
More than six months to one year	381,615	709,420	381,615	709,420
More than one year to three years	168,993	37,542	168,993	37,542
	4,060,372	5,224,011	3,963,543	5,202,146

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	223,336	45,870	223,335	45,870
Other financial institutions	3,923,807	681,601	3,993,665	681,601
<u>Wakalah</u>				
Other financial institutions	33,089	1,162,720	-	1,144,897
	4,180,232	1,890,191	4,217,000	1,872,368

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20 OTHER LIABILITIES

	Note	Group		Bank	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Sundry creditors	(i)	124,925	285,391	124,860	285,366
Accrued restoration cost		5,514	5,681	5,407	5,574
Other provisions and accruals		39,416	38,959	38,665	38,249
Undistributed charity funds	(ii)	2,241	1,259	2,241	1,259
		172,096	331,290	171,173	330,448

(i) Included in sundry creditors relates to amount payable to holding company of RM93.8 million (2013: RM184.4 million) arising from revenue streams of Specific Profit Sharing Investment Accounts (SPSIA).

(ii) Sources and uses of charity funds:

	Group and Bank	
	2014 RM'000	2013 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	1,259	7,291
Penalty charges on late payment	2,046	7,782
Total sources of funds during the year	3,305	15,073
Uses of charity funds:		
Contribution to Baitulmal	-	(130)
Compensation of late payment charges (Note 27)	(680)	(12,643)
Contribution to non profit organisations	(202)	(722)
Aid to needy family	(182)	(319)
Total uses of funds during the year	(1,064)	(13,814)
Undistributed charity funds as at 31 December	2,241	1,259

21 PROVISION FOR ZAKAT

In 2013, Zakat is calculated based on opening reserve method of Kuwait Finance House (Malaysia) and paid by Kuwait Finance House K.S.C who is the main shareholder of the Bank.

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22 SUBORDINATED MURABAHAH TAWARRUQ

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD100,829,862 or equivalent RM352,627,235 (2013: USD126,864,726 or equivalent RM415,577,127) is unsecured with a tenure of five years and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

23 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2014 Units'000	2013 Units'000	2014 RM'000	2013 RM'000
Authorised:				
At 1 January/ At 31 December	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid:				
At 1 January	1,425,272	2,266,125	1,425,272	2,266,125
Effect of capital reduction	-	(840,853)	-	(840,853)
At 1 January/ At 31 December	1,425,272	1,425,272	1,425,272	1,425,272

The Bank decreased its issued and paid up share capital from RM2,266,125,000 to RM1,425,272,000 in March 2013 pursuant to the capital reduction exercise. KFHMB's share capital of RM2,266,125,000 consisting of RM2,266,125,000 ordinary shares of RM1.00 each has been reduced by the cancellation of RM840,853,000 issued and fully paid up shares of the Bank of RM1.00 each.

24 RESERVES

Note	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Non-distributable				
Statutory reserve (i)	158,385	113,895	158,385	113,895
Exchange fluctuation reserve (ii)	(2,951)	(5,088)	-	-
Available-for-sale reserve (iii)	(5,340)	(26,871)	(5,982)	(26,142)
	150,095	81,936	152,403	87,753
Distributable				
Retained earnings	130,742	82,406	106,862	62,372
	280,836	164,342	259,265	150,125

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24 RESERVES (Cont'd.)

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

(iii) Available-for-sale reserve

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

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At 1 January	(26,871)	2,574	(26,142)	355
Net unrealised gain/ (losses) on securities available-for-sale financial investments	21,807	(29,634)	20,436	(26,624)
Net realised (gain)/ losses on securities reclassified to the income statement	(276)	189	(276)	127
At 31 December	(5,340)	(26,871)	(5,982)	(26,142)

25 OPERATING REVENUE

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

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

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26 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Income derived from investment of :				
(i) General investment deposits	4,092	11,148	4,098	11,114
(ii) Other deposits	365,512	328,860	364,018	326,869
	369,604	340,008	368,116	337,983
(i) Income derived from investment of general investment deposits				
Finance income from financing, advances and other receivables	3,407	8,708	3,428	8,736
Finance income from impaired financing	14	248	14	248
Securities				
- Held-for-trading	2	18	2	18
- Available-for-sale	322	953	307	894
- Held-to-maturity	39	113	38	113
Money-at-call and deposits with financial institutions	209	1,115	210	1,111
	3,993	11,155	3,999	11,120
Amortisation of premium less accretion of discount	(43)	(122)	(43)	(122)
Total finance income and hibah	3,950	11,033	3,956	10,998
Gain arising from sale of securities				
- Held-for-trading	1	38	1	38
- Available-for-sale	-	31	-	31
Foreign exchange gain - realised	98	335	98	336
Gain/ (loss) on Ijarah rental swap obligations	43	(289)	43	(289)
	4,092	11,148	4,098	11,114

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
(ii) Income derived from investment of other deposits				
Finance income from financing, advances and other receivables	304,382	256,772	304,366	256,810
Finance income from impaired financing	623	7,417	623	7,422
Securities				
- Held-for-trading	181	524	181	524
- Available-for-sale	27,825	28,160	26,239	26,321
- Held-to-maturity	3,364	3,323	3,364	3,324
Money-at-call and deposits with financial institutions	20,545	33,072	20,707	32,886
	356,920	329,268	355,480	327,287
Amortisation of premium less accretion of discount	(3,570)	(3,605)	(3,571)	(3,605)
Total finance income and hibah	353,350	325,663	351,909	323,682
Gain arising from sale of securities				
- Held-for-trading	149	1,118	149	1,118
- Available-for-sale	-	927	-	927
Foreign exchange gain - realised	8,367	9,798	8,314	9,798
Gain/ (loss) on Ijarah rental swap obligations	3,646	(8,646)	3,646	(8,656)
	365,512	328,860	364,018	326,869

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27 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Finance income from financing, advances and other receivables	71,374	59,718	71,370	59,653
Finance income from impaired financing	163	1,700	162	1,695
Securities				
- Held-for-trading	42	120	42	119
- Available-for-sale	6,533	6,538	6,159	6,104
- Held-to-maturity	790	772	790	771
Money-at-call and deposits with financial institutions	4,786	7,644	4,821	7,589
	83,688	76,492	83,344	75,931
Amortisation of premium less accretion of discount	(843)	(838)	(842)	(838)
Total finance income and hibah	82,845	75,654	82,502	75,093
Fee income				
- Commissions	4,445	3,849	4,450	3,851
- Fund management fee	4,415	2,846	-	-
- Other fee income	8,956	19,080	8,408	17,659
- Compensation of late payment charges	680	12,643	680	12,643
Gain arising from sale of securities				
- Held-for-trading	34	254	34	254
- Available-for-sale	-	208	-	208
Unrealised gain on revaluation of securities held-for-trading and Ijarah rental swap (net)	(3,764)	10,217	(3,764)	10,217
Foreign exchange gain/ (loss)				
- Realised	2,092	2,941	2,079	2,941
- Unrealised	(5,883)	(3,649)	(5,823)	(3,789)
Gain/ (loss) on Ijarah rental swap obligations	856	(1,965)	857	(1,955)
Gross dividend from property funds (securities available-for-sale)	973	1,250	-	-
Gain on disposal of property and equipment	-	367	-	384
Reversal of provision on property restoration	77	-	77	-
Gain on Ijarah Automobile	1	24	1	24
Other income	611	272	-	-
Gross dividend from subsidiary	-	-	-	6,601
Management fee	193	-	-	-
	96,531	123,991	89,501	124,131

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Allowances for (Note 9(xii)):				
- Collective assessment	(42,894)	52,326	(42,894)	52,326
- Individual assessment:	56,217	(116,236)	56,217	(116,236)
Allowances charged during the period	114,539	85,308	114,539	85,308
Allowances written-back during the period	(58,322)	(201,544)	(58,322)	(201,544)
Reversal of allowances on previously written off financing	-	-	-	-
Bad debt recovered on financing	(88,801)	(44,172)	(88,801)	(44,172)
	(75,478)	(108,082)	(75,478)	(108,082)

29 IMPAIRMENT (WRITE BACK)/ AND ALLOWANCES ON INVESTMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Securities available-for-sale	(1,746)	1,299	766	1,299
Investment in subsidiaries	-	-	-	11,520
Other impairment loss	-	2,100	-	2,100
	(1,746)	3,399	766	14,919

30 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposits from customers				
- Mudharabah	4,110	8,306	4,110	8,306
- Non Mudharabah	106,597	88,669	106,474	88,669
- Wakalah	12,003	32,873	11,487	32,283
- Negotiable Instrument Deposit	1,221	23,225	1,221	23,225
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	67,308	28,065	68,182	28,520
- Others	448	242	450	242
	191,687	181,380	191,924	181,245

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31 PERSONNEL EXPENSES

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Salaries and wages	56,753	61,911	54,152	57,848
Social security costs	336	386	329	379
Pension costs - defined contribution plan	11,344	12,408	10,859	11,699
Other staff related costs	28,081	43,328	27,259	42,622
	96,514	118,033	92,599	112,548

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

Name	Position	Salary RM'000	Bonus RM'000	Employees Provident Fund RM'000	Leave Encashment RM'000	Gratuity RM'000	Benefit in kinds RM'000	Total RM'000
2014								
Dato Sri Abdul Hamidy bin Abdul Hafiz	Chief Executive Officer	3,032	-	976	260	800	633	5,700
Dato' Mohamad Aslam Khan *	Acting Chief Executive Officer	47	-	-	-	-	-	47
	Total	3,079	-	976	260	800	633	5,747
2013								
Dato Sri Abdul Hamidy bin Abdul Hafiz	Chief Executive Officer	1,871	2,806	299	-	-	28	5,004
Dato' Jamelah Jamaluddin	Chief Executive Officer	307	1,356	266	-	-	8	1,937
	Total	2,178	4,162	565	-	-	36	6,941

* Represents the allowance received as Acting Chief Executive Officer.

32 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Promotion				
Advertisement and publicity	1,852	5,218	2,360	5,217
Establishment				
Rental	19,370	20,776	18,720	19,831
Depreciation of property and equipment (Note 15)	11,077	11,607	10,936	11,449
Amortisation of intangible assets (Note 16)	7,601	9,043	7,357	8,808
IT expenses	12,128	8,243	12,129	8,240
Hire of equipment	711	944	697	904
	52,739	55,831	52,199	54,449

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32 OTHER OVERHEADS AND EXPENDITURES (Cont'd.)

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
General expenses				
Auditors remuneration				
- Statutory audit:	399	409	290	283
- Ernst & Young Malaysia	333	321	290	283
- Other member firms of Ernst & Young Global	66	88	-	-
- Non-audit services:	640	188	640	188
- Review engagements and regulatory-related services	214	188	214	188
- Other services	426	-	426	-
Professional fees	2,464	4,197	2,436	3,993
Non executive directors' remuneration (Note 34)	2,688	2,412	2,304	2,067
Shariah Committee's remuneration (Note 34)	716	775	716	775
Murabahah agent fees	628	401	628	401
Subscription fees	4,603	3,304	4,488	3,177
Communication expenses	4,199	4,077	4,106	3,983
Other fees	16,923	16,351	16,923	16,351
Others	19,765	18,351	17,469	16,199
	53,025	50,465	50,000	47,417
Total overheads and expenditures	105,764	106,296	102,199	101,866

33 FINANCE COST

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Subordinated Murabahah Tawarruq	13,784	14,395	13,784	14,395

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34 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Non-Executive Directors				
Directors of the Bank				
Fees	1,190	1,355	1,190	1,355
Other remuneration	1,115	712	1,115	712
	2,305	2,067	2,305	2,067
Directors of subsidiary company				
Fees	341	334	-	-
Other remuneration	42	11	-	-
	383	345	-	-
Total Non-Executive Directors	2,688	2,412	2,305	2,067
Shariah Committee				
Fees	505	504	505	504
Other remuneration	211	271	211	271
	716	775	716	775

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	
	2014	2013
Non-Executive Directors		
RM1,000 - RM100,000	3	1
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	6	1
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	-	2
RM300,001 - RM400,000	-	3
Total	9	8

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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	Audit Committee Fee	Board Risk Management Committee Fee	Remuneration Committee Fee	Nomination Committee Fee	Nominating And Remuneration Committee Fee	Board Credit & Investment Committee Fee	Board Recovery Committee Fee	Board Credit Investment & Recovery Committee	Board Transformation Sub-Committee Fee	Corporate Governance Committee Fee	Total
2014		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Mohammad Nasser AlFouzan	Non-independent non-executive director	54	-	-	-	-	-	-	-	-	-	6	60
Dr Nabeel A E A Al-Manna'e	Non-independent non-executive director	63	-	-	8	8	-	-	-	-	-	-	79
Shaheen H.A. KH Sh. Alghanem	Non-independent non-executive director	75	-	13	-	6	10	8	8	13	-	-	133
Khalid Sufat	Independent non-executive director	180	56	-	-	6	48	-	-	-	56	-	346
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	180	54	6	-	-	38	6	8	48	56	-	396
Gopala Krishnan a/l K.Sundran	Independent non-executive director	180	54	56	6	-	48	6	8	-	56	-	414
Dr Paul Quigley	Non-independent non-executive director	180	-	54	6	6	48	-	-	-	-	48	342
Md Adnan Md Zain	Independent non-executive director	173	-	-	-	-	48	4	4	48	-	48	325
Ahmad S A A AlKharji	Non-independent non-executive director	105	-	35	-	-	-	-	-	35	35	-	210
Total		1,190	164	164	20	26	240	24	28	144	203	102	2,305

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

Name of Directors	Position	Directors Fee RM'000	Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Remuneration Committee Fee RM'000	Nomination Committee Fee RM'000	Nominating And Remuneration Committee Fee RM'001	Board Credit & Investment Committee Fee RM'002	Board Recovery Committee Fee RM'003	Board Credit Investment Committee Fee RM'000	Board Transformation Sub-Committee Fee RM'000	Board Recovery Committee Fee RM'000	Total RM'000
2013		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Dr Nabeel A E A Al-Manna'e	Independent non-executive director	300	-	-	36	36	-	-	-	-	-	-	372
Shaheen H.A. KH Sh. Alghanem	Non-independent non-executive director	180	2	-	-	24	-	-	-	36	-	33	275
Abdul Wahab I A A Al-Rushood	Non-independent non-executive director	119	-	11	16	16	-	-	-	2	-	-	164
Khalid Sufat	Independent non-executive director	180	36	2	-	24	-	-	-	-	36	-	278
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	180	24	14	2	-	-	-	-	24	36	36	316
Dato Sri Abdul Hamidy bin Abdul Hafiz	Independent non-executive director	40	5	8	-	5	-	-	-	5	-	8	71
Gopala Krishnan a/l K.Sundran	Independent non-executive director	180	21	33	24	-	-	-	-	22	36	36	352
Dr Paul Quigley	Non-independent non-executive director	176	-	22	22	19	-	-	-	-	-	-	239
	Total	1,355	88	90	100	124	-	-	-	89	108	113	2,067

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

Name of Shariah Committee Member	TOTAL RM '000	Fee RM '000	Allowances RM '000
2014			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	172	128	44
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	151	104	47
Sheikh Adnan Ali Ibrahim Al-Mulla	93	65	28
Sheikh Isa Abdulla Yusuf Dowaishan	144	104	40
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	156	104	52
	716	505	211
2013			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	183	120	63
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	146	96	50
Sheikh Adnan Ali Ibrahim Al-Mulla	162	96	66
Sheikh Isa Abdulla Yusuf Dowaishan	142	96	46
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	142	96	46
	775	504	271

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35 TAXATION

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Malaysian income tax				
- Current year	20	87	-	-
- (Over)/under provision of income tax in prior year	(134)	3,705	-	3,761
Deferred tax (Note 17):				
- Relating to origination and reversal of temporary differences	36,208	38,238	36,153	38,259
- Over provision of deferred tax in prior year	6,690	8,808	6,690	8,808
	42,784	50,838	42,843	50,828

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2014 have reflected these changes.

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

A reconciliation of income tax expense applicable to profit 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	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit before taxation	135,610	148,578	131,823	145,223
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	33,903	37,145	32,956	36,306
Income not subject to tax	(14,580)	(13,241)	(13,915)	(13,241)
Expenses not deductible for tax purposes	2,402	1,033	2,610	1,956
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	14,503	13,388	14,502	13,238
Over provision of deferred tax in prior year	6,690	8,808	6,690	8,808
(Over)/under provision of income tax expense in prior year	(134)	3,705	-	3,761
Tax expense for the year	42,784	50,838	42,843	50,828

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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	
	2014	2013
Net profit for the year (RM'000)	92,826	97,740
Weighted average number of ordinary shares in issue ('000) *	1,425,272	1,425,272
Basic/ diluted earnings per share (sen)	6.51	6.86

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

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 45.

Subsidiaries

Details of subsidiaries are disclosed in Note 14.

Subsidiaries of holding company

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

Key management personnel

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

Directors

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

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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:

	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
2014						
(i) Income						
- Management fees	-	336	-	-	-	-
- Profit income on placements	-	197	-	-	-	-
- Profit income on financing	-	-	12,878	43	3,138	-
	-	533	12,878	43	3,138	-
(ii) Expenditure						
- Profit expense on deposits	2,445	946	1,549	22	12	2
- Other fees	-	1,045	17,451	-	2,451	-
- Profit expense on Subordinated Murabahah Tawarruq	13,784	-	-	-	-	-
	16,229	1,991	19,000	22	2,463	2

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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.)

2014 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	352,627	-	-	-	-	-
- Deposits from customers	-	24,772	99,698	1,975	-	43
- Deposits and placements of banks and other FIs	368,267	69,858	-	-	-	-
- Sundry creditors (Note 20)	93,799	-	-	-	-	-
	814,693	94,630	99,698	1,975	-	43
(iv) Amount due from related parties						
- Securities	-	-	106,658	-	-	-
- Financing	-	-	350,597	1,073	-	-
- Deposits and placements with banks and other FIs	-	25,301	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	-	25,305	508,855	1,073	-	-
(v) Others						
- Purchases of intangible assets	-	-	524	-	-	-
	-	-	524	-	-	-

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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.)

	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
2013 (Cont'd.)						
(i) Income						
- Management fees	-	706	-	-	-	-
- Profit income on placements	-	21	2,235	-	-	-
- Profit income on financing	-	-	-	52	17,922	-
	-	727	2,235	52	17,922	-
(ii) Expenditure						
- Profit expense on deposits	238	816	1,067	173	-	2
- Other fees	-	1,988	2,357	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	14,395	-	-	-	-	-
	14,633	2,804	3,424	173	-	2

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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.)

2013 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(iii) Amount due to related parties						
- Subordinated Murabahah Tawarruq	415,577	-	-	-	-	-
- Deposits from customers	-	16,895	65,673	5,846	4,985	309
- Deposits and placements of banks and other FIs	-	227,857	278,441	-	-	-
- Sundry creditors (Note 20)	184,429	-	25,680	-	14,710	-
	600,006	244,752	369,794	5,846	19,695	309
(iv) Amount due from related parties						
- Securities	-	-	153,215	-	-	-
- Financing	-	-	-	2,164	353,875	-
- Deposits and placements with banks and other FIs	-	26,836	-	-	-	-
- Other assets	298	4	615	-	-	-
	298	26,840	153,830	2,164	353,875	-
(v) Others						
- Purchases of intangible assets	-	-	1,508	-	-	-
	-	-	1,508	-	-	-

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37 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Short-term employee benefits				
- Salary and other remuneration	25,486	19,387	24,481	17,167
- Benefits-in-kind	640	60	633	35
	26,126	19,447	25,114	17,202

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 31 and Note 34.

(c) Credit transactions and exposures with connected parties

	2014			
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	402,267	2	403,669	-
Equities and Islamic Private Debt Securities held	36,100	1	36,100	-
Off-balance sheet exposures	27,624	2	27,745	-
	465,991	5	467,514	-
Total exposure to connected parties as % capital base			24.9%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.3%	0.0%

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37 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	2013			Total non-performing credit exposure RM'000
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	
Financing, credit facility and leasing (except guarantee)	405,853	4	405,644	-
Equities and Islamic Private Debt Securities held	36,100	1	36,100	-
Off-balance sheet exposures	25,907	2	26,028	-
	467,860	7	467,772	-
Total exposure to connected parties as % capital base			29.8%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			5.9%	0.0%

* Included total outstanding and unutilised limit.

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

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

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

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

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38 COMMITMENTS AND CONTINGENCIES

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

	2014			2013		
	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	104,544	104,544	94,303	11,220	11,220	8,889
Transaction related contingencies	116,969	58,484	32,340	142,880	71,440	42,219
Trade related contingencies	10,892	2,178	2,178	23,897	4,779	4,779
Irrevocable commitments to extend credit						
- maturity less than one year	371,642	74,328	56,641	333,208	66,643	65,496
- maturity more than one year	117,597	58,798	55,345	397,811	198,905	197,595
Foreign exchange related contracts *						
- less than one year	13,868	13	4	-	-	-
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	241,906	18,477	15,574	263,825	25,585	21,359
	977,418	316,822	256,385	1,172,841	378,572	340,337
			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.

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

Market risk

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

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2014, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM11,361,492 (2013: RM15,191,896). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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39 CAPITAL COMMITMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Capital expenditure :				
Authorised and contracted for				
- purchase of equipment	3	313	-	313
- computer hardware	1,820	1,059	1,820	1,059
- computer software	2,792	1,622	2,792	1,618
- capital renovation	788	2,309	788	2,309
Authorised but not contracted for				
- computer software	334	-	334	-
	5,737	5,303	5,734	5,299

40 CAPITAL ADEQUACY

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

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

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

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

	Group		Bank	
	2014	2013	2014	2013
CET 1/ Tier 1 capital ratio				
Credit risk	21.191%	19.603%	20.389%	18.913%
Credit, market, operational and large exposure risks	19.598%	18.007%	18.885%	17.398%
Total capital ratio/ Risk-weighted capital ratio				
Credit risk	27.356%	23.710%	26.590%	23.049%
Credit, market, operational and large exposure risks	25.298%	21.780%	24.628%	21.202%

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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	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
<u>CET 1/ Tier I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	158,385	113,895	158,385	113,895
Other reserves	122,450	50,447	100,879	36,230
	1,706,107	1,589,614	1,684,536	1,575,397
Less: Deferred tax assets (net)	(198,080)	(241,258)	(198,028)	(241,134)
Less: Investment in subsidiaries	-	-	(46,193)	(46,193)
Total CET 1/ Tier-I capital	1,508,027	1,348,356	1,440,315	1,288,070
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	349,725	196,545	349,725	196,545
Collective impairment on financing	88,954	85,980	88,301	85,132
Total Tier-II capital	438,679	282,525	438,026	281,677
Capital base	1,946,706	1,630,881	1,878,341	1,569,747

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

	Group		Bank	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Computation of Total Risk-Weighted Assets ("RWA")				
Total credit RWA	7,116,278	6,878,375	7,064,119	6,810,596
Total market RWA	48,843	69,335	48,843	69,335
Total operational RWA	509,794	495,913	493,770	479,311
Large exposure risk RWA for equity holdings	20,048	44,490	20,048	44,490
Total Risk-Weighted Assets	7,694,963	7,488,113	7,626,780	7,403,732
Computation of Capital Ratios				
Core capital	1,508,027	1,348,356	1,440,315	1,288,070
Capital base	1,946,706	1,630,881	1,878,341	1,569,747
CET 1/ Tier 1 capital ratio	19.598%	18.007%	18.885%	17.398%
Total capital ratio	25.298%	21.780%	24.628%	21.202%

** Certain comparative figures have been reclassified to conform with current year's presentation. The comparative capital adequacy ratios for 31 December 2013 have been computed based on prior year presentation and have not been restated.

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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	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2014					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	2,033,354	2,033,354	58,161	58,161	4,653
Banks, Development Financial Institutions & MDBs	448,528	448,528	130,663	130,663	10,453
Corporates	4,577,588	4,577,588	4,025,027	4,025,027	322,002
Regulatory Retail	1,894,135	1,894,135	1,410,366	1,410,367	112,829
Residential Mortgages	227,367	227,367	80,088	80,088	6,407
Higher Risk Assets ¹	434,670	434,670	652,006	652,006	52,161
Other Assets	474,828	474,828	169,809	169,810	13,585
Defaulted Exposures ²	302,202	302,202	333,773	333,773	26,702
	10,392,672	10,392,672	6,859,893	6,859,895	548,792
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	18,490	18,489	15,577	15,577	1,246
Off-balance sheet exposures other than OTC hedging financial instruments	298,332	298,333	240,808	240,808	19,265
	316,822	316,822	256,385	256,385	20,511
Total On and Off-Balance Sheet Exposures	10,709,494	10,709,494	7,116,278	7,116,280	569,303

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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	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014 (Cont'd.)						
(ii) Large Exposures Risk Requirement	41,998		41,998	20,048	20,048	1,604
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	192,637	164,030	28,607	26,709	26,709	2,137
Foreign Currency Risk ⁴	22,044	18,142	3,902	22,134	22,134	1,771
			32,509	48,843	48,843	3,908
(iv) Operational Risk				509,794	509,794	40,783
(v) Total RWA and Capital Requirements				7,694,963	7,694,965	615,598

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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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	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2013					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,618,297	1,618,297	57,403	57,403	4,592
Banks, Development Financial Institutions & MDBs	646,107	646,107	171,576	171,576	13,726
Corporates	3,823,135	3,823,135	3,438,370	3,438,370	275,070
Regulatory Retail	1,791,394	1,791,394	1,334,956	1,334,956	106,797
Residential Mortgages	219,687	219,687	79,004	79,004	6,320
Higher Risk Assets ¹	516,488	516,488	774,733	774,733	61,979
Other Assets	323,799	323,799	146,943	146,943	11,755
Defaulted Exposures ²	446,452	446,452	535,053	535,053	42,804
	9,385,359	9,385,359	6,538,038	6,538,038	523,043
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	25,585	25,585	21,359	21,359	1,709
Off-balance sheet exposures other than OTC hedging financial instruments	352,987	352,987	318,978	318,978	25,518
	378,572	378,572	340,337	340,337	27,227
Total On and Off-Balance Sheet Exposures	9,763,931	9,763,931	6,878,375	6,878,375	550,270

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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	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013 (Cont'd.)						
(ii) Large Exposures Risk Requirement	93,598		93,598	44,490	44,490	3,559
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	187,779	172,899	14,880	37,733	37,733	3,019
Foreign Currency Risk ⁴	31,495	27,704	3,791	31,602	31,602	2,528
			18,671	69,335	69,335	5,547
(iv) Operational Risk				495,913	495,913	39,673
(v) Total RWA and Capital Requirements				7,488,113	7,488,113	599,049

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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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:

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2014	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,994,662	1,994,662	46,585	46,585	3,727
Banks, Development Financial Institutions & MDBs	458,769	458,769	135,542	135,542	10,843
Corporates	4,580,262	4,580,262	4,027,701	4,027,701	322,216
Regulatory Retail	1,894,135	1,894,135	1,410,367	1,410,367	112,829
Residential Mortgages	227,367	227,367	80,088	80,088	6,407
Higher Risk Assets ¹	434,670	434,670	652,006	652,006	52,161
Other Assets	398,687	398,687	121,672	121,672	9,734
Defaulted Exposures ²	302,202	302,202	333,773	333,773	26,702
	10,290,754	10,290,754	6,807,734	6,807,734	544,619
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	18,489	18,489	15,577	15,577	1,246
Off-balance sheet exposures other than OTC hedging financial instruments	298,333	298,333	240,808	240,808	19,265
	316,822	316,822	256,385	256,385	20,511
Total On and Off-Balance Sheet Exposures	10,607,576	10,607,576	7,064,119	7,064,119	565,130

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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:

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2014 (Cont'd.)	41,998		41,998	20,048	20,048	1,604
(ii) Large Exposures Risk Requirement	41,998		41,998	20,048	20,048	1,604
(iii) Market Risk	Long	Short				
Benchmark Rate Risk	192,637	164,030	28,607	26,709	26,709	2,137
Foreign Currency Risk ⁴	22,044	18,142	3,902	22,134	22,134	1,771
			32,509	48,843	48,843	3,908
(iv) Operational Risk				493,770	493,770	39,502
(v) Total RWA and Capital Requirements				7,626,780	7,626,780	610,144

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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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:

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2013	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,589,287	1,589,287	41,812	41,812	3,345
Banks, Development Financial Institutions & MDBs	658,390	658,390	176,716	176,716	14,137
Corporates	3,829,127	3,829,127	3,444,362	3,444,362	275,549
Regulatory Retail	1,791,394	1,791,394	1,334,956	1,334,956	106,797
Residential Mortgages	219,687	219,687	79,004	79,004	6,320
Higher Risk Assets ¹	516,488	516,488	774,733	774,733	61,979
Other Assets	260,479	260,479	83,623	83,623	6,690
Defaulted Exposures ²	446,452	446,452	535,053	535,053	42,804
	9,311,304	9,311,304	6,470,259	6,470,259	517,621
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	25,585	25,585	21,359	21,359	1,709
Off-balance sheet exposures other than OTC hedging financial instruments	352,987	352,987	318,978	318,978	25,518
	378,572	378,572	340,337	340,337	27,227
Total On and Off-Balance Sheet Exposures	9,689,876	9,689,876	6,810,596	6,810,596	544,848

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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:

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2013 (Cont'd.)	93,598		93,598	44,490	44,490	3,559
(ii) Large Exposures Risk Requirement	93,598		93,598	44,490	44,490	3,559
	Long Position	Short Position				
(iii) Market Risk						
Benchmark Rate Risk	187,779	172,899	14,880	37,733	37,733	3,019
Foreign Currency Risk ⁴	31,495	27,704	3,791	31,602	31,602	2,528
			18,671	69,335	69,335	5,547
(iv) Operational Risk				479,311	479,311	38,345
(v) Total RWA and Capital Requirements				7,403,732	7,403,732	592,299

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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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:

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2014	Group Risk-Weights									
	0%	1,768,759	53,463	354,394	16,930	1,587	-	170,660	2,365,793	-
	20%	247,123	258,847	251,469	-	-	-	167,948	925,387	185,077
	35%	-	-	-	-	219,376	-	-	219,376	76,782
	50%	17,472	190,497	84,075	773	7,523	-	-	300,340	150,170
	75%	-	-	-	1,896,633	-	-	-	1,896,633	1,422,475
	100%	-	-	4,302,567	26	3,534	-	136,220	4,442,347	4,442,347
	150%	-	-	112,555	4,341	-	442,722	-	559,618	839,427
		2,033,354	502,807	5,105,060	1,918,703	232,020	442,722	474,828	10,709,494	7,116,278

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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.)

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets		
2014 (Cont'd.)		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank									
Risk-Weights									
0%	1,761,736	39,307	354,394	16,930	1,588	-	170,660	2,344,615	-
20%	232,926	283,244	251,469	-	-	-	132,944	900,583	180,117
35%	-	-	-	-	219,376	-	-	219,376	76,782
50%	-	190,497	84,075	773	7,523	-	-	282,868	141,434
75%	-	-	-	1,896,634	-	-	-	1,896,634	1,422,476
100%	-	-	4,305,241	26	3,534	-	95,083	4,403,884	4,403,883
150%	-	-	112,555	4,341	-	442,722	-	559,618	839,427
	1,994,662	513,048	5,107,734	1,918,704	232,021	442,722	398,687	10,607,578	7,064,119

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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:

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2013	Group Risk-Weights									
	0%	1,392,776	52,591	212,232	16,532	-	-	176,856	1,850,987	-
	20%	210,148	446,863	207,268	-	-	-	-	864,279	172,856
	35%	-	-	-	-	205,598	-	-	205,598	71,959
	50%	-	176,331	113,235	568	15,716	-	-	305,850	152,926
	75%	-	-	-	1,788,736	-	-	-	1,788,736	1,341,552
	100%	15,373	-	3,800,190	3,885	886	-	146,943	3,967,277	3,967,277
	150%	-	-	216,733	1,736	-	562,735	-	781,204	1,171,805
		1,618,297	675,785	4,549,658	1,811,457	222,200	562,735	323,799	9,763,931	6,878,375

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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.)

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets		
2013 (Cont'd.)		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank Risk-Weights									
0%	1,380,230	39,171	212,232	16,532	-	-	176,856	1,825,021	-
20%	209,057	472,565	207,268	-	-	-	-	888,890	177,778
35%	-	-	-	-	205,598	-	-	205,598	71,959
50%	-	176,331	113,236	568	15,716	-	-	305,851	152,925
75%	-	-	-	1,788,736	-	-	-	1,788,736	1,341,552
100%	-	-	3,806,183	3,885	886	-	83,623	3,894,577	3,894,577
150%	-	-	216,733	1,736	-	562,734	-	781,203	1,171,805
	1,589,287	688,067	4,555,652	1,811,457	222,200	562,734	260,479	9,689,876	6,810,596

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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
2014				
0%	2,365,793	-	2,344,615	-
20%	925,387	185,077	900,583	180,117
35%	219,376	76,782	219,376	76,782
50%	300,340	150,170	282,868	141,434
75%	1,896,633	1,422,475	1,896,634	1,422,476
100%	4,442,347	4,442,347	4,403,884	4,403,883
150%	559,618	839,427	559,618	839,427
Risk-weighted assets for credit risk	10,709,494	7,116,278	10,607,578	7,064,119
Risk-weighted assets for market risk		48,843		48,843
Risk-weighted assets for operational risk		509,794		493,770
Large exposure risk-weighted assets for equity holdings		20,048		20,048
Total risk-weighted assets		7,694,963		7,626,780
2013				
0%	1,850,987	-	1,825,021	-
20%	864,279	172,856	888,890	177,778
35%	205,598	71,959	205,598	71,959
50%	305,850	152,926	305,851	152,925
75%	1,788,736	1,341,552	1,788,736	1,341,552
100%	3,967,277	3,967,277	3,894,577	3,894,577
150%	781,204	1,171,805	781,203	1,171,805
Risk-weighted assets for credit risk	9,763,931	6,878,375	9,689,876	6,810,596
Risk-weighted assets for market risk		69,335		69,335
Risk-weighted assets for operational risk		495,913		479,311
Large exposure risk-weighted assets for equity holdings		44,490		44,490
Total risk-weighted assets		7,488,113		7,403,732

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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:

	2014		2013	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Group and Bank				
Benchmark Rate Risk	26,709	2,137	37,733	3,019
Foreign Exchange Risk	22,134	1,771	31,602	2,528
Total	48,843	3,908	69,335	5,547

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.

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41 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market

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

(ii) Corporate and Investment Banking

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

(iii) Commercial Banking

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

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41 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2014	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	75,649	187,945	71,376	131,165	-	466,135
Revenue from other segments	143,854	4,696	6,086	75,518	(230,153)	-
Total Revenue	219,503	192,641	77,462	206,683	(230,153)	466,135
Segment results	16,626	47,744	76,364	118,688	-	259,422
Unallocated expenses						(123,812)
Income from operations						135,610
Taxation						(42,784)
Net profit for the year						92,826
Other information						
Segment assets	3,043,106	3,512,783	1,172,351	2,369,532	(139,368)	9,958,404
Unallocated corporate assets						513,177
Total assets						10,471,581
Segment liabilities	6,506,193	127,719	117,253	1,632,476	(119,936)	8,263,705
Unallocated corporate liabilities						501,768
Total liabilities						8,765,473
Other segment items						
Purchase of property and equipment				(4,789)		(4,789)
Purchase of intangible assets	-	-	-	(164)	-	(164)
Depreciation of property and equipment	-	-	-	11,077	-	11,077
Amortisation of intangible assets	-	-	-	193,697	-	193,697
Other non-cash expense other than depreciation	-	-	-	7,601	-	7,601
	(882)	(8,159)	44,586	41,680	-	77,225

(b) Secondary Segment - By Geographical Locations

Group 2014	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	465,075	135,456	10,470,077
Outside Malaysia	1,060	154	1,504
	466,135	135,610	10,471,581

The Group has fund management operations in Australia.

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41 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segment

Group 2013	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	84,785	157,143	61,372	160,699	-	463,999
Revenue from other segments	99,596	2,955	6,215	89,749	(198,515)	-
Total Revenue	184,381	160,098	67,587	250,448	(198,515)	463,999
Segment results	6,613	123,545	138,858	4,456	-	273,472
Unallocated expenses						(124,894)
Income from operations						148,578
Taxation						(50,838)
Net profit for the year						97,740
Other information						
Segment assets	2,832,269	3,294,641	855,055	2,273,754	(290,148)	8,965,571
Unallocated corporate assets						485,312
Total assets						9,450,883
Segment liabilities						
Unallocated corporate liabilities	4,297,381	204,767	259,358	2,660,794	(270,716)	7,151,584
Total liabilities						7,861,269
Other segment items						
Purchase of property and equipment	-	-	-	9,452	-	9,452
Purchase of intangible assets	-	-	-	444	-	444
Depreciation of property and equipment	-	-	-	11,607	-	11,607
Amortisation of intangible assets	-	-	-	9,043	-	9,043
Other non-cash expense other than depreciation	(1,299)	69,437	111,484	(74,939)	-	104,683

(b) Secondary Segment - By Geographical Locations

Group 2013	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	461,738	148,228	9,450,291
Outside Malaysia	2,261	350	592
	463,999	148,578	9,450,883

The Group has fund management operations in Australia.

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42 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Group	Level 2	Level 3	Total
2014	RM'000	RM'000	RM'000
Financial assets			
Securities held-for-trading	17,482	-	17,482
Securities available-for-sale	1,313,625	-	1,313,625
Securities held-to-maturity	81,494	-	81,494
Financing, advances and other receivables	723,271	5,977,665	6,700,936
Hedging financial instruments	11,361	-	11,361
Total	2,147,233	5,977,665	8,124,898
Financial liability			
Deposits from customers	4,031,404	-	4,031,404
Hedging financial instruments	147	-	147
Subordinated Murabahah Tawarruq	-	342,558	342,558
	4,031,551	342,558	4,374,109
2013			
Financial assets			
Securities available-for-sale	1,034,655	-	1,034,655
Securities held-to-maturity	81,514	-	81,514
Financing, advances and other receivables	565,641	5,432,789	5,998,430
Hedging financial instruments	15,192	-	15,192
Total	1,697,002	5,432,789	7,129,791
Financial liability			
Deposits from customers	5,336,276	-	5,336,276
Hedging financial instruments	200	-	200
Subordinated Murabahah Tawarruq	-	414,136	414,136
	5,336,476	414,136	5,750,612

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

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Bank			
2014			
Financial assets			
Securities held-for-trading	17,483	-	17,483
Securities available-for-sale	1,207,680	-	1,207,680
Securities held-to-maturity	81,255	-	81,255
Financing, advances and other receivables	794,392	6,305,817	7,100,209
Hedging financial instruments	11,361	-	11,361
Total	2,112,171	6,305,817	8,417,988
Financial liability			
Deposits from customers	3,949,559	-	3,949,559
Hedging financial instruments	147	-	147
Subordinated Murabahah Tawarruq	-	342,558	342,558
	3,949,706	342,558	4,292,264
Bank			
2013			
Financial assets			
Securities available-for-sale	976,143	-	976,143
Securities held-to-maturity	81,514	-	81,514
Financing, advances and other receivables	565,641	5,432,789	5,998,430
Hedging financial instruments	15,192	-	15,192
Total	1,638,490	5,432,789	7,071,279
Financial liability			
Deposits from customers	5,317,772	-	5,317,772
Hedging financial instruments	200	-	200
Subordinated Murabahah Tawarruq	-	414,136	414,136
	5,317,972	414,136	5,732,108

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	5.7%

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

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

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

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

	Group			
	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	81,494	81,255	81,486	81,514
Financing, advances and other receivables	6,703,522	6,700,936	6,010,042	5,998,430
	6,785,016	6,782,191	6,091,528	6,079,944
Financial Liabilities				
Deposits from customers	4,060,371	4,031,404	5,202,146	5,336,276
Subordinated Murabahah Tawarruq	352,627	342,558	415,577	414,136
	4,412,998	4,373,962	5,617,723	5,750,412

	Bank			
	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	81,494	81,255	81,486	81,514
Financing, advances and other receivables	6,703,522	6,700,936	6,010,042	5,998,430
	6,785,016	6,782,191	6,091,528	6,079,944
Financial Liabilities				
Deposits from customers	3,963,543	3,949,559	5,202,146	5,317,772
Subordinated Murabahah Tawarruq	352,627	342,558	415,577	414,136
	4,316,170	4,292,117	5,617,723	5,731,908

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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) Securities Held-For-Trading and Available-For-Sale

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

(d) Securities Held-To-Maturity

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

(e) Hedging Financial Instruments

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

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

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

(f) Financing, Advances and Other Receivables

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

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

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

(h) Subordinated Murabahah Tawaruq

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

43 OPERATING LEASES

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

Within one year
 Between one and five years

Group	
2014	2013
RM'000	RM'000
11,887	18,624
4,598	10,947
16,485	29,571

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43 OPERATING LEASES (Cont'd.)

Within one year
Between one and five years

Bank	
2014 RM'000	2013 RM'000
11,561	18,249
4,586	10,760
16,147	29,009

44 EVENTS OCCURRING AFTER THE REPORTING DATE

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

45 HOLDING COMPANY

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

46 MATURITY ANALYSIS

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

Group	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
2014			
Assets			
Cash and short-term funds	1,526,907	-	1,526,907
Deposits and placements with banks and other financial institutions	52,964	-	52,964
Securities held-for-trading	17,483	-	17,483
Securities available-for-sale	356,602	1,039,277	1,395,879
Securities held-to-maturity	-	81,494	81,494
Financing, advances and receivables	4,889,201	1,814,321	6,703,522
Musarakah capital investment	-	5,898	5,898
Other assets	-	687,434	687,434
Total Assets	6,843,157	3,628,424	10,471,581
Liabilities			
Deposits from customers	3,894,480	165,891	4,060,371
Deposits and placements of banks and other financial institutions	4,180,232	-	4,180,232
Subordinated Murabahah Tawarruq	-	352,627	352,627
Other liabilities	-	172,243	172,243
Total Liabilities	8,074,712	690,761	8,765,473
Net	(1,231,555)	2,937,663	1,706,108

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46 MATURITY ANALYSIS (Cont'd.)

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

Group	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
2013			
Assets			
Cash and short-term funds	1,406,209	-	1,406,209
Deposits and placements with banks and other financial institutions	75,902	-	75,902
Securities available-for-sale	179,285	958,058	1,137,343
Securities held-to-maturity	-	81,486	81,486
Financing, advances and receivables	3,416,193	2,593,849	6,010,042
Musarakah capital investment	-	5,898	5,898
Other assets	-	734,003	734,003
Total Assets	5,077,589	4,373,294	9,450,883
Liabilities			
Deposits from customers	5,186,469	37,542	5,224,011
Deposits and placements of banks and other financial institutions	1,890,191	-	1,890,191
Subordinated Murabahah Tawarruq	415,577	-	415,577
Other liabilities	-	331,490	331,490
Total Liabilities	7,492,237	369,032	7,861,269
Net	(2,414,648)	4,004,262	1,589,614

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46 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
Bank 2014			
Assets			
Cash and short-term funds	1,526,002	-	1,526,002
Deposits and placements with banks and other financial institutions	78,266	-	78,266
Securities held-for-trading	17,483	-	17,483
Securities available-for-sale	293,245	978,174	1,271,419
Securities held-to-maturity	-	81,494	81,494
Financing, advances and receivables	3,969,660	2,733,862	6,703,522
Musarakah capital investment	-	5,898	5,898
Other assets	-	704,943	704,943
Total Assets	5,884,656	4,504,371	10,389,027
Liabilities			
Deposits from customers	3,797,652	165,891	3,963,543
Deposits and placements of banks and other financial institutions	4,217,000	-	4,217,000
Subordinated Murabahah Tawarruq	-	352,627	352,627
Other liabilities	-	171,320	171,320
Total Liabilities	8,014,652	689,838	8,704,490
Net	(2,129,996)	3,814,533	1,684,537

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46 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months RM'000	Over 12 months RM'000	Total RM'000
Bank			
2013			
Assets			
Cash and short-term funds	1,431,875	-	1,431,875
Deposits and placements with banks and other financial institutions	75,902	-	75,902
Securities available-for-sale	179,285	859,724	1,039,009
Securities held-to-maturity	-	81,486	81,486
Financing, advances and receivables	3,416,193	2,593,849	6,010,042
Musarakah capital investment	-	5,898	5,898
Other assets	-	751,924	751,924
Total Assets	5,103,255	4,292,881	9,396,136
Liabilities			
Deposits from customers	5,164,604	37,542	5,202,146
Deposits and placements of banks and other financial institutions	1,872,368	-	1,872,368
Subordinated Murabahah Tawarruq	415,577	-	415,577
Other liabilities	-	330,648	330,648
Total Liabilities	7,452,549	368,190	7,820,739
Net	(2,349,294)	3,924,691	1,575,397

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47 FINANCIAL RISK MANAGEMENT

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

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

(a) CREDIT RISK

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

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2014

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

Total On-Balance Sheet

Financial guarantees
 Contingent liabilities
 Commitments *

Total Off-Balance Sheet

Total On and Off-Balance Sheet

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
1,526,907	1,526,002
52,964	78,266
17,483	17,483
1,243,067	1,137,122
81,494	81,494
6,703,522	6,703,522
221,216	220,277
222,200	222,200
11,361	11,361
10,080,214	9,997,727
104,544	104,544
127,861	127,861
489,239	489,239
721,644	721,644
10,801,858	10,719,371

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2013

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

Total gross maximum exposure	
Group	Bank
RM'000	RM'000
1,406,209	1,431,875
75,902	75,902
969,140	910,628
81,486	81,486
6,010,042	6,010,042
246,900	246,750
182,200	182,200
15,192	15,192
8,987,071	8,954,075
11,220	11,220
166,777	166,777
731,019	731,019
909,016	909,016
9,896,087	9,863,091

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographic region				Total gross maximum exposure RM'000
	Malaysia	Middle East	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	
2014 Group					
Cash and short-term funds	1,378,852	6,708	141,347	-	1,526,907
Deposits and placements with banks and other financial institutions	-	-	52,964	-	52,964
Securities held-for-trading					-
- Unquoted	17,483	-	-	-	17,483
Securities available-for-sale					
- Unquoted	933,645	245,854	63,568	-	1,243,067
Securities held-to-maturity					
- Unquoted	30,364	-	51,130	-	81,494
Financing, advances and other receivables	6,805,392	7,248	38,914	(148,032)	6,703,522
Other assets	68,365	152,851	-	-	221,216
Statutory deposits with BNM	222,200	-	-	-	222,200
Hedging financial instruments					-
- Ijarah rental swap	11,361	-	-	-	11,361
Total On-Balance Sheet	9,467,662	412,661	347,923	(148,032)	10,080,214
Financial guarantees	104,544	-	-	-	104,544
Contingent liabilities	100,757	-	27,104	-	127,861
Commitments *	489,104	135	-	-	489,239
Total Off-Balance Sheet	694,405	135	27,104	-	721,644
Total On and Off-Balance Sheet	10,162,067	412,796	375,027	(148,032)	10,801,858

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographic region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000
2013					
Group					
Cash and short-term funds	1,343,035	8,433	54,741	-	1,406,209
Deposits and placements with banks and other financial institutions	50,005	-	25,897	-	75,902
Securities available-for-sale					
- Unquoted	712,061	225,624	31,455	-	969,140
Securities held-to-maturity					
- Unquoted	30,364	-	51,122	-	81,486
Financing, advances and other receivables	6,127,779	10,182	63,007	(190,926)	6,010,042
Other assets	95,350	151,550	-	-	246,900
Statutory deposits with BNM	182,200	-	-	-	182,200
Hedging financial instruments					
- Ijarah rental swap	15,192	-	-	-	15,192
Total On-Balance Sheet	8,555,986	395,789	226,222	(190,926)	8,987,071
Financial guarantees	11,220	-	-	-	11,220
Contingent liabilities	141,390	-	25,387	-	166,777
Commitments *	730,884	135	-	-	731,019
Total Off-Balance Sheet	883,494	135	25,387	-	909,016
Total On and Off-Balance Sheet	9,439,480	395,924	251,609	(190,926)	9,896,087

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographic region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle East RM'000	Others RM'000	Collective assessment RM'000	
2014					
Bank					
Cash and short-term funds	1,378,852	6,708	140,442	-	1,526,002
Deposits and placements with banks and other financial institutions	-	-	78,266	-	78,266
Securities held-for-trading					
- Unquoted	17,483	-	-	-	17,483
Securities available-for-sale					
- Unquoted	884,445	231,697	20,980	-	1,137,122
Securities held-to-maturity					
- Unquoted	30,364	-	51,130	-	81,494
Financing, advances and other receivables	6,805,392	7,248	38,914	(148,032)	6,703,522
Other assets	69,026	151,251	-	-	220,277
Statutory deposits with BNM	222,200	-	-	-	222,200
Hedging financial instruments					
- Ijarah rental swap	11,361	-	-	-	11,361
Total On-Balance Sheet	9,419,123	396,904	329,732	(148,032)	9,997,727
Financial guarantees	104,544	-	-	-	104,544
Contingent liabilities	100,757	-	27,104	-	127,861
Commitments *	489,104	135	-	-	489,239
Total Off-Balance Sheet	694,405	135	27,104	-	721,644
Total On and Off-Balance Sheet	10,113,528	397,039	356,836	(148,032)	10,719,371

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographic region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000
2013					
Bank					
Cash and short-term funds	1,369,877	8,433	53,565	-	1,431,875
Deposits and placements with banks and other financial institutions	50,005	-	25,897	-	75,902
Securities available-for-sale					
- Unquoted	698,424	212,204	-	-	910,628
Securities held-to-maturity					
- Unquoted	30,364	-	51,122	-	81,486
Financing, advances and other receivables	6,127,779	10,182	63,007	(190,926)	6,010,042
Other assets	95,200	151,550	-	-	246,750
Statutory deposits with BNM	182,200	-	-	-	182,200
Hedging financial instruments					
- Ijarah rental swap	15,192	-	-	-	15,192
Total On-Balance Sheet	8,569,041	382,369	193,591	(190,926)	8,954,075
Financial guarantees	11,220	-	-	-	11,220
Contingent liabilities	141,390	-	25,387	-	166,777
Commitments *	730,884	135	-	-	731,019
Total Off-Balance Sheet	883,494	135	25,387	-	909,016
Total On and Off-Balance Sheet	9,452,535	382,504	218,978	(190,926)	9,863,091

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2014 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	1,526,907	-	-	-	-	-	1,526,907
Deposits and placements with banks and other financial institutions	-	52,964	-	-	-	-	-	52,964
Securities held-for-trading	-	17,483	-	-	-	-	-	17,483
Securities available-for-sale	-	374,223	29,529	-	613,743	225,572	-	1,243,067
Securities held-to-maturity	-	56,178	-	5,064	-	20,252	-	81,494
Financing, advances and other receivables	1,263,447	347,143	1,921,118	522,113	-	2,797,733	(148,032)	6,703,522
Other assets	-	-	-	-	-	221,216	-	221,216
Statutory deposits with BNM	-	222,200	-	-	-	-	-	222,200
Hedging financial instruments	-	-	-	11,361	-	-	-	11,361
Total On-Balance Sheet	1,263,447	2,597,098	1,950,647	538,538	613,743	3,264,773	(148,032)	10,080,214
Financial guarantees	62	-	20,580	2,758	-	81,144	-	104,544
Contingent liabilities	3,331	47,395	28,340	9,852	-	38,943	-	127,861
Commitments *	96,727	134,709	81,058	45,420	-	131,325	-	489,239
Total Off-Balance Sheet	100,120	182,104	129,978	58,030	-	251,412	-	721,644
Total On and Off-Balance Sheet	1,363,567	2,779,202	2,080,625	596,568	613,743	3,516,185	(148,032)	10,801,858

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2013 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	1,406,209	-	-	-	-	-	1,406,209
Deposits and placements with banks and other financial institutions	-	75,902	-	-	-	-	-	75,902
Securities available-for-sale	-	151,781	29,493	10,202	547,742	229,922	-	969,140
Securities held-to-maturity	-	56,170	-	5,064	-	20,252	-	81,486
Financing, advances and other receivables	1,132,291	448,562	1,466,557	561,021	-	2,592,537	(190,926)	6,010,042
Other assets	-	299	-	-	-	246,601	-	246,900
Statutory deposits with BNM	-	182,200	-	-	-	-	-	182,200
Hedging financial instruments	-	-	-	15,192	-	-	-	15,192
Total On-Balance Sheet	1,132,291	2,321,123	1,496,050	591,479	547,742	3,089,312	(190,926)	8,987,071
Financial guarantees	-	-	1,543	1,233	-	8,444	-	11,220
Contingent liabilities	11,622	-	82,279	7,278	-	65,598	-	166,777
Commitments *	131,401	-	128,549	192,309	-	278,760	-	731,019
Total Off-Balance Sheet	143,023	-	212,371	200,820	-	352,802	-	909,016
Total On and Off-Balance Sheet	1,275,314	2,321,123	1,708,421	792,299	547,742	3,442,114	(190,926)	9,896,087

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2014	Industry						Collective assessment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Bank								
Cash and short-term funds	-	1,526,002	-	-	-	-	-	1,526,002
Deposits and placements with banks and other financial institutions	-	78,266	-	-	-	-	-	78,266
Securities held-for-trading	-	17,483	-	-	-	-	-	17,483
Securities available-for-sale	-	325,064	29,529	-	575,052	207,477	-	1,137,122
Securities held-to-maturity	-	56,178	-	5,064	-	20,252	-	81,494
Financing, advances and other receivables	1,263,447	347,143	1,921,118	522,113	-	2,797,733	(148,032)	6,703,522
Other assets	-	-	-	-	-	220,277	-	220,277
Statutory deposits with BNM	-	222,200	-	-	-	-	-	222,200
Hedging financial instruments	-	-	-	11,361	-	-	-	11,361
Total On-Balance Sheet	1,263,447	2,572,336	1,950,647	538,538	575,052	3,245,739	(148,032)	9,997,727
Financial guarantees	62	-	20,580	2,758	-	81,144	-	104,544
Contingent liabilities	3,331	47,395	28,340	9,852	-	38,943	-	127,861
Commitments *	96,727	134,709	81,058	45,420	-	131,325	-	489,239
Total Off-Balance Sheet	100,120	182,104	129,978	58,030	-	251,412	-	721,644
Total On and Off-Balance Sheet	1,363,567	2,754,440	2,080,625	596,568	575,052	3,497,151	(148,032)	10,719,371

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2013 Bank	Industry						Collective assessment RM'000	Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Cash and short-term funds	-	1,431,875	-	-	-	-	-	1,431,875
Deposits and placements with banks and other financial institutions	-	75,902	-	-	-	-	-	75,902
Securities available-for-sale	-	138,361	29,493	10,202	518,731	213,841	-	910,628
Securities held-to-maturity	-	56,170	-	5,064	-	20,252	-	81,486
Financing, advances and other receivables	1,132,291	448,562	1,466,557	561,021	-	2,592,537	(190,926)	6,010,042
Other assets	-	299	-	-	-	246,451	-	246,750
Statutory deposits with BNM	-	182,200	-	-	-	-	-	182,200
Hedging financial instruments	-	-	-	15,192	-	-	-	15,192
Total On-Balance Sheet	1,132,291	2,333,369	1,496,050	591,479	518,731	3,073,081	(190,926)	8,954,075
Financial guarantees	-	-	1,543	1,233	-	8,444	-	11,220
Contingent liabilities	11,622	-	82,279	7,278	-	65,598	-	166,777
Commitments *	131,401	-	128,549	192,309	-	278,760	-	731,019
Total Off-Balance Sheet	143,023	-	212,371	200,820	-	352,802	-	909,016
Total On and Off-Balance Sheet	1,275,314	2,333,369	1,708,421	792,299	518,731	3,425,883	(190,926)	9,863,091

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

2014 Group	Residual Maturity				Not on demand and no maturity date RM'000	Collective assessment RM'000	Total gross maximum exposure RM'000
	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			
	Cash and short-term funds	1,526,907	-	-			
Deposits and placements with banks and other financial institutions	52,964	-	-	-	-	-	52,964
Securities held-for-trading	17,483	-	-	-	-	-	17,483
Securities available-for-sale	251,845	114,370	413,305	463,547	-	-	1,243,067
Securities held-to-maturity	-	-	81,494	-	-	-	81,494
Financing, advances and other receivables	4,080,888	78,111	354,634	2,337,921	-	(148,032)	6,703,522
Other assets	-	-	-	-	221,216	-	221,216
Statutory deposits with BNM	-	-	-	-	222,200	-	222,200
Hedging financial instruments	-	-	11,361	-	-	-	11,361
Total On-Balance Sheet	5,930,087	192,481	860,794	2,801,468	443,416	(148,032)	10,080,214
Financial guarantees	4,177	2,520	20,200	77,647	-	-	104,544
Contingent liabilities	54,833	4,536	33,014	23,524	11,954	-	127,861
Commitments *	101,730	48,481	43,629	182,192	113,207	-	489,239
Total Off-Balance Sheet	160,740	55,537	96,843	283,363	125,161	-	721,644
Total On and Off-Balance Sheet	6,090,827	248,018	957,637	3,084,831	568,577	(148,032)	10,801,858

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

2013 Group	Residual Maturity				Not on demand and no maturity date RM'000	Collective assessment RM'000	Total gross maximum exposure RM'000
	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			
	Cash and short-term funds	1,406,209	-	-			
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	-	75,902
Securities available-for-sale	19,815	169,082	319,266	460,977	-	-	969,140
Securities held-to-maturity	-	-	56,170	25,316	-	-	81,486
Financing, advances and other receivables	3,305,800	183,984	292,393	2,418,791	-	(190,926)	6,010,042
Other assets	-	-	-	-	246,900	-	246,900
Statutory deposits with BNM	-	-	-	-	182,200	-	182,200
Hedging financial instruments	-	-	15,192	-	-	-	15,192
Total On-Balance Sheet	4,781,829	378,963	683,021	2,905,084	429,100	(190,926)	8,987,071
Financial guarantees	2,789	5,384	2,915	-	132	-	11,220
Contingent liabilities	62,495	42,165	9,737	14,762	37,618	-	166,777
Commitments *	242,656	23,117	146,787	254,589	63,870	-	731,019
Total Off-Balance Sheet	307,940	70,666	159,439	269,351	101,620	-	909,016
Total On and Off-Balance Sheet	5,089,769	449,629	842,460	3,174,435	530,720	(190,926)	9,896,087

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014							
Bank							
Cash and short-term funds	1,526,002	-	-	-	-	-	1,526,002
Deposits and placements with banks and other financial institutions	78,266	-	-	-	-	-	78,266
Securities held-for-trading	17,483	-	-	-	-	-	17,483
Securities available-for-sale	202,645	100,214	370,716	463,547	-	-	1,137,122
Securities held-to-maturity	-	-	81,494	-	-	-	81,494
Financing, advances and other receivables	4,080,888	78,111	354,634	2,337,921	-	(148,032)	6,703,522
Other assets	-	-	-	-	220,277	-	220,277
Statutory deposits with BNM	-	-	-	-	222,200	-	222,200
Hedging financial instruments	-	-	11,361	-	-	-	11,361
Total On-Balance Sheet	5,905,284	178,325	818,205	2,801,468	442,477	(148,032)	9,997,727
Financial guarantees	4,177	2,520	20,200	77,647	-	-	104,544
Contingent liabilities	54,833	4,536	33,014	23,524	11,954	-	127,861
Commitments *	101,730	48,481	43,629	182,193	113,207	-	489,239
Total Off-Balance Sheet	160,740	55,537	96,843	283,364	125,161	-	721,644
Total On and Off-Balance Sheet	6,066,024	233,862	915,048	3,084,832	567,638	(148,032)	10,719,371

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013							
Bank							
Cash and short-term funds	1,431,875	-	-	-	-	-	1,431,875
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	-	75,902
Securities available-for-sale	19,815	169,082	260,754	460,977	-	-	910,628
Securities held-to-maturity	-	-	56,170	25,316	-	-	81,486
Financing, advances and other receivables	3,305,800	183,984	292,393	2,418,791	-	(190,926)	6,010,042
Other assets	-	-	-	-	246,750	-	246,750
Statutory deposits with BNM	-	-	-	-	182,200	-	182,200
Hedging financial instruments	-	-	15,192	-	-	-	15,192
Total On-Balance Sheet	4,807,495	378,963	624,509	2,905,084	428,950	(190,926)	8,954,075
Financial guarantees	2,789	5,384	2,915	-	132	-	11,220
Contingent liabilities	62,495	42,165	9,737	14,762	37,618	-	166,777
Commitments *	242,656	23,117	146,787	254,589	63,870	-	731,019
Total Off-Balance Sheet	307,940	70,666	159,439	269,351	101,620	-	909,016
Total On and Off-Balance Sheet	5,115,435	449,629	783,948	3,174,435	530,570	(190,926)	9,863,091

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

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

2014 Group	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	1,526,907	-	-	-	-	1,526,907
Deposits and placements with banks and other financial institutions	52,964	-	-	-	-	52,964
Securities held-for-trading	17,483	-	-	-	-	17,483
Securities available-for-sale	1,233,454	-	-	-	9,613	1,243,067
Securities held-to-maturity	81,494	-	-	-	-	81,494
Financing, advances and other receivables	3,104,124	2,057,827	471,149	958,970	526,626	7,118,696
Other assets	220,303	-	-	-	913	221,216
Statutory deposits with BNM	222,200	-	-	-	-	222,200
Hedging financial instruments	11,361	-	-	-	-	11,361
Total On-Balance Sheet	6,470,290	2,057,827	471,149	958,970	537,152	10,495,388
Financial guarantees	104,544	-	-	-	-	104,544
Contingent liabilities	127,861	-	-	-	-	127,861
Commitments *	489,239	-	-	-	-	489,239
Total Off-Balance Sheet	721,644	-	-	-	-	721,644
Total On and Off-Balance Sheet	7,191,934	2,057,827	471,149	958,970	537,152	11,217,032

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

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

2013 Group	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	1,406,209	-	-	-	-	1,406,209
Deposits and placements with banks and other financial institutions	75,902	-	-	-	-	75,902
Securities available-for-sale	959,527	-	-	-	9,613	969,140
Securities held-to-maturity	81,486	-	-	-	-	81,486
Financing, advances and other receivables	2,177,266	1,866,063	914,202	868,888	690,626	6,517,045
Other assets	246,285	-	-	-	615	246,900
Statutory deposits with BNM	182,200	-	-	-	-	182,200
Hedging financial instruments	15,192	-	-	-	-	15,192
Total On-Balance Sheet	5,144,067	1,866,063	914,202	868,888	700,854	9,494,074
Financial guarantees	11,220	-	-	-	-	11,220
Contingent liabilities	166,777	-	-	-	-	166,777
Commitments *	731,019	-	-	-	-	731,019
Total Off-Balance Sheet	909,016	-	-	-	-	909,016
Total On and Off-Balance Sheet	6,053,083	1,866,063	914,202	868,888	700,854	10,403,090

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

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

2014 Bank	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	1,526,002	-	-	-	-	1,526,002
Deposits and placements with banks and other financial institutions	78,266	-	-	-	-	78,266
Securities held-for-trading	17,483	-	-	-	-	17,483
Securities available-for-sale	1,127,509	-	-	-	9,613	1,137,122
Securities held-to-maturity	81,494	-	-	-	-	81,494
Financing, advances and other receivables	3,104,124	2,057,827	471,149	958,970	526,626	7,118,696
Other assets	219,364	-	-	-	913	220,277
Statutory deposits with BNM	222,200	-	-	-	-	222,200
Hedging financial instruments	11,361	-	-	-	-	11,361
Total On-Balance Sheet	6,387,803	2,057,827	471,149	958,970	537,152	10,412,901
Financial guarantees	104,544	-	-	-	-	104,544
Contingent liabilities	127,861	-	-	-	-	127,861
Commitments *	489,239	-	-	-	-	489,239
Total Off-Balance Sheet	721,644	-	-	-	-	721,644
Total On and Off-Balance Sheet	7,109,447	2,057,827	471,149	958,970	537,152	11,134,545

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(ii) Credit quality per class of financial assets

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

2013	Performing	Performing	Past due but not	Restructured &	Impaired	Total
Bank	rated	Unrated	impaired	rescheduled	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,431,875	-	-	-	-	1,431,875
Deposits and placements with banks and other financial institutions	75,902	-	-	-	-	75,902
Securities available-for-sale	901,015	-	-	-	9,613	910,628
Securities held-to-maturity	81,486	-	-	-	-	81,486
Financing, advances and other receivables	2,177,266	1,866,063	914,202	868,888	690,626	6,517,045
Other assets	246,135	-	-	-	615	246,750
Statutory deposits with BNM	182,200	-	-	-	-	182,200
Hedging financial instruments	15,192	-	-	-	-	15,192
Total On-Balance Sheet	5,111,071	1,866,063	914,202	868,888	700,854	9,461,078
Financial guarantees	11,220	-	-	-	-	11,220
Contingent liabilities	166,777	-	-	-	-	166,777
Commitments *	731,019	-	-	-	-	731,019
Total Off-Balance Sheet	909,016	-	-	-	-	909,016
Total On and Off-Balance Sheet	6,020,087	1,866,063	914,202	868,888	700,854	10,370,094

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

The principal objective of credit risk measurement for KFHMB is to produce accurate quantitative assessment of the credit risk to which the Bank is exposed to. To determine the counterparty risk, KFHMB has a risk rating system that enables the rank-ordering of the customers' risk profile to assess the credit quality of customers and assigns them an internal risk rating. Over the year, to ensure that the integrity of the data used is in place, KFHMB has undergone a verification exercise with an independent consultant and is in the midst of further refining the rating process. 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 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 monitored to ensure that it continues to effectively discriminate between good and potentially bad customers.

2014 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	626,164
Strong	1,756,386
Minimum	930,375
Pass with condition	759,204
Early care	138,092
Impaired	254,678
New/ SPV	157,498
Unrated	2,229,157
	6,851,554
Less: Collective assessment	(148,032)
Total Corporate, Commercial and Retail	6,703,522

* Unrated segment includes retail credit exposures

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2013 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	89,267
Strong	869,461
Minimum	598,963
Pass with condition	764,463
Early care	323,216
Impaired	373,072
New/ SPV	397,878
Unrated	2,769,522
Total Corporate, Commercial and Retail	6,185,842
Good	139
Very High Satisfactory	1,444
High Satisfactory	2,750
Upper Medium Satisfactory	263
Lower Medium Satisfactory	1,685
Low Satisfactory	7,092
Marginal/ Watchlist	276
Default - Impaired	1,477
Total SME	15,126
	6,200,968
Less: Collective assessment	(190,926)
Total Corporate, Commercial and Retail	6,010,042

* Unrated segment includes retail credit exposures

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2014

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moody's	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA3	A to A3	BBB to BB	B to D			
RAM	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
MARC	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities held-for-trading	-	17,483	-	-	-	-	17,483
Securities available-for-sale	229,019	611,339	53,993	-	9,613	339,103	1,243,067
Securities held-to-maturity	81,494	-	-	-	-	-	81,494
Bank							
Securities held-for-trading	-	17,483	-	-	-	-	17,483
Securities available-for-sale	207,840	562,139	18,427	-	9,613	339,103	1,137,122
Securities held-to-maturity	81,494	-	-	-	-	-	81,494

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2013

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moody's	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA3	A to A3	BBB to BB	B to D			
RAM	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
MARC	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Securities available-for-sale	164,010	417,729	48,788	-	9,613	329,000	969,140
Securities held-to-maturity	81,486	-	-	-	-	-	81,486
Bank							
Securities available-for-sale	150,590	404,092	17,333	-	9,613	329,000	910,628
Securities held-to-maturity	81,486	-	-	-	-	-	81,486

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2014

Group and Bank

Financing and advances to customers

Corporate financing

Commercial financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
41,334	242	-	41,576
55,564	52,874	103	108,542
218,660	51,348	51,024	321,032
315,559	104,464	51,127	471,149

2013

Group and Bank

Financing and advances to customers

Corporate financing

Commercial financing

Retail & Consumer financing

Less than 30 days	31 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
38,964	-	-	38,964
64,248	2,469	2,119	68,836
426,379	355,184	24,839	806,402
529,591	357,653	26,958	914,202

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Impaired and past due financing by geographical regions

2014	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	495,656	462,706	266,857		105,151
Middle East	341	1,158	3		-
Others	30,628	7,285	282		-
Total	526,625	471,149	267,142	148,032	105,151

2013	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	636,836	909,333	309,799		114,511
Middle East	5,632	2,120	5,544		-
Others	48,158	2,749	734		-
Total	690,626	914,202	316,077	190,926	114,511

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Impaired and past due financing by industry sector

2014	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Trading and manufacturing	350,237	83,263	174,730		14
Banks and financial institutions	34,796	58,293	22,646		-
Construction and real estate	27,946	11,703	156		-
Transportation, storage and communication	87,512	103	48,280		-
Others	26,134	317,787	21,330		105,137
Total	526,625	471,149	267,142	148,032	105,151

2013	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Trading and manufacturing	376,074	102,111	158,317		6,413
Banks and financial institutions	22,120	4,896	10,302		-
Construction and real estate	79,824	5,038	13,020		5,040
Transportation, storage and communication	56,196	793	11,386		-
Others	156,412	801,364	123,052		103,058
Total	690,626	914,202	316,077	190,926	114,511

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has established clear guidelines that have been approved by the management and the Board on the types of acceptable collateral, valuation parameters and processes and secured margins to be taken.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Bank also obtains guarantees from parent companies for finance facilities extended to their subsidiaries. In line with the Bank's established credit guidelines, proper due diligence on the guarantor is conducted to ascertain their creditworthiness. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 94.6%, (2013: 92.6%) as at 31 December 2014. The financial effect of collateral held for other financial assets is not significant.

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

In order to cater for the inherently higher credit risks associated to dealings in Musyarakah and Mudharabah contracts, the Bank has been maintaining an internal credit policy to cover the Bank's activities in such portfolio, in addition to complying with BNM's Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions. The internal policy, which sets stricter and more clearly defined guidelines, encompasses areas of managing risks associated to profit-sharing activities such as the business management, strategy, exit mechanisms, business monitoring/control, and trigger alerts for potential watchlist and impaired accounts. The credit policy is enhanced from time to time to cater for latest changes in the risk profile of the portfolio.

In terms of approval of new Musyarakah and Mudharabah contracts, the Bank has introduced greater control where all new proposals are tabled to Management Committee for approval and subsequently to Board Credit and Investment Committee for concurrence. This further augments the Board's credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank uses the Bank Negara Malaysia's New Liquidity Framework as a foundation in managing its liquidity.

The objective of liquidity risk management is to ensure that cash needs always can be met at reasonable cost, either by:

- (i) maturity or sale of assets, or
- (ii) the acquisition of deposits or additional funding from the Islamic money markets.

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

Contractual maturity of total assets and liabilities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheets assets and liabilities, commitments and counter-guarantees are important factors in assessing liquidity of the Group and the Bank.

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on their behavioural profile. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2014
Group

ASSETS

Cash and short-term funds	1,526,907	-	-	-	-	1,526,907
Deposits and placements with banks and other financial institutions	52,964	-	-	-	-	52,964
Securities held-for-trading	17,483	-	-	-	-	17,483
Securities available-for-sale	242,231	114,370	413,305	463,547	162,426	1,395,879
Securities held-to-maturity	-	-	81,494	-	-	81,494
Financing, advances and receivables	3,891,551	78,112	838,800	1,895,062	-	6,703,525
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	687,431	687,431
Total Assets	5,731,136	192,482	1,333,599	2,358,609	855,755	10,471,581

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	1,526,907	-	-	-	-	1,526,907
Deposits and placements with banks and other financial institutions	52,964	-	-	-	-	52,964
Securities held-for-trading	17,483	-	-	-	-	17,483
Securities available-for-sale	242,231	114,370	413,305	463,547	162,426	1,395,879
Securities held-to-maturity	-	-	81,494	-	-	81,494
Financing, advances and receivables	3,891,551	78,112	838,800	1,895,062	-	6,703,525
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	687,431	687,431
Total Assets	5,731,136	192,482	1,333,599	2,358,609	855,755	10,471,581

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2014

Group (Cont'd.)

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers

Deposits and placements of banks and other financial institutions

Subordinated Murabahah Tawarruq

Other liabilities

Total Liabilities

Shareholder's equity

Total Liabilities and Shareholder's equity

OFF-BALANCE SHEET LIABILITIES

Commitments & contingencies

Net maturity mismatch

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	3,510,625	383,855	165,891	-	-	4,060,371
Deposits and placements of banks and other financial institutions	4,062,434	117,798	-	-	-	4,180,232
Subordinated Murabahah Tawarruq	-	-	-	352,627	-	352,627
Other liabilities	-	-	-	-	172,243	172,243
Total Liabilities	7,573,059	501,653	165,891	352,627	172,243	8,765,473
Shareholder's equity	-	-	-	-	1,706,108	1,706,108
Total Liabilities and Shareholder's equity	7,573,059	501,653	165,891	352,627	1,878,351	10,471,581
Commitments & contingencies	160,739	54,987	95,679	285,078	125,161	721,644
Net maturity mismatch	(2,002,662)	(364,158)	1,072,029	1,720,904	(1,147,757)	(721,644)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2013 Group	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	1,406,209	-	-	-	-	1,406,209
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	75,902
Securities available-for-sale	10,202	169,083	319,266	460,976	177,816	1,137,343
Securities held-to-maturity	-	-	56,170	25,316	-	81,486
Financing, advances and receivables	3,187,528	228,665	585,557	2,008,292	-	6,010,042
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	734,003	734,003
Total Assets	4,653,944	423,645	960,993	2,494,584	917,717	9,450,883

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2013

Group (Cont'd.)

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers

Deposits and placements of banks and other financial institutions

Subordinated Murabahah Tawarruq

Other liabilities

Total Liabilities

Shareholder's equity

Total Liabilities and Shareholder's equity

OFF-BALANCE SHEET LIABILITIES

Commitments & contingencies

Net maturity mismatch

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	4,579,470	606,999	37,542	-	-	5,224,011
Deposits and placements of banks and other financial institutions	1,808,820	81,371	-	-	-	1,890,191
Subordinated Murabahah Tawarruq	415,577	-	-	-	-	415,577
Other liabilities	-	-	-	-	331,490	331,490
Total Liabilities	6,803,867	688,370	37,542	-	331,490	7,861,269
Shareholder's equity	-	-	-	-	1,589,614	1,589,614
Total Liabilities and Shareholder's equity	6,803,867	688,370	37,542	-	1,921,104	9,450,883
Commitments & contingencies	307,940	70,666	159,439	269,351	101,620	909,016
Net maturity mismatch	(2,457,863)	(335,391)	764,012	2,225,233	(1,105,007)	(909,016)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014						
Bank						
ASSETS						
Cash and short-term funds	1,526,002	-	-	-	-	1,526,002
Deposits and placements with banks and other financial institutions	78,266	-	-	-	-	78,266
Securities held-for-trading	17,483	-	-	-	-	17,483
Securities available-for-sale	193,031	100,214	370,716	463,547	143,911	1,271,419
Securities held-to-maturity	-	-	81,494	-	-	81,494
Financing, advances and receivables	3,891,548	78,112	838,800	1,895,062	-	6,703,522
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	704,943	704,943
Total Assets	5,706,330	178,326	1,291,010	2,358,609	854,752	10,389,027
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,413,797	383,855	165,891	-	-	3,963,543
Deposits and placements of banks and other financial institutions	4,099,203	117,797	-	-	-	4,217,000
Subordinated Murabahah Tawarruq	-	-	-	352,627	-	352,627
Other liabilities	-	-	-	-	171,320	171,320
Total Liabilities	7,513,000	501,652	165,891	352,627	171,320	8,704,490
Shareholder's equity	-	-	-	-	1,684,537	1,684,537
Total Liabilities and Shareholder's equity	7,513,000	501,652	165,891	352,627	1,855,857	10,389,027
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	160,739	54,987	97,393	283,364	125,161	721,644
Net maturity mismatch	(1,967,409)	(378,313)	1,027,726	1,722,618	(1,126,266)	(721,644)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2013

Bank

ASSETS

Cash and short-term funds	1,431,875	-	-	-	-	1,431,875
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	75,902
Securities available-for-sale	10,202	169,083	260,755	460,976	137,992	1,039,008
Securities held-to-maturity	-	-	56,170	25,316	-	81,486
Financing, advances and receivables	3,187,528	228,665	585,557	2,008,292	-	6,010,042
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	751,925	751,925

Total Assets

	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	1,431,875	-	-	-	-	1,431,875
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	75,902
Securities available-for-sale	10,202	169,083	260,755	460,976	137,992	1,039,008
Securities held-to-maturity	-	-	56,170	25,316	-	81,486
Financing, advances and receivables	3,187,528	228,665	585,557	2,008,292	-	6,010,042
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	751,925	751,925
Total Assets	4,679,610	423,645	902,482	2,494,584	895,815	9,396,136
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	4,557,605	606,999	37,542	-	-	5,202,146
Deposits and placements of banks and other financial institutions	1,790,997	81,371	-	-	-	1,872,368
Subordinated Murabahah Tawarruq	415,577	-	-	-	-	415,577
Other liabilities	-	-	-	-	330,648	330,648
Total Liabilities	6,764,179	688,370	37,542	-	330,648	7,820,739
Shareholder's equity	-	-	-	-	1,575,397	1,575,397
Total Liabilities and Shareholder's equity	6,764,179	688,370	37,542	-	1,906,045	9,396,136
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	307,940	70,666	159,439	269,351	101,620	909,016
Net maturity mismatch	(2,392,509)	(335,391)	705,501	2,225,233	(1,111,850)	(909,016)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flow. The Group and the Bank manage inherent liquidity risk based on undiscounted expected cash flows.

Group	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2014						
Deposits from customers	3,535,871	392,196	180,786	-	-	4,108,853
Deposit and placements of banks and other	4,096,732	120,806	-	-	-	4,217,538
Subordinated Murabahah Tawarruq	-	-	-	418,755	-	418,755
Other liabilities	-	-	-	-	172,244	172,244
Total	7,632,603	513,002	180,786	418,755	172,244	8,917,390
2013						
Deposits from customers	4,611,423	619,794	40,809	-	-	5,272,026
Deposit and placements of banks and other financial institutions	1,820,952	83,019	-	-	-	1,903,971
Subordinated Murabahah Tawarruq	419,289	-	-	-	-	419,289
Other liabilities	-	-	-	-	331,490	331,490
Total	6,851,664	702,813	40,809	-	331,490	7,926,776

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47 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
2014						
Deposits from customers	3,438,940	392,399	181,161	-	-	4,012,500
Deposit and placements of banks and other financial institutions	4,133,599	120,787	-	-	-	4,254,386
Subordinated Murabahah Tawarruq	-	-	-	418,755	-	418,755
Other liabilities	-	-	-	-	171,321	171,321
Total	7,572,539	513,186	181,161	418,755	171,321	8,856,962
2013						
Deposits from customers	4,591,186	620,516	40,808	-	-	5,252,510
Deposit and placements of banks and other financial institutions	1,806,030	83,437	-	-	-	1,889,467
Subordinated Murabahah Tawarruq	419,288	-	-	-	-	419,288
Other liabilities	-	-	-	-	330,648	330,648
Total	6,816,504	703,953	40,808	-	330,648	7,891,913

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

To manage the risk inherent from the above position, limits on the following ratios are imposed to ensure that the Bank has sufficient liquidity to meet the liability obligations:

- (i) The sum of assets to mature within a period of one week and liquefiable assets over the liabilities that will mature within a period of 1 week;
- (ii) The sum of assets to mature within a period of one month and liquefiable assets over the liabilities that will mature within a period of 1 month; and
- (iii) The sum of cash, bank balances, placements and deposits with banks and financial institutions, and liquefiable assets over the total deposits from the 10 largest depositors of the Bank.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

Trading

All positions, when the change in fair values will affect the current financial year net profit, are classified as trading positions. Limits on the trading exposures, annual loss and holding period are imposed to manage the potential impact of the trading positions on the Bank's profit and loss. Risk Management Division will review these limits regularly and will recommend to Board Risk Management Committee changes or additional limits, when necessary.

The capital requirement for the Bank's trading exposures is guided by Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank ("CAFIB").

(i) Benchmark Rate Risk

Rate sensitive financial instruments are normally affected by general changes in the market profit rate, known as general risk. Changes in factor related to a specific issuer, in particular issuer's credit quality, which would affect the instrument, are known as specific risk. The Bank has adopted the maturity method as defined in CAFIB in computing the general risk charge of rate sensitive instruments.

The Bank's exposures to benchmark rate risk comprise of exposures in Held-for-Trading ("HFT") sukuk, ijarah rental swap ("IRS") and forward foreign exchange related contracts. As at 31 December 2014, the total risk weighted assets for exposures with benchmark rate risk was RM26.71 million (31 December 2013: RM37.73 million) with a total capital charge of RM2.137 million (31 December 2013: 3.019 million).

All positions in IRS were fully squared (2013: Squared). The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities held-for-trading against the movement in market benchmark rates.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

(i) Benchmark Rate Risk (Cont'd.)

Securities held-for-trading

	2014			2013		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
Group and Bank						
US Dollar (USD)	17,486	0.15	261	-	-	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

(ii) Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuation in foreign

As at 31 December 2014, the total risk weighted assets for exposures with foreign exchange rate risk was RM22.26 million (31 December 2013: RM31.601 million) with a total capital charge of RM1.780 million (31 December 2013: RM2.528 million).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2014. 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.

	2014		2013	
	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	(30)	1	(4)
US Dollar (USD)	1	703	1	(910)
Euro (EUR)	1	(867)	1	(648)
Bank				
Singapore Dollar (SGD)	1	30	1	14
US Dollar (USD)	1	(804)	1	(1,255)
Euro (EUR)	1	(405)	1	(428)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

Non-Trading

All positions, when the change in fair values will affect the Bank's equity, are classified as non-trading positions. The Bank's exposures in securities available-for-sale are classified as non-trading market risk positions. At present, these exposures are not subject to market risk capital charge requirement.

The table below indicates the Basis Point Value ("BPV") sensitivity analysis of the securities available-for-sale against the movement in market benchmark rates:

Securities available-for-sale

	2014			2013		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
Group						
Ringgit Malaysia	512,000	3.04	153,224	467,000	3.57	163,925
US Dollar	695,953	3.35	244,924	484,811	4.86	244,091
Bank						
Ringgit Malaysia	512,000	3.04	153,224	467,000	3.57	163,925
US Dollar	591,035	3.66	227,744	425,848	5.14	226,797

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) RATE OF RETURN RISK

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

Group	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	1,452,657	-	-	-	-	74,250	-	1,526,907	3.05
Deposits and placements									
with banks and other financial institutions	-	26,482	26,482	-	-	-	-	52,964	0.27
Securities held-for-trading	-	17,483	-	-	-	-	-	17,483	0.53
Securities available-for-sale	-	228,035	128,567	413,305	463,547	162,425	-	1,395,879	2.73
Securities held-to-maturity	-	-	-	81,494	-	-	-	81,494	5.24
Financing, advances and receivables	1,892,589	2,926,520	70,092	552,896	1,261,425	-	-	6,703,522	5.46
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	687,434	-	687,434	
TOTAL ASSETS	3,345,246	3,198,520	225,141	1,047,695	1,724,972	930,007	-	10,471,581	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2014	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,542,684	942,850	749,028	165,891	-	659,918	-	4,060,371	2.91
Deposits and placements of banks and other financial institutions	2,749,529	942,371	488,332	-	-	-	-	4,180,232	3.42
Subordinated Murabahah Tawarruq	-	352,627	-	-	-	-	-	352,627	3.50
Other liabilities	-	-	-	-	-	172,243	-	172,243	-
Total Liabilities	4,292,213	2,237,848	1,237,360	165,891	-	832,161	-	8,765,473	
Shareholder's equity						1,706,108		1,706,108	-
Total Liabilities and Shareholder's equity	4,292,213	2,237,848	1,237,360	165,891	-	2,538,269	-	10,471,581	
On-balance sheet profit sensitivity gap	(946,967)	960,672	(1,012,219)	881,804	1,724,972	(1,608,262)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(946,967)	960,672	(1,012,219)	881,804	1,724,972	(1,608,262)	-	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000				
2013									
ASSETS									
Cash and short-term funds	1,327,227	-	-	-	-	78,982	-	1,406,209	2.86
Deposits and placements with banks and other financial institutions	-	50,005	25,897	-	-	-	-	75,902	1.50
Securities available-for-sale	-	10,202	169,083	319,266	460,976	177,816	-	1,137,343	3.09
Securities held-to-maturity	-	-	-	56,170	25,316	-	-	81,486	5.24
Financing, advances and receivables	1,973,144	1,755,869	474,644	477,793	1,328,592	-	-	6,010,042	5.78
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	734,003	-	734,003	-
TOTAL ASSETS	3,300,371	1,816,076	669,624	853,229	1,814,884	996,699	-	9,450,883	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,991	1,061,986	1,218,847	37,542	21,866	698,779	-	5,224,011	2.82
Deposits and placements of banks and other financial institutions	1,119,844	231,162	539,185	-	-	-	-	1,890,191	2.71
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	-	415,577	3.62
Other liabilities	-	-	-	-	-	331,490	-	331,490	-
Total Liabilities	3,304,835	1,293,148	2,173,609	37,542	21,866	1,030,269	-	7,861,269	
Shareholder's equity	-	-	-	-	-	1,589,614	-	1,589,614	-
Total Liabilities and Shareholder's equity	3,304,835	1,293,148	2,173,609	37,542	21,866	2,619,883	-	9,450,883	
On-balance sheet profit sensitivity gap	(4,464)	522,928	(1,503,985)	815,687	1,793,018	(1,623,184)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(4,464)	522,928	(1,503,985)	815,687	1,793,018	(1,623,184)	-	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
Bank 2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
ASSETS									
Cash and short-term funds	1,452,657	-	-	-	-	73,345	-	1,526,002	3.05
Deposits and placements with banks and other financial institutions	-	51,783	26,483	-	-	-	-	78,266	0.44
Securities held-for-trading	-	17,483	-	-	-	-	-	17,483	0.53
Securities available-for-sale	-	193,031	100,214	370,716	463,547	143,911	-	1,271,419	2.81
Securities held-to-maturity	-	-	-	81,494	-	-	-	81,494	5.24
Financing, advances and receivables	1,892,589	2,926,520	70,092	552,896	1,261,425	-	-	6,703,522	5.46
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	704,943	-	704,943	-
TOTAL ASSETS	3,345,246	3,188,817	196,789	1,005,106	1,724,972	928,097	-	10,389,027	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,542,684	942,850	720,653	165,891	-	591,465	-	3,963,543	2.98
Deposits and placements of banks and other financial institutions	2,753,305	947,372	516,323	-	-	-	-	4,217,000	3.40
Subordinated Murabahah Tawarruq	-	352,627	-	-	-	-	-	352,627	3.50
Other liabilities	-	-	-	-	-	171,320	-	171,320	-
Total Liabilities	4,295,989	2,242,849	1,236,976	165,891	-	762,785	-	8,704,490	
Shareholder's equity	-	-	-	-	-	1,684,537	-	1,684,537	-
Total Liabilities and Shareholder's equity	4,295,989	2,242,849	1,236,976	165,891	-	2,447,322	-	10,389,027	
On-balance sheet profit sensitivity gap	(950,743)	945,968	(1,040,187)	839,215	1,724,972	(1,519,225)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(950,743)	945,968	(1,040,187)	839,215	1,724,972	(1,519,225)	-	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2013	Non-trading book					Non- profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
ASSETS									
Cash and short-term funds	1,354,068	-	-	-	-	77,807	-	1,431,875	2.72
Deposits and placements with banks and other financial institutions	-	50,005	25,897	-	-	-	-	75,902	1.50
Securities available-for-sale	-	10,202	169,082	260,755	460,976	137,993	-	1,039,008	3.03
Securities held-to-maturity	-	-	-	56,170	25,316	-	-	81,486	5.24
Financing, advances and receivables	1,973,144	1,755,869	474,644	477,793	1,328,592	-	-	6,010,042	5.78
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	751,926	-	751,926	-
TOTAL ASSETS	3,327,212	1,816,076	669,623	794,718	1,814,884	973,624	-	9,396,137	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,184,991	1,061,986	1,218,847	37,542	-	698,780	-	5,202,146	2.82
Deposits and placements of banks and other financial institutions	1,102,021	231,162	539,185	-	-	-	-	1,872,368	2.70
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	-	415,577	3.62
Other liabilities	-	-	-	-	-	330,648	-	330,648	-
Total Liabilities	3,287,012	1,293,148	2,173,609	37,542	-	1,029,428	-	7,820,739	
Shareholder's equity	-	-	-	-	-	1,575,398	-	1,575,398	-
Total Liabilities and Shareholder's equity	3,287,012	1,293,148	2,173,609	37,542	-	2,604,826	-	9,396,137	
On-balance sheet profit sensitivity gap	40,200	522,928	(1,503,986)	757,176	1,814,884	(1,631,202)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	40,200	522,928	(1,503,986)	757,176	1,814,884	(1,631,202)	-	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and hedging financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Group and the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Group's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, US Dollar, Euro and Kuwait Dinar.

**Group
2014**

ASSETS

Cash and short-term funds
Deposits and placements with banks and other financial institutions
Securities held-for-trading
Securities available-for-sale
Securities held-to-maturity
Financing, advances and receivables
Musyarakah capital investment
Other assets
Total Assets

	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
Cash and short-term funds	1,378,852	54,508	70,617	1,319	5,862	15,749	1,526,907
Deposits and placements with banks and other financial institutions	-	52,964	-	-	-	-	52,964
Securities held-for-trading	-	-	17,483	-	-	-	17,483
Securities available-for-sale	540,713	-	840,751	14,415	-	-	1,395,879
Securities held-to-maturity	81,494	-	-	-	-	-	81,494
Financing, advances and receivables	6,309,852	-	393,670	-	-	-	6,703,522
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	676,073	-	11,361	-	-	-	687,434
Total Assets	8,992,882	107,472	1,333,882	15,734	5,862	15,749	10,471,581

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Group
2014 (Cont'd.)

LIABILITIES AND SHAREHOLDER'S EQUITY

Deposits from customers
Deposits and placements of banks and other financial institutions
Subordinated Murabahah Tawarruq
Other liabilities
Total Liabilities
Shareholder's equity
Total Liabilities and Shareholder's equity

	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
Deposits from customers	3,664,586	106,339	281,712	-	-	7,734	4,060,371
Deposits and placements of banks and other financial institutions	3,464,804	-	679,292	36,136	-	-	4,180,232
Subordinated Murabahah Tawarruq	-	-	352,627	-	-	-	352,627
Other liabilities	172,096	-	147	-	-	-	172,243
Total Liabilities	7,301,486	106,339	1,313,778	36,136	-	7,734	8,765,473
Shareholder's equity	1,706,108	-	-	-	-	-	1,706,108
Total Liabilities and Shareholder's equity	9,007,594	106,339	1,313,778	36,136	-	7,734	10,471,581
On-balance sheet open position	(14,712)	1,133	20,104	(20,402)	5,862	8,015	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	(14,712)	1,133	20,104	(20,402)	5,862	8,015	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Group 2013	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	1,347,264	-	49,140	-	-	9,805	1,406,209
Deposits and placements with banks and other financial institutions	50,005	25,897	-	-	-	-	75,902
Securities available-for-sale	495,845	-	617,529	23,969	-	-	1,137,343
Securities held-to-maturity	81,486	-	-	-	-	-	81,486
Financing, advances and receivables	5,618,579	-	391,463	-	-	-	6,010,042
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	559,792	-	15,192	-	-	159,019	734,003
Total Assets	8,158,869	25,897	1,073,324	23,969	-	168,824	9,450,883
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	5,010,942	26,044	187,025	-	-	-	5,224,011
Deposits and placements of banks and other financial institutions	1,353,543	-	498,308	38,340	-	-	1,890,191
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	415,577
Other liabilities	331,290	-	200	-	-	-	331,490
Total Liabilities	6,695,775	26,044	1,101,110	38,340	-	-	7,861,269
Shareholder's equity	1,589,614	-	-	-	-	-	1,589,614
Total Liabilities and Shareholder's equity	8,285,389	26,044	1,101,110	38,340	-	-	9,450,883
On-balance sheet open position	(126,520)	(147)	(27,786)	(14,371)	-	168,824	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	(126,520)	(147)	(27,786)	(14,371)	-	168,824	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2014	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	1,378,852	54,508	70,617	1,319	5,862	14,844	1,526,002
Deposits and placements with banks and other financial institutions	-	52,964	-	25,302	-	-	78,266
Securities held-for-trading	-	-	17,483	-	-	-	17,483
Securities available-for-sale	540,713	-	730,706	-	-	-	1,271,419
Securities held-to-maturity	81,494	-	-	-	-	-	81,494
Financing, advances and receivables	6,309,851	-	393,671	-	-	-	6,703,522
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	693,582	-	11,361	-	-	-	704,943
Total Assets	9,010,390	107,472	1,223,838	26,621	5,862	14,844	10,389,027
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,664,586	106,339	184,884	-	-	7,734	3,963,543
Deposits and placements of banks and other financial institutions	3,471,697	-	709,167	36,136	-	-	4,217,000
Subordinated Murabahah Tawarruq	-	-	352,627	-	-	-	352,627
Other liabilities	171,174	-	147	-	-	-	171,321
Total Liabilities	7,307,457	106,339	1,246,825	36,136	-	7,734	8,704,491
Shareholder's equity	1,684,536	-	-	-	-	-	1,684,536
Total Liabilities and Shareholder's equity	8,991,993	106,339	1,246,825	36,136	-	7,734	10,389,027
On-balance sheet open position	18,397	1,133	(22,987)	(9,515)	5,862	7,110	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	18,397	1,133	(22,987)	(9,515)	5,862	7,110	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(e) FOREIGN EXCHANGE RISK (Cont'd.)

Bank 2013	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	1,293,895	706	86,440	28,852	7,280	14,702	1,431,875
Deposits and placements with banks and other financial institutions	50,004	25,898	-	-	-	-	75,902
Securities available-for-sale	495,844	-	543,164	-	-	-	1,039,008
Securities held-to-maturity	81,486	-	-	-	-	-	81,486
Financing, advances and receivables	5,618,578	-	391,464	-	-	-	6,010,042
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	578,254	-	15,192	-	-	159,019	752,465
Total Assets	8,123,959	26,604	1,036,260	28,852	7,280	173,721	9,396,676
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,989,412	26,044	186,690	-	-	-	5,202,146
Deposits and placements of banks and other financial institutions	1,361,930	-	472,098	38,340	-	-	1,872,368
Subordinated Murabahah Tawarruq	-	-	415,577	-	-	-	415,577
Other liabilities	330,448	-	200	-	-	-	330,648
Total Liabilities	6,681,790	26,044	1,074,565	38,340	-	-	7,820,739
Shareholder's equity	1,575,398	-	-	-	-	-	1,575,398
Total Liabilities and Shareholder's equity	8,257,188	26,044	1,074,565	38,340	-	-	9,396,137
On-balance sheet open position	(133,229)	560	(38,305)	(9,488)	7,280	173,721	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	(133,229)	560	(38,305)	(9,488)	7,280	173,721	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK

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

The rate of return risk management function is overseen by Asset & Liability Management Committee ("ALCO"), with the secretariat resided at Risk Management Division. ALCO is chaired by Chief Executive Officer with members comprise of senior management representing major business units, Finance Division and Risk Management Division.

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

- i) The total of non rate sensitive financing over the Bank's total financing; and
- ii) The 3 months rate sensitive assets over the 3 months rate sensitive liabilities.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK (Cont'd.)

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2014. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

Exposures to profit rate risk

2014

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Group						
Rate sensitive assets	6,544	110	115	3,103	600	10,472
Rate sensitive liabilities	6,561	704	502	166	832	8,765
Monthly mismatch	(18)	(595)	(387)	2,938	(233)	
Cumulative mismatch	(1,612)	(1,039)	(4,749)	1,939	1,706	
Bank						
Rate sensitive assets	6,534	96	101	3,061	597	10,389
Rate sensitive liabilities	6,542	732	502	166	762	8,704
Monthly mismatch	(8)	(637)	(401)	2,896	(166)	
Cumulative mismatch	(1,588)	(1,051)	(4,983)	1,851	1,685	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK (Cont'd.)

Exposures to profit rate risk (Cont'd.)

2013

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
Group						
Rate sensitive assets	5,116	268	357	3,118	592	9,451
Rate sensitive liabilities	4,598	1,070	688	38	1,467	7,861
Monthly mismatch	518	(802)	(332)	3,081	(875)	
Cumulative mismatch	768	39	(3,137)	2,465	1,590	
Bank						
Rate sensitive assets	5,223	268	357	2,979	569	9,396
Rate sensitive liabilities	4,580	1,070	688	38	1,445	7,821
Monthly mismatch	643	(802)	(332)	2,942	(876)	
Cumulative mismatch	1,145	415	(2,385)	2,451	1,575	

The above analysis is performed on a monthly basis and subsequently, reported to ALCO for review and deliberation.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(f) PROFIT RATE RISK (Cont'd.)

The following table indicates the sensitivity of the net revenue and the economic value of equity on over the rate of return upward and downward rate shocks.

Profit rate risk simulation sensitivity analysis (%)

2014

Group

Change in Net Revenue
Change in Economic Value of Equity

Bank

Change in Net Revenue
Change in Economic Value of Equity

	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	4.53	2.27	1.13	(1.25)	(2.51)	(5.01)
Change in Economic Value of Equity	32.10	15.01	7.27	(6.83)	(13.24)	(24.96)
Bank						
Change in Net Revenue	4.65	2.33	1.17	(1.19)	(2.39)	(4.78)
Change in Economic Value of Equity	31.85	14.89	7.21	(6.77)	(13.12)	(24.73)

2013

Group

Change in Net Revenue
Change in Economic Value of Equity

Bank

Change in Net Revenue
Change in Economic Value of Equity

	Movement in market profit rate (%)					
	(2.00)	(1.00)	(0.50)	0.50	1.00	2.00
Change in Net Revenue	(0.32)	(0.15)	(0.08)	0.04	0.09	0.17
Change in Economic Value of Equity	35.98	16.79	8.12	(7.61)	(14.76)	(27.78)
Bank						
Change in Net Revenue	(1.00)	(0.49)	(0.25)	0.21	0.43	0.86
Change in Economic Value of Equity	35.61	16.61	8.03	(7.53)	(14.59)	(27.44)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach

For the calculation of credit risk-weighted assets under the Standardised Approach for Capital Adequacy Framework for Islamic Bank ("CAFIB") issued by Bank Negara Malaysia ("BNM"), external credit assessments (or external ratings) on the obligor (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios in the banking book. The Bank captures all available external ratings of obligor or issues and adheres to the conditions stipulated in the BNM CAFIB to choose the applicable rating assessment for exposures with single or multiple external ratings. The Bank then assigns the appropriate risk weight to the banking book exposure that is equivalent to the standard risk-weights in CAFIB for issue-specific rating. The Bank also applies the principles stipulated in CAFIB to determine the applicable risk weights to the exposures that do not have issue-specific rating.

(i) Names of External Credit Assessment Institution ("ECAIs") used are:

Standard & Poor's Rating Services ("S&P")
Moody's Investor's Service ("Moody's")
Fitch Ratings ("Fitch")
Rating Agency Malaysia ("RAM")
Malaysian Rating Corporation Berhad ("MARC")

(ii) Types of exposures for which each ECAI 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:

2014

Exposure class	Rating of Corporates by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)		RM '000	RM '000	RM '000	RM '000	RM '000
Group Corporates		251,469	13,962	78,523	65,095	4,696,012

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

2014 (Cont'd.)

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc					
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
Bank Corporates		RM '000	RM '000	RM '000	RM '000	RM '000
		251,469	13,962	60,429	65,095	4,716,780

2013

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc					
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk-weights)						
Group Corporates		RM '000	RM '000	RM '000	RM '000	RM '000
		272,989	29,622	87,398	83,728	4,075,921
Bank Corporates		RM '000	RM '000	RM '000	RM '000	RM '000
		272,989	29,622	71,317	83,728	4,097,996

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

2014 (Cont'd.)

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc						
On and Off-Balance Sheet Exposures							
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group							
Sovereigns/Central Banks	49,353	1,965,726	17,472	-	-	-	803
Bank							
Sovereigns/Central Banks	42,330	1,951,529	-	-	-	-	803

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc						
On and Off-Balance Sheet Exposures							
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group							
Banks, MDBs and FDIs	2,174	280,202	83,310	55	-	-	137,066
Bank							
Banks, MDBs and FDIs	26,571	280,202	83,310	55	-	-	122,910

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(g) Credit Risk Disclosures for portfolios under the Standardised Approach (Cont'd.)

2013

Exposure class	Rating of Sovereigns and Central Banks by approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Sovereigns/Central Banks		19,845	1,582,778	-	15,373	-	301
Bank Sovereigns/Central Banks		19,845	1,569,141	-	-	-	301

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group Banks, MDBs and FDIs		45,405	136,193	81,343	121	-	412,723
Bank Banks, MDBs and FDIs		45,405	136,193	81,343	121	-	425,005

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach

The Bank's exposures covered by eligible guarantee and collateral under CAFIB are as follows:

2014

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,033,354	160,301	-
Banks, Development Financial Institutions & MDBs	448,528	39,307	-
Corporates	4,577,588	168,172	205,775
Regulatory Retail	1,894,135	-	16,928
Residential Mortgages	227,367	-	1,378
Higher Risk Assets ¹	434,670	-	-
Other Assets	474,828	-	-
Defaulted Exposures ²	302,202	-	9,336
Total On Balance Sheet Exposures	10,392,672	367,780	233,417
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	18,490	-	-
Off-balance sheet exposures other than OTC derivatives ²	298,332	-	-
Total Off-Balance Sheet Exposures	316,822	-	-
Total On and Off-Balance Sheet Exposures	10,709,494	367,780	233,417

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2013

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,618,297	12,546	-
Banks, Development Financial Institutions & MDBs	646,107	39,171	-
Corporates	3,823,135	137,721	52,822
Regulatory Retail	1,791,394	-	15,695
Residential Mortgages	219,687	-	-
Higher Risk Assets ¹	516,488	-	-
Other Assets	323,799	-	-
Defaulted Exposures ²	446,452	-	3,302
Total On Balance Sheet Exposures	9,385,359	189,438	71,819
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	25,585	-	-
Off-balance sheet exposures other than OTC derivatives ²	352,987	-	-
Total Off-Balance Sheet Exposures	378,572	-	-
Total On and Off-Balance Sheet Exposures	9,763,931	189,438	71,819

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2014

Bank

(i) Credit Risk

(a) On-Balance Sheet Exposures

Sovereigns/Central Banks	1,994,662	160,301	-
Banks, Development Financial Institutions & MDBs	458,769	39,307	-
Corporates	4,580,262	168,172	205,775
Regulatory Retail	1,894,135	-	16,928
Residential Mortgages	227,367	-	1,378
Higher Risk Assets ¹	434,670	-	-
Other Assets	398,687	-	-
Defaulted Exposures ²	302,202	-	9,336
Total On-Balance Sheet Exposures	10,290,754	367,780	233,417

(b) Off-Balance Sheet Exposures*

OTC Derivatives ³	18,489	-	-
Off-balance sheet exposures other than OTC derivatives ²	298,333	-	-
Total Off Balance Sheet Exposures	316,822	-	-
Total On and Off-Balance Sheet Exposures	10,607,576	367,780	233,417

	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,994,662	160,301	-
Banks, Development Financial Institutions & MDBs	458,769	39,307	-
Corporates	4,580,262	168,172	205,775
Regulatory Retail	1,894,135	-	16,928
Residential Mortgages	227,367	-	1,378
Higher Risk Assets ¹	434,670	-	-
Other Assets	398,687	-	-
Defaulted Exposures ²	302,202	-	9,336
Total On-Balance Sheet Exposures	10,290,754	367,780	233,417
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	18,489	-	-
Off-balance sheet exposures other than OTC derivatives ²	298,333	-	-
Total Off Balance Sheet Exposures	316,822	-	-
Total On and Off-Balance Sheet Exposures	10,607,576	367,780	233,417

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2013

Bank

(i) Credit Risk

(a) On-Balance Sheet Exposures

Sovereigns/Central Banks
 Banks, Development Financial Institutions & MDBs
 Corporates
 Regulatory Retail
 Residential Mortgages
 Higher Risk Assets¹
 Other Assets
 Defaulted Exposures²
Total On-Balance Sheet Exposures

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
1,589,287	-	-
658,390	39,171	-
3,829,127	137,721	52,822
1,791,394	-	15,695
219,687	-	-
516,488	-	-
260,479	-	-
446,452	-	3,302
9,311,304	176,892	71,819

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Credit Risk Mitigation ("CRM") Disclosures under the Standardised Approach (Cont'd.)

2013 (Cont'd.)

Bank

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
25,585	-	-
352,987	-	-
378,572	-	-
9,689,876	176,892	71,819

(i) Credit Risk (Cont'd.)

(b) Off-Balance Sheet Exposures*

OTC Derivatives³

Off-balance sheet exposures other than OTC derivatives²

Defaulted Exposures²

Total Off Balance Sheet Exposures

Total On and Off-Balance Sheet Exposures

* Credit equivalent of off-balance sheet items

¹ Higher risk assets are defined in CAFIB guidelines issued by Bank Negara Malaysia which comprised of i) exposures structured as Musyarakah and Mudharabah contracts and ii) Investment in equity financial instruments that are non-publicly traded.

² Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikeliness to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.

³ Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
2014				
Direct credit substitutes	104,544		104,544	94,303
Transaction related contingent items	116,969		58,484	32,340
Short-term self liquidating trade related contingencies	10,892		2,178	2,178
Foreign exchange related contracts				
- Over five years	13,868	12	13	4
Profit rate related contracts				
- Over five years	241,906	11,349	18,477	15,574
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	117,597		58,798	55,345
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	371,642		74,328	56,641
	977,418	11,361	316,822	256,385

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank

2013

Direct credit substitutes
 Transaction related contingent items
 Short-term self liquidating trade related contingencies
 Foreign exchange related contracts
 - Over five years
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of over one year
 Other commitments, such as formal standby facilities
 and credit lines, with an original maturity of up to one year

	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
	11,220		11,220	8,889
	142,880		71,440	42,219
	23,897		4,779	4,779
	263,825	15,192	25,585	21,359
	397,811		198,905	197,595
	333,208		66,643	65,496
	1,172,841	15,192	378,572	340,337

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(j) Equities (Disclosure for banking book positions)

2014

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries			
	46,193	(26,761)	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(11,520)	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(15,241)	Capital Deduction
	134,297		201,446
(b) Investment			
Intrared Sdn Bhd	36,100	-	54,150
KFH Global Sukuk Fund	70,558	-	105,837
Al Faiz Fund 1	27,639	-	41,459
	5,898	-	8,847
(c) Musyarakah Capital Investment			

2013

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries			
	46,193	(26,761)	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(11,520)	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(15,241)	Capital Deduction
	128,380		269,971
(b) Investment			
Intrared Sdn Bhd	36,100	-	131,550
KFH Global Sukuk Fund	65,515	-	98,273
Al Faiz Fund 1	26,765	-	40,148
	5,898	-	8,847
(c) Musyarakah Capital Investment			

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48 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

The incident of Shariah non-compliance event together with the plan to rectify them have been reported to BNM. The report of the said incident had earlier been presented to Shariah Committee, Management Committee, Board Risk Management Committee and subsequently to Board of Directors for approval.

The rectification method which was proposed by Shariah Committee and approved by Board of Directors was to de-recognize the profit portion and channeling it to charity as determined by the Bank.

(b) The amount and number of event of non-Shariah compliant income are as follows:

2014		2013	
Group and Bank		Group and Bank	
Number of events occur	Amount	Number of events occur	Amount
	RM'000		RM'000
-	-	-	-
-	-	-	-

49 COMPARATIVE

Certain comparative figures have been reclassified to conform with current year's presentation.