

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

**(672174-T)**

**(Incorporated in Malaysia)**

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**Directors' Report and Audited Financial Statements as at 31 December 2015**

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

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

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

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## **1 PERFORMANCE OVERVIEW**

The Group and the Bank recorded a loss before zakat and taxation of RM37.2 million and RM35.4 million respectively for the year ended 31 December 2015.

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2015 stood at a commendable 18.83% and 25.49% 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.

In ensuring high standards of governance, the Bank has also adopted the Corporate Governance Policy for the subsidiaries of Kuwait Finance House K.S.C. ("KFHK")

#### **Roles and Responsibilities of the Board**

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

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

Accountability is part and parcel of governance in the Bank as whilst the Board is accountable to the shareholder, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its 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's resolutions and have overall responsibilities of the day-to-day operations of the Bank's business and operational efficiency.

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

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

**Board Balance**

The Board currently has seven (7) members, comprising four (4) independent non-executive directors, two (2) non-independent non-executive directors and one (1) executive director.

**Directors' Profile**

***Hamad A H D AlMarzouq***

***Chairman***

***Independent non-executive director***

(54 years of age – Kuwaiti) Master degree in Finance and International Business from Claremont Graduate School, U.S. and a Bachelor of Science degree in Industrial & Systems Engineering from the University of Southern California, U.S.

Currently, he is also the Chairman of KFHK, a position he has held since March 2014, the Chairman of Kuveyt Turk Participation Bank Inc. as well as the Chairman of Kuwait Finance House – Bahrain. He has a wealth of banking experience both inside and outside Kuwait spanning more than 27 years. He has held key leadership positions in different banking, financial and regulatory institutions. He was Chairman of Ahli United Bank - Kuwait ("AUBK") from 2002 to 2014, and Deputy Chairman of AUBK in the U.K, Egypt, Bahrain and Oman at different times. He had also served as the Deputy Chairman of Ahli Bank in Qatar. He started his career at the Kuwait Investment Company before moving on to Central Bank of Kuwait where he had held key executive positions. He is the Chairman of Kuwait Banking Association and a Board Member of the Public Authority for Applied Education and Training. His previous directorships include Institute of Banking Studies, Board of Trustees of the Arab Academy for Financial and Banking Sciences, Union of Arab Banks, Commercial Bank of Iraq, Kuwait and Middle East Financial Investment Company in Kuwait and Middle East Financial Investment Company in the Kingdom of Saudi Arabia.

He was appointed as the Chairman / Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad on 1 May 2015.

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

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

***Mohammad Nasser AlFouzan***

***Member***

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

He was appointed as Director and Chairman of the Bank on 7 October 2014 and 26 November 2014, respectively. He relinquished the Chairmanship on 1 May 2015 subsequent to the appointment of Mr Hamad A H D AlMarzouq as the Chairman of the Bank.

Currently, he is also the Vice Chairman of Kuwait Finance House - Bahrain and the Chairman of the Executive Committee of the said entity.

***Ahmad S A A AlKharji***

***Member***

***Chief Executive Officer and Managing Director (Executive Director)***

(44 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 Al Kharji is a seasoned banker with 18 years of extensive experience in various portfolios including structured finance, corporate finance, project finance and banking supervision. He is expected to play a key role in strategically propelling the Malaysian chapter into a new phase. Prior to helming this post, Mr Al Kharji was the Deputy General Manager of Structured Finance at KFHK in Kuwait. He started his career with the Central Bank of Kuwait and Burgan Bank in Kuwait. Since joining KFHK in August 2003, he had served in various senior capacities within the Group. He is also currently a Board member of Kuveyt Turk Participation Bank Inc, a subsidiary of KFHK in Turkey.

He was appointed as non-independent non-executive Director of the Bank on 1 June 2014 and was subsequently appointed as the Chief Executive Officer and Managing Director on 20 April 2015.

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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***

(61 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 BNM'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 independent non-executive Director of the Bank on 11 June 2012.

***Khalid Sufat***  
***Member***  
***Independent non-executive director***

(60 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.)**

***Mohamed Zaheer Mohamed Azreen***

***Member***

***Non-independent non-executive director***

(46 years of age – Sri Lankan) Associate Member of 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.

He 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 KFHK in 1999 as Investment Manager, Direct Investment Department. He is currently the Senior Manager, International Banking Unit which oversees the operations of overseas banking subsidiaries.

***Md Adnan Md Zain***

***Member***

***Independent non-executive director***

(59 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 independent non-executive Director of the Bank on 15 January 2014. He is also currently a Board member of Malaysian Rating Corporation Berhad, Malaysian Reinsurance Berhad and The Malaysian Insurance Institute.

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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 2015, nine (9) 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 five (5) Board Committees with specific terms of reference and functions, as follows:

***Board Audit Committee***

The Board Audit Committee ("BAC") consists of two (2) independent non-executive directors and one (1) non-independent non-executive director. Seven (7) 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. Five (5) BRMC meetings were held during the financial year. The members are as follows:

Gopala Krishnan A/L K Sundaram - Chairman  
Mohamed Zaheer Mohamed Azreen - Member (Appointed on 1 June 2015)  
Mohammad Nasser AlFouzan - Member (Appointed on 1 June 2015)  
Ahmad S A A AlKharji - Member (Ceased to be a member on 1 June 2015)  
Dr Paul Quigley - Member (Resigned on 30 April 2015)

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 one (1) non-independent non-executive director and one (1) executive director. Five (5) BNRC meetings were held during the financial year. The members are as follows:

Md Adnan Md Zain - Chairman  
Gopala Krishnan K Sundaram - Member  
Khalid Sufat - Member  
Mohamed Zaheer Mohamed Azreen - Member  
Mr Ahmad S A A AlKharji - Member (Appointed on 1 June 2015)  
Dr Paul Quigley - Member (Resigned on 30 April 2015)

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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") only had one (1) meeting in the year 2015 and was dissolved on 1 June 2015 subsequent to the Board's decision that the transformation program has completed.

***Board Credit, Investment & Recovery Committee***

The Board Credit, Investment & Recovery Committee ("BCIRC") consists of one (1) non-independent non-executive director and two (2) independent non-executive directors. Ten (10) BCIRC meetings were held during the financial year. The members are as follows:

Mohamed Zaheer Mohamed Azreen - Chairman (Appointed as Chairman on 1 June 2015)  
Md Adnan Md Zain - Member  
Khalid Sufat - Member (Appointed on 1 June 2015)  
Ahmad S A A AlKharji - Chairman (Ceased to be a Member/Chairman on 1 June 2015)

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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.

***Board Corporate Governance Committee***

The Board Corporate Governance Committee ("BCGC") was formed to ensure compliance with the Corporate Governance Guidelines for KFHK Subsidiaries (now known as Corporate Governance Policy for Subsidiaries of KFHK) issued by KFHK. The members are as follows:-

Hamad A H D AlMarzouq - Chairman (Appointed as Chairman on 1 May 2015)  
Mohammad Nasser AlFouzan - Member (Ceased to be Chairman on 1 May 2015)  
Md Adnan Md Zain - Member  
Dr Paul Quigley - Member (Resigned on 30 April 2015)

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

**(ii) Key Internal Control Processes**

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

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

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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 complement governance, risk and internal control systems include the Management Committee ("MANCO"), Administrative and Operations Committee ("AOC"), 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:

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

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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 68% of the Bank's financing asset portfolio while the consumer financing segment contributed 32% of the Bank's total financing assets in 2015. For 2015, the Bank registered a moderate financing growth of 4.2% 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").

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 Liquidity Coverage Ratio as a foundation in managing its liquidity. The objective of liquidity risk management is to ensure that cash needs can always be met at reasonable cost, either by:

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

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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, Treasury Division, Finance Division and Risk Management Division.

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

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.



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

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

**Operational Risk Management ("ORM")**

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

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

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

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

In order to ensure continuity of critical business during disaster, a robust business continuity management programme is put in place and being tested according to the requirements.

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

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

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

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

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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 is now reported directly to the Chief Risk Officer on AML/CFT matters. Key measures undertaken by the Bank to mitigate the AML/CFT matters include:

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

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

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

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

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

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

*Pillar 1*

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

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

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

*Pillar 2 Internal Capital Adequacy Assessment Process (“ICAAP”)*

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

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

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

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

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

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

Pillar 3

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

Stress Test

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

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

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

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

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

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**DIRECTORS' REPORT**

The directors hereby submit their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2015.

**PRINCIPAL ACTIVITIES**

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

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

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

**RESULTS**

	<b>Group</b> <b>RM'000</b>	<b>Bank</b> <b>RM'000</b>
Net loss for the year	<u>(37,180)</u>	<u>(35,362)</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:

Hamad A H D AlMarzouq (Appointed as Independent Non-Executive Director / Chairman on 1 May 2015)  
Mohammad Nasser AlFouzan  
Ahmad S A A AlKharji (Appointed as Chief Executive Officer and Managing Director on 20 April 2015)  
Mohamed Zaheer Mohamed Azreen  
Gopala Krishnan A/L K Sundaram  
Khalid Sufat  
Md Adnan Md Zain  
Dr Paul Quigley (Resigned on 30 April 2015)

**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 36 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 39 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 2015.

**CHANGES IN SHARE CAPITAL**

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

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**RESERVES, PROVISIONS AND ALLOWANCES**

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

**COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING**

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

**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 2016**

The Bank expects to achieve the same objectives of building a stronger financing base and sustainability in the earnings stream as well as enhance the quality of asset in 2016. The Bank will continue to focus on several strategic thrusts namely sustainability and stronger financing base, quality asset, business growth, cost optimisation and building internal capability.

For 2016, the Bank will further build its quality assets and optimise its capital, to be the front runner in facilitating business linkages between Malaysia and Middle East, enhancing existing IT infrastructure, optimising its cost and introducing new products as well as other human capital initiatives. The priorities for 2016 will cater for the banking needs of our customers. The Bank also expects to benefit from the strengthening of various processes which are currently ongoing, with the objective to ultimately enhance overall turnaround time. Human Capital initiatives is set to continue to strengthen the human resource of the Bank.

With these focused initiatives, the Bank believes in delivering values and better experiences to the customers and meanwhile remains competitive amongst the industry players. Moving forward, the Bank expects better performance in 2016.



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**OUTLOOK FOR 2016**

The Malaysian economy is expected to grow at a moderate pace of 4.0% to 4.5% in 2016, underpinned by healthy, albeit moderating domestic demand but constrained by weak external demand. In 3Q 2015, gross domestic product (GDP) slowed to 4.7%, compared with 4.9% and 5.6% in the 2Q and 1Q 2015, respectively, the slowest pace in two years as private consumption eased. On the supply side, services will continue to account for the largest share of GDP and Malaysia's global pre-eminence in the provision of Islamic finance will support the growth of the financial services sector. The consumer price inflation is forecast to be higher in the range of 2.5% to 3.5% in 2016, partly due to the adjustments in price mechanism and weaker ringgit. Downside risks to growth remain high in view of the external environment for 2016 that is shrouded in uncertainties, owing to several factors that include the global and regional trade slowdowns, China spillovers, the continued strength of the US dollar and uncertainty surrounding energy and commodity prices. Overall, we continue to expect BNM to keep the overnight policy rate (OPR) steady throughout 2016 and the current monetary policy stance is appropriate to support the economic activity.

**RATING BY EXTERNAL RATING AGENCY**

<b>Rating Agency</b>	<b>Date</b>	<b>Current Rating</b>	<b>Outlook</b>
Malaysian Rating Corporation Berhad (MARC)	October 2015	AA+ / MARC-1	Stable

**DISCLOSURE OF SHARIAH COMMITTEE**

The Bank's business activities are subject to the Shariah compliance and conformation as advised by the Shariah Committee. Seven (7) Shariah Committee Meetings were held with full attendance from all members and forty one (41) Notes were issued during the financial year. The Shariah Committee comprises of five (5) qualified Shariah scholars who are appointed by the Board as the term approved by Bank Negara Malaysia (BNM) as follows:

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

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

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

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

**ZAKAT OBLIGATIONS**

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

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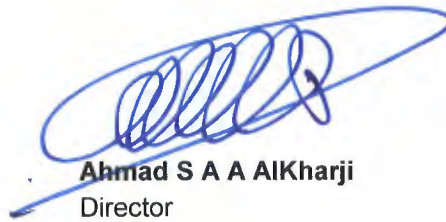
**AUDITORS**

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2016.



**Hamad A H D AlMarzouq**  
Director



**Ahmad S A A AlKharji**  
Director

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
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**STATEMENT BY DIRECTORS**  
**Pursuant To Section 169 (15) of the Companies Act, 1965**

We, Hamad A H D AlMarzouq and Ahmad S A A AlKharji, 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 212 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 2015 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 26 April 2016.



**Hamad A H D AlMarzouq**  
Director



**Ahmad S A A AlKharji**  
Director

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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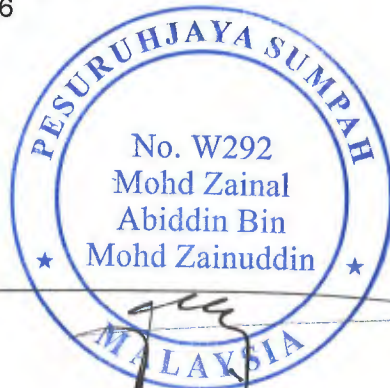
## STATUTORY DECLARATION

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

I, Ahmad S A A Aikharji, being the director 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 212, 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 Ahmad S A A Aikharji at Kuala Lumpur, in the Federal Territory on 26 April 2016

BEFORE ME



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

Ahmad S A A Aikharji

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
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**REPORT OF SHARIAH COMMITTEE**

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

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad, 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 2015. 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 2015 that we have reviewed are in compliance with Shariah rules and principles;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account and disposed of to charitable causes;
- (d) the calculation of Zakat is in compliance with Shariah rules and principles; and
- (e) any known non compliance with Shariah and action taken to remedy such non compliance as reported by the licensed person as specified in the circular on Shariah Non-Compliance Reporting.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
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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: 26 January 2016  
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 2015 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 212.

*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 2015 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:

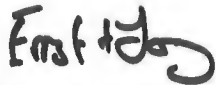
- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and 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  
26 April 2016



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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## STATEMENT OF FINANCIAL POSITION

	Note	Group	
		2015 RM'000	2014 RM'000
<b>ASSETS</b>			
Cash and short-term funds	4	1,558,023	1,526,907
Deposits and placements with banks and other financial institutions	5	211,618	52,964
Investment accounts due from designated financial institutions	20	7,490	-
Securities held-for-trading	6	-	17,483
Hedging financial instruments	11	9,267	11,361
Securities available-for-sale	7	1,135,222	1,395,879
Securities held-to-maturity	8	61,251	81,494
Financing, advances and other receivables	9	7,002,145	6,703,522
Other assets	10	211,325	221,216
Statutory deposit with Bank Negara Malaysia	12	242,000	222,200
Musarakah capital investment	13	5,898	5,898
Property and equipment	15	17,885	26,900
Intangible assets	16	7,763	7,660
Deferred tax assets	17	198,141	198,097
<b>TOTAL ASSETS</b>		<b>10,668,028</b>	<b>10,471,581</b>
<b>LIABILITIES</b>			
Deposits from customers	18	3,640,007	4,060,371
Investment accounts of customers	20	7,490	-
Deposits and placements of banks and other financial institutions	19	4,849,350	4,180,232
Hedging financial instruments	11	459	147
Subordinated Murabahah Tawarruq	23	429,538	352,627
Other liabilities	21	73,713	172,096
<b>TOTAL LIABILITIES</b>		<b>9,000,557</b>	<b>8,765,473</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	24	1,425,272	1,425,272
Reserves	25	242,199	280,836
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,667,471</b>	<b>1,706,108</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
		<b>10,668,028</b>	<b>10,471,581</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
**(672174-T)**  
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**STATEMENT OF FINANCIAL POSITION (CONT'D.)**

		<b>Group</b>	
<b>Note</b>	<b>2015</b>	<b>2014</b>	
	<b>RM'000</b>	<b>RM'000</b>	
<b>COMMITMENTS AND CONTINGENCIES</b>			
40	918,748	977,418	
<b>CAPITAL ADEQUACY</b>			
CET 1/Tier 1 capital ratio	42 18.827%	19.598%	
Total capital ratio	42 25.493%	25.298%	
<b>NET ASSETS PER SHARE (RM)</b>	1.17	1.20	

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
**(672174-T)**  
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**STATEMENT OF FINANCIAL POSITION**

	Note	Bank	
		2015 RM'000	2014 RM'000
<b>ASSETS</b>			
Cash and short-term funds	4	1,558,023	1,526,002
Deposits and placements with banks and other financial institutions	5	239,536	78,266
Investment accounts due from designated financial institutions	20	7,490	-
Securities held-for-trading	6	-	17,483
Hedging financial instruments	11	9,267	11,361
Securities available-for-sale	7	1,052,370	1,271,419
Securities held-to-maturity	8	61,251	81,494
Financing, advances and other receivables	9	7,002,145	6,703,522
Other assets	10	210,372	220,277
Statutory deposit with Bank Negara Malaysia	12	242,000	222,200
Musarakah capital investment	13	5,898	5,898
Investment in subsidiaries	14	18,680	19,432
Property and equipment	15	17,683	26,596
Intangible assets	16	7,240	7,049
Deferred tax assets	17	198,141	198,028
<b>TOTAL ASSETS</b>		<b>10,630,096</b>	<b>10,389,027</b>
<b>LIABILITIES</b>			
Deposits from customers	18	3,556,307	3,963,543
Investment accounts of customers	20	7,490	-
Deposits and placements of banks and other financial institutions	19	4,922,132	4,217,000
Hedging financial instruments	11	459	147
Subordinated Murabahah Tawarruq	23	429,538	352,627
Other liabilities	21	72,931	171,173
<b>TOTAL LIABILITIES</b>		<b>8,988,857</b>	<b>8,704,490</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	24	1,425,272	1,425,272
Reserves	25	215,967	259,265
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>1,641,239</b>	<b>1,684,537</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>10,630,096</b>	<b>10,389,027</b>

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

		Bank	
Note	2015 RM'000	2014 RM'000	
<b>COMMITMENTS AND CONTINGENCIES</b>	40	918,748	977,418
<b>CAPITAL ADEQUACY</b>			
CET 1/Tier 1 capital ratio	42	18.241%	18.885%
Total capital ratio	42	24.953%	24.628%
<b>NET ASSETS PER SHARE (RM)</b>		1.15	1.18

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## INCOME STATEMENTS

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Operating revenue	26	483,640	466,135	483,335	457,617
Income derived from investment of depositors' funds and others	27	394,630	369,604	392,388	368,116
Income derived from investment of investment account funds	32	68	-	68	-
Income derived from investment of shareholder's equity	28	88,942	96,531	90,879	89,501
Total gross income		483,640	466,135	483,335	457,617
Impairment (allowance)/writeback on financing, advances and other receivables	29	(99,743)	75,478	(99,743)	75,478
Impairment (allowances)/writeback on investments	30	(11,287)	1,746	(14,723)	(766)
Total distributable income		372,610	543,359	368,869	532,329
Income attributable to the depositors	31	(248,066)	(191,687)	(248,189)	(191,924)
Profit distributed to investment account holders	32	(41)	-	(41)	-
Total net income		124,503	351,672	120,639	340,405
Personnel expenses	33	(81,280)	(96,514)	(78,358)	(92,599)
Other overheads and expenditures	34	(68,133)	(105,764)	(65,393)	(102,199)
Finance cost	35	(12,250)	(13,784)	(12,250)	(13,784)
(Loss)/profit before zakat and taxation		(37,160)	135,610	(35,362)	131,823
Taxation	37	(20)	(42,784)	-	(42,843)
Net (loss)/profit for the year		(37,180)	92,826	(35,362)	88,980
Attributable to:					
- Equity holder of the Bank		(37,180)	92,826	(35,362)	88,980
(Loss)/earning per share (sen)					
- Basic/Diluted	38	(2.61)	6.51		

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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## STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Net (loss)/profit for the year	(37,180)	92,826	(35,362)	88,980
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised (loss)/gain on securities available-for-sale	(13,220)	22,070	(11,317)	20,699
- Net realised loss/(gain) on securities available-for-sale reclassified to the income statements	4,066	(276)	3,268	(276)
Exchange differences on translation of foreign operations:				
- Net gain taken to equity	7,653	2,137	-	-
Income tax relating to components of other comprehensive income (Note 17)	44	(263)	113	(263)
Other comprehensive (loss)/income for the year, net of tax	(1,457)	23,668	(7,936)	20,160
Total comprehensive (loss)/income for the year	(38,637)	116,494	(43,298)	109,140
Total comprehensive (loss)/income for the year attributable to equity holder of the Bank	(38,637)	116,494	(43,298)	109,140

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



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

	Non-distributable			Distributable	Total RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available- For-Sale Reserve RM'000		Retained Earning RM'000
<b>Group</b>						
<b>At 1 January 2015</b>	1,425,272	158,385	(2,951)	(5,340)	130,742	1,706,108
Total comprehensive loss	-	-	7,653	(9,110)	(37,180)	(38,637)
<b>At 31 December 2015</b>	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
<b>At 1 January 2014</b>						
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)	-
<b>At 31 December 2014</b>	1,425,272	158,385	(2,951)	(5,340)	130,742	1,706,108
<b>Bank</b>						
<b>At 1 January 2015</b>	1,425,272	158,385	-	(5,982)	106,862	1,684,537
Total comprehensive loss	-	-	-	(7,936)	(35,362)	(43,298)
<b>At 31 December 2015</b>	1,425,272	158,385	-	(13,918)	71,500	1,641,239
<b>At 1 January 2014</b>						
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)	-
<b>At 31 December 2014</b>	1,425,272	158,385	-	(5,982)	106,862	1,684,537

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	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
(Loss)/profit before zakat and taxation	(37,160)	135,610	(35,362)	131,823
<b>Adjustments for:</b>				
Impairment allowances/(writeback) on financing, advances and other receivables (Note 29)	99,743	(75,478)	99,743	(75,478)
Amortisation of premium less accretion of discounts (Notes 27 and 28)	3,324	4,456	3,321	4,456
Finance cost (Note 35)	12,250	13,784	12,250	13,784
Depreciation of property and equipment (Note 34)	10,168	11,077	10,019	10,936
Amortisation of intangible assets (Note 34)	3,552	7,601	3,355	7,357
Property and equipment written off (Note 15)	200	207	190	207
Reversal of provision on property restoration (Note 27)	-	(77)	-	(77)
Gain on disposal of ijarah automobile (Note 27)	-	(1)	-	(1)
Net gains on sale of securities available-for-sale (Notes 27 and 28)	(4,166)	-	(3,097)	-
Net gains on sale of securities held-for-trading (Notes 27 and 28)	(160)	(183)	(160)	(183)
Impairment (writeback)/allowance on securities available-for-sale and others (Note 30)	10,239	(1,746)	13,675	766
Impairment on subsidiaries (Note 30)	1,048	-	1,048	-
Unrealised loss on foreign translations (Note 28)	7,954	5,883	7,828	5,823
Unrealised loss on revaluation of securities held-for-trading, and Ijarah rental swap (net) (Note 28)	2,459	3,764	2,459	3,764
Operating profit before working capital changes	109,451	104,897	115,269	103,177
<b>Decrease in operating assets</b>	(515,883)	(782,328)	(518,398)	(808,990)
Deposits and placements with banks and other financial institutions	(107,493)	(66,829)	(109,992)	(92,132)
Financing, advances and other receivables	(398,362)	(618,005)	(398,365)	(618,002)
Other assets	9,772	(57,494)	9,759	(58,856)
Statutory deposit with Bank Negara Malaysia	(19,800)	(40,000)	(19,800)	(40,000)
<b>Increase in operating liabilities</b>	216,927	966,943	264,090	946,491
Deposits from customers	(412,874)	(1,163,641)	(399,745)	(1,238,604)
Deposits and placements of banks and other financial institutions	669,118	2,290,041	705,132	2,344,633
Other liabilities	(39,317)	(159,457)	(41,297)	(159,538)

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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## STATEMENTS OF CASH FLOWS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b> (Cont'd.)				
Cash (used in)/generated from operations	(189,505)	289,512	(139,039)	240,678
Tax refunded	-	3,138	-	3,138
Tax paid	(20)	(20)	-	-
<b>Net cash (used in)/generated from operating activities</b>	<b>(189,525)</b>	<b>292,630</b>	<b>(139,039)</b>	<b>243,816</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net proceeds from sales/(purchases) of securities	280,648	(253,800)	234,969	(234,535)
Investment in subsidiaries	(1,048)	-	(296)	-
Proceeds from disposal of property and equipment	-	5	-	5
Proceeds from disposal of ijarah automobile	-	1	-	1
Purchase of property and equipment (Note 15)	(3,170)	(4,789)	(3,119)	(4,786)
Purchase of intangible assets (Note 16)	(1,747)	(164)	(1,747)	(142)
<b>Net cash generated from/(used in) investing activities</b>	<b>274,683</b>	<b>(258,747)</b>	<b>229,807</b>	<b>(239,457)</b>
<b>Net increase in cash and cash equivalents</b>	<b>85,158</b>	<b>33,883</b>	<b>90,768</b>	<b>4,359</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,487,145</b>	<b>1,456,213</b>	<b>1,486,239</b>	<b>1,481,880</b>
Exchange differences on translation of opening balances	4,702	(2,951)	-	-
<b>Cash and cash equivalents at end of year</b>	<b>1,577,005</b>	<b>1,487,145</b>	<b>1,577,007</b>	<b>1,486,239</b>
<b>Cash and cash equivalents comprises:</b>				
Cash and short-term funds (Note 4)	1,558,023	1,526,907	1,558,023	1,526,002
Deposits and placements with banks and other financial institutions (Note 5)	211,618	52,964	239,536	78,266
Investment accounts due from designated financial institutions (Note 20)	7,490	-	7,490	-
	<b>1,777,131</b>	<b>1,579,871</b>	<b>1,805,049</b>	<b>1,604,268</b>
Less: Deposit with contractual maturity more than 3 months	(200,126)	(92,726)	(228,042)	(118,029)
<b>Cash and cash equivalents</b>	<b>1,577,005</b>	<b>1,487,145</b>	<b>1,577,007</b>	<b>1,486,239</b>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

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

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

The holding company of the Bank is Kuwait Finance House K.S.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 26 April 2016.

**2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**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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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**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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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**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 44.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**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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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

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

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

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

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

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

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

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

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

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

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

\* Computer hardware includes:

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

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

As at 31 December 2015, as a result of aligning to Kuwait Finance House K.S.C.'s group accounting policy, the Bank has reassessed the useful life of general category of Computer Hardware in accordance to several sub-categories of Information Technology related equipment covering range of useful life from 3 to 15 years. As compared to previous estimates of useful life of 5 years, the impact of applying new useful life has resulted in additional depreciation for the year of RM673,596.

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

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

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

**(g) Intangible Assets**

**(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.

**(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.

As at 31 December 2015, as a result of aligning to Kuwait Finance House K.S.C.'s group accounting policy, the Bank has reassessed the useful life of Computer Software to a range of 4 to 8 years. As compared to previous estimates of useful life of 5 years, the impact of applying new useful life has resulted in writeback of depreciation for the year of RM158,732.

**(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.

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

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

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

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

**(j) Provision for Liabilities**

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

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:

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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.)**

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

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

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

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

**(t) Financial Instruments**

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

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

**(u) Cash and Cash Equivalents**

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

**(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.)**

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

**(x) Investment Accounts**

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

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

**3.2 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 119 Defined Benefit Plans: Employee Contributions***

The amendments to MFRS 119 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee. For contributions that are 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. For contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

These amendments did not have any impact on 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.

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

**3.2 Changes in Accounting Policies (Cont'd)**

***Annual Improvements to MFRSs 2010–2012 Cycle***

The Annual Improvements to MFRSs 2010-2012 Cycle include a number of amendments to various MFRSs, which are summarised below.

***MFRS 8 Operating Segments***

The amendments are to be applied retrospectively and clarify that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in MFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar; and
- 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.

The Group and the Bank have not applied the aggregation criteria as mentioned above. The Bank continues to present the reconciliation of segment assets to total assets.

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

The amendments remove inconsistencies in the accounting for accumulated depreciation or amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amendments clarify that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between gross and carrying amounts of the asset. These amendments did not have any impact on the Group and the Bank.

***MFRS 124 Related Party Disclosures***

The amendments clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. The reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. This amendment is not applicable to the Group and the Bank.



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(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

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

**3.2 Changes in Accounting Policies (Cont'd)**

***Annual Improvements to MFRSs 2011–2013 Cycle***

The Annual Improvements to MFRSs 2011-2013 Cycle include a number of amendments to various MFRSs, which are summarised below. The Group and the Bank have applied the amendments for the first time in the current year.

***MFRS 3 Business Combinations***

The amendments to MFRS 3 clarify that the standard does not apply to the accounting for formation of all types of joint arrangement in the financial statements of the joint arrangement itself. This amendment is to be applied prospectively.

***MFRS 13 Fair Value Measurement***

The amendments to MFRS 13 clarify 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 (or MFRS 139 as applicable). These amendments did not have any impact on the Group and the Bank.

***MFRS 140 Investment Property***

The amendments to MFRS 140 clarify that an entity acquiring investment property must determine whether:

- the property meets the definition of investment property in terms of MFRS 140; and
- the transaction meets the definition of a business combination under MFRS 3.

to determine if the transaction is a purchase of an asset or is a business combination.

These amendments did not have any impact on the Group and the Bank, since none of the entities within the Group and the Bank has acquired investment properties.

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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.

<b>MFRSs, Amendments to MFRSs and Interpretations</b>	<b>Effective for financial period beginning on or after</b>
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
MFRS 141 <i>Agriculture</i> - Agriculture: Bearer Plants (Amendments to MFRS 141)	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018

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

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset forms part of the business) rather than the economic benefits that are consumed through the use of an 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.

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

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

**Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of MFRS 141. Instead, MFRS 116 will apply. After initial recognition, bearer plants will be measured under MFRS 116 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of MFRS 141 and are measured at fair value less costs to sell.

The amendments are effective for annual periods beginning on or after 1 January 2016 and are to be applied retrospectively, with early adoption permitted. These amendments are not expected to have any impact to the Group and the Bank.

**Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments clarify that:

- gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and
- gains and losses resulting from transactions involving the sale or contribution of assets to an associate of a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any 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 (Cont'd.)**

**Amendments to MFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations**

The amendments to MFRS 11 require that a joint operator which acquires an interest in a joint operations which constitute a business to apply the relevant MFRS 3 Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to MFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group and the Bank.

**Amendments to MFRS 127: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's and the Bank's financial statements.

**Amendments to MFRS 101: Disclosure Initiatives**

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

These amendments are not expected to have any 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 (Cont'd.)**

**Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception**

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments further clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. In addition, the amendments also provides that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

The amendments are to be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's and the Bank's financial statements.

**MFRS 15: Revenue from Contracts with Customers**

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

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

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

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

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

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

***MFRS 9 Financial Instruments***

The International Accounting Standards Board ("IASB") issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates. The areas with expected significant impact from application of MFRS 9 are summarised below:

***Classification and Measurement of Financial Assets***

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the assets. Key changes include:

- The held-to-maturity ("HTM") and available-for-sale ("AFS") asset categories will be removed;
- A new asset category measured at fair value through other comprehensive income ("FVOCI") is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- A new asset category for non-traded equity investments measured at FVOCI is introduced; and
- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at FVTPL to be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's and of the Bank's financial assets and financial liabilities designated at FVTPL.

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

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

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

*Impairment*

The MFRS 9 impairment requirements are based on an expected credit loss model ("ECL") that replaces the incurred loss model under the current accounting standard. The Group and the Bank will be generally required to recognise either a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Group and the Bank, contract assets under MFRS 15 and lease receivables under MFRS 117 Leases. MFRS 9 will change the Group's and the Bank's current methodology for calculating allowances for impairment, in particular for individual and collective assessment and provisioning.

*Hedge Accounting*

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

**Annual Improvements to MFRSs 2012 - 2014 Cycle**

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. The Directors of the Bank do not anticipate that the application of these amendments will have a significant impact on the Group's and the Bank's financial statements.

(i) **MFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

The amendment to MFRS 5 clarifies that changing from one disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is to be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

(ii) **MFRS 7 Financial Instruments: Disclosures**

**Servicing Contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required. In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

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

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

**Annual Improvements to MFRSs 2012 - 2014 Cycle (Cont'd)**

(iii) MFRS 119 Employee Benefits

The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

(iv) MFRS 134 Interim Financial Reporting

MFRS 134 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'.

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

**MFRS 14: Regulatorv Deferral Accounts**

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulations, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in the account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group and the Bank is an existing MFRS preparer, this standard would not apply.

**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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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

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

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

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

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

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

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

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

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

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>4 CASH AND SHORT-TERM FUNDS</b>				
Cash and balances with banks and other financial institutions	46,667	74,251	46,667	73,346
Money at call and interbank placements with remaining maturity less than one month	1,511,356	1,452,656	1,511,356	1,452,656
	<b>1,558,023</b>	<b>1,526,907</b>	<b>1,558,023</b>	<b>1,526,002</b>
<b>5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS</b>				
Other financial institutions	211,618	52,964	239,536	78,266
	<b>211,618</b>	<b>52,964</b>	<b>239,536</b>	<b>78,266</b>
<b>6 SECURITIES HELD-FOR-TRADING</b>				
<u>At fair value</u>				
Unquoted Islamic private debt securities/ sukuk	-	17,483	-	17,483
<b>7 SECURITIES AVAILABLE-FOR-SALE</b>				
<u>At fair value</u>				
Unquoted securities				
Islamic private debt securities/ sukuk	508,778	638,747	444,640	565,093
Government guaranteed sukuk	462,849	604,320	462,849	572,029
Mutual Fund	86,638	70,558	86,638	70,558
	<b>1,058,265</b>	<b>1,313,625</b>	<b>994,127</b>	<b>1,207,680</b>
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	18,714	18,515	-	-
Collective Investment Scheme	22,143	27,639	22,143	27,639
	<b>76,957</b>	<b>82,254</b>	<b>58,243</b>	<b>63,739</b>
	<b>1,135,222</b>	<b>1,395,879</b>	<b>1,052,370</b>	<b>1,271,419</b>

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### 8 SECURITIES HELD-TO-MATURITY

At amortised cost

Unquoted securities:

Islamic private debt securities/ sukuk

Group and Bank	
2015	2014
RM'000	RM'000
61,251	81,494

### 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

**(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) (Note 9(x))

Istisna'

Group and Bank	
2015	2014
RM'000	RM'000
588,527	468,663
1,294,582	1,378,094
100,201	130,791
333,548	396,596
5,960	51
407,936	322,243
4,671,417	4,410,615
12,850	11,643
7,415,021	7,118,696
(92,212)	(148,032)
(320,664)	(267,142)
7,002,145	6,703,522
1,894,939	1,698,017
5,193,684	5,025,767
77,816	77,313
245,935	314,876
1,147	1,157
1,500	1,566
7,415,021	7,118,696

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

	Group and Bank	
	2015 RM'000	2014 RM'000
<b>(iii) By type of customer</b>		
Domestic business enterprises		
- Small medium enterprises	1,203,198	1,379,336
- Others	3,694,872	3,360,473
Individuals	2,326,615	2,112,654
Foreign entities	34,421	128,364
Domestic non-bank financial institutions	155,915	137,869
	<b>7,415,021</b>	<b>7,118,696</b>
<b>(iv) By residual contractual maturity</b>		
Maturity within one year	4,578,875	4,363,325
More than one year to three years	20,013	49,628
More than three years to five years	323,627	305,351
More than five years	2,492,506	2,400,392
	<b>7,415,021</b>	<b>7,118,696</b>
<b>(v) By geographical distribution</b>		
Malaysia	7,395,927	7,072,249
Middle East	6,639	7,251
Other countries	12,455	39,196
	<b>7,415,021</b>	<b>7,118,696</b>
<b>(vi) By profit rate sensitivity</b>		
Fixed rate		
- House financing	46,439	75,996
- Hire purchase receivables	407,936	326,025
- Syndicated financing	333,548	396,596
- Term financing	1,475,067	1,458,317
Variable		
- House financing	542,087	395,664
- Term financing	4,609,944	4,466,098
	<b>7,415,021</b>	<b>7,118,696</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

	Group and Bank	
	2015 RM'000	2014 RM'000
<b>(vii) By sector</b>		
Construction	739,278	610,463
Electricity, gas and water	162,030	93,132
Finance, insurance and business services	367,248	369,789
Household	2,326,614	2,125,573
Manufacturing	904,930	1,032,532
Mining and quarrying	-	37,845
Agriculture, hunting, forestry & fishing	297,983	236,545
Real Estate	1,400,648	1,378,557
Transports, storage and communication	486,073	489,675
Wholesale & retail trade and restaurants & hotels	646,954	505,781
Others	83,263	238,804
	<b>7,415,021</b>	<b>7,118,696</b>
<b>(viii) By economic purpose</b>		
Merger and acquisition	230,759	229,321
Purchase of securities	22,120	30,349
Purchase of transport vehicles	416,739	333,113
Purchase of landed properties		
- residential	687,640	559,194
- non-residential	972,781	575,251
Purchase of fixed assets	176,683	241,335
Working capital	2,650,879	2,631,284
Construction	435,355	592,010
Personal use	1,291,879	1,369,611
Other purposes	530,186	557,228
	<b>7,415,021</b>	<b>7,118,696</b>

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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
<b>2015</b>							
House financing	562,511	97	-	24,419	-	1,500	588,527
Personal financing	-	1,294,074	-	-	508	-	1,294,582
Leasing financing	27,413	38,677	34,111	-	-	-	100,201
Syndicated financing	65,083	268,465	-	-	-	-	333,548
Cashline financing	-	5,960	-	-	-	-	5,960
Hire purchase receivables	401,035	-	-	6,901	-	-	407,936
Other term financing	828,082	3,585,385	43,705	214,245	-	-	4,671,417
Staff financing	10,815	1,026	-	370	639	-	12,850
	1,894,939	5,193,684	77,816	245,935	1,147	1,500	7,415,021

	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
<b>2014</b>							
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

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

	Group and Bank	
	2015 RM'000	2014 RM'000
<b>(x) Purpose and Source of Qard financing</b>		
As at 1 January	1,157	805
Source of Qard fund:	1,312	621
- Depositors' Fund	1,084	504
- Shareholders' Fund	229	117
Uses of Qard fund:	(1,322)	(269)
- Financing for asset purchase	(1,092)	(218)
- Staff Benevolent	(230)	(51)
As at 31 December (Note 9(ii))	1,147	1,157
<b>(xi) Movements in impaired financing, advances and other receivables</b>		
At 1 January	526,625	690,626
- Impaired during the year	283,019	180,757
- Reclassified to performing during the year	(7,137)	(107,477)
- Amount recovered	(138,588)	(132,130)
- Amount written off	(113,021)	(105,151)
At 31 December	550,898	526,625
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment allowance	3.25%	3.79%
<b>(xii) Movements in impairment allowances on financing, advances and other receivables</b>		
<b>Collective assessment</b>		
At 1 January	148,032	190,926
Allowance written back during the year (Note 29)	(55,820)	(42,894)
At 31 December	92,212	148,032
As % of total gross financing, advances and other receivables less individual impairment allowance	1.30%	2.16%
<b>Individual assessment</b>		
At 1 January	267,142	316,077
Allowance made during the year (Note 29)	166,543	56,217
<i>Allowance charged during the year</i>	199,951	114,539
<i>Allowance written-back during the year</i>	(33,408)	(58,322)
Amount written off	(113,021)	(105,152)
At 31 December	320,664	267,142





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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	
	2015 RM'000	2014 RM'000
	30,200	30,200
	-	15,993
	30,200	46,193
	(11,520)	(26,761)
	18,680	19,432

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2015	2014
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
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 2015	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	27,705	11,958	13,616	28,317	1,981	2,933	86,510
Additions	275	17	15	622	-	2,241	3,170
Disposals	(53)	-	-	-	-	-	(53)
Write-offs	(154)	(97)	(16)	(129)	-	-	(396)
Transfers	202	-	2	267	-	(2,267)	(1,796)
Exchange difference	16	5	3	25	-	-	49
At 31 December	27,991	11,883	13,620	29,102	1,981	2,907	87,484
<u>Accumulated depreciation</u>							
At 1 January	18,530	7,327	10,209	22,082	1,462	-	59,610
Charge for the year (Note 34)	3,612	1,832	1,409	3,093	222	-	10,168
Disposals	(30)	-	-	-	-	-	(30)
Write-off	(56)	(37)	(6)	(97)	-	-	(196)
Exchange difference	18	6	3	20	-	-	47
At 31 December	22,074	9,128	11,615	25,098	1,684	-	69,599
<u>Net book value</u>							
At 31 December	5,917	2,755	2,005	4,004	297	2,907	17,885
<b>Bank</b>							
<b>2015</b>							
<u>Cost</u>							
At 1 January	27,092	11,763	13,532	28,016	1,981	2,934	85,318
Additions	275	17	15	590	-	2,222	3,119
Disposals	(53)	-	-	-	-	-	(53)
Write-offs	(154)	(97)	(16)	(33)	-	-	(300)
Reclass	-	-	-	-	-	-	-
Transfers	200	-	2	267	-	(2,268)	(1,799)
At 31 December	27,360	11,683	13,533	28,840	1,981	2,888	86,285
<u>Accumulated depreciation</u>							
At 1 January	18,063	7,207	10,146	21,844	1,462	-	58,722
Charge for the year (Note 34)	3,553	1,803	1,401	3,040	222	-	10,019
Disposals	(29)	-	-	-	-	-	(29)
Write-offs	(56)	(37)	(6)	(11)	-	-	(110)
At 31 December	21,531	8,973	11,541	24,873	1,684	-	68,602
<u>Net book value</u>							
At 31 December	5,829	2,710	1,992	3,967	297	2,888	17,683

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

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)
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 34)	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
<b>Bank 2014</b>							
<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)
Reclass	(1,014)	(620)	(273)	(112)	-	-	(2,019)
Write-offs	(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 34)	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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### 16 INTANGIBLE ASSETS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>Computer software</b>				
<u>Cost</u>				
At 1 January	60,253	59,115	58,921	57,886
Additions	1,747	164	1,747	142
Reclass	-	98	-	98
Write-offs	(27)	-	-	-
Transfers from property and equipment	1,799	795	1,799	795
Exchange difference	294	81	-	-
At 31 December	64,066	60,253	62,467	58,921
<u>Accumulated amortisation</u>				
At 1 January	52,593	44,851	51,872	44,417
Amortisation for the year (Note 34)	3,552	7,601	3,355	7,357
Reclass	-	98	-	98
Write-offs	(24)	-	-	-
Exchange difference	182	43	-	-
At 31 December	56,303	52,593	55,227	51,872
<u>Carrying amount</u>				
At 31 December	7,763	7,660	7,240	7,049

### 17 DEFERRED TAXATION

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	198,097	241,258	198,028	241,134
Recognised in other comprehensive income	44	(263)	113	(263)
Recognised in profit and loss (Note 37)	-	(42,898)	-	(42,843)
At 31 December	198,141	198,097	198,141	198,028
Presented after appropriate offsetting as follows:				
Deferred tax assets	201,464	201,643	201,464	201,574
Deferred tax liabilities	(3,323)	(3,546)	(3,323)	(3,546)
Deferred tax assets (net)	198,141	198,097	198,141	198,028

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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:

	Unrealised loss/(gain) on securities available- for-sale RM'000	Unused tax losses RM'000	Other temporary differences RM'000	Total RM'000
<b>Deferred tax assets of the Group:</b>				
<b>2015</b>				
At 1 January	1,166	191,166	9,311	201,643
Recognised in profit or loss	-	5,488	(5,711)	(223)
Recognised in other comprehensive income	113	(69)	-	44
At 31 December	1,279	196,585	3,600	201,464
<b>2014</b>				
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
<b>Deferred tax assets of the Bank:</b>				
<b>2015</b>				
At 1 January	1,166	191,096	9,312	201,574
Recognised in profit or loss	-	5,488	(5,711)	(223)
Recognised in other comprehensive income	113	-	-	113
At 31 December	1,279	196,584	3,601	201,464
<b>2014</b>				
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

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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.)

#### Deferred tax liabilities of the Group and Bank:

##### 2015

At 1 January,  
Recognised in profit or loss  
At 31 December

##### 2014

At 1 January,  
Recognised in profit or loss  
At 31 December

Accelerated capital allowances RM'000	Total RM'000
3,546	3,546
(223)	(223)
3,323	3,323
5,187	5,187
(1,641)	(1,641)
3,546	3,546

#### Unutilised tax losses and unabsorbed capital allowance

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

Unutilised tax losses

Group	
2015 RM'000	2014 RM'000
786,340	764,664
786,340	764,664

The deferred tax assets have been recognised as at 31 December 2015 as the directors are of the view that it is probable for the Group to realise the deferred tax asset.

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

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### 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	
	2015 RM'000	2014 RM'000
Unutilised tax losses	203,832	210,533
	203,832	210,533

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	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>(i) By type of deposit</b>				
Non Mudharabah				
- Demand deposits	664,685	501,170	581,459	432,717
- Gold deposits	149,585	158,748	149,585	158,748
- Wakalah deposits	474	10,766	-	10,382
Mudharabah				
- Savings deposits	51,407	56,192	51,407	56,192
Murabahah	2,773,857	3,333,495	2,773,857	3,305,504
	3,640,007	4,060,371	3,556,307	3,963,543

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>(ii) By type of customer</b>				
Business enterprises	1,739,879	1,731,786	1,591,087	1,538,128
Individuals	276,670	387,940	276,670	387,940
Subsidiaries	-	-	65,091	96,829
Government and statutory bodies	1,058,300	1,443,160	1,058,302	1,443,160
Others	565,158	497,485	565,157	497,486
	<b>3,640,007</b>	<b>4,060,371</b>	<b>3,556,307</b>	<b>3,963,543</b>
<b>(iii) By contractual maturity</b>				
Due within six months	3,263,593	3,509,764	3,213,578	3,412,935
More than six months to one year	367,782	381,615	334,097	381,615
More than one year to three years	8,632	168,992	8,632	168,993
	<b>3,640,007</b>	<b>4,060,371</b>	<b>3,556,307</b>	<b>3,963,543</b>

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	247,633	223,336	247,633	223,335
Other financial institutions	4,597,615	3,923,807	4,674,499	3,993,665
<u>Wakalah</u>				
Other financial institutions	4,102	33,089	-	-
	<b>4,849,350</b>	<b>4,180,232</b>	<b>4,922,132</b>	<b>4,217,000</b>



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### 20 INVESTMENT ACCOUNTS

	Group and Bank	
	2015 RM'000	2014 RM'000
Net placement during the year	7,449	-
Income from investment	68	-
Profit distributed to mudarib	(27)	-
As at 31 December	7,490	-
Investment asset: Wadiah placement with BNM	7,490	-

### Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

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

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### 21 OTHER LIABILITIES

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Sundry creditors	(i)	39,107	124,925	39,007	124,860
Accrued restoration cost		5,807	5,514	5,700	5,407
Other provisions and accruals		23,212	39,416	22,637	38,665
Undistributed charity funds	(ii)	5,587	2,241	5,587	2,241
		<b>73,713</b>	<b>172,096</b>	<b>72,931</b>	<b>171,173</b>

(i) Included in sundry creditors is an amount payable to holding company of RM0.4 million (2014: RM93.8 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

Sources of charity funds:

Undistributed charity funds as at 1 January

Penalty charges on late payment

Total sources of funds during the year

Uses of charity funds:

Contribution to Baitulmal

Compensation of late payment charges (Note 28)

Contribution to non profit organisations

Aid to needy family

Total uses of funds during the year

Undistributed charity funds as at 31 December

Group and Bank	
2015 RM'000	2014 RM'000
2,241	1,259
3,947	2,046
<b>6,188</b>	<b>3,305</b>
(80)	-
-	(680)
(455)	(202)
(66)	(182)
<b>(601)</b>	<b>(1,064)</b>
<b>5,587</b>	<b>2,241</b>

### 22 PROVISION FOR ZAKAT

In 2015, 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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### 23 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 USD100,026,396 or equivalent RM429,538,350 (2014: USD100,829,862 or equivalent RM352,627,235) 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").

### 24 SHARE CAPITAL

#### Authorised:

At 1 January/ At 31 December

#### Issued and fully paid:

At 1 January/ At 31 December

Number of ordinary shares at RM1.00 each		Amount	
2015	2014	2015	2014
Units'000	Units'000	RM'000	RM'000
3,000,000	3,000,000	3,000,000	3,000,000
1,425,272	1,425,272	1,425,272	1,425,272

### 25 RESERVES

#### Non-distributable

Statutory reserve

Exchange fluctuation reserve

Available-for-sale reserve

#### Distributable

Retained earnings

Note	Group		Bank	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
(i)	158,385	158,385	158,385	158,385
(ii)	4,702	(2,951)	-	-
(iii)	(14,450)	(5,340)	(13,918)	(5,982)
	148,637	150,094	144,467	152,403
	93,562	130,742	71,500	106,862
	242,199	280,836	215,967	259,265

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**25 RESERVES (Cont'd.)**

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

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

(iii) Available-for-sale reserve

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

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

	<b>Group</b>		<b>Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
At 1 January	(5,340)	(26,871)	(5,982)	(26,142)
Net unrealised (losses)/gain on securities available-for-sale financial investments	(13,176)	21,807	(11,204)	20,436
Net realised losses/(gain) on securities available-for-sale financial investments reclassified to the income statements	4,066	(276)	3,268	(276)
At 31 December	<b>(14,450)</b>	<b>(5,340)</b>	<b>(13,918)</b>	<b>(5,982)</b>

**26 OPERATING REVENUE**

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

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

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income derived from investment of :				
(i) General investment deposits	9	4,092	9	4,098
(ii) Other deposits	394,621	365,512	392,379	364,018
	<b>394,630</b>	<b>369,604</b>	<b>392,388</b>	<b>368,116</b>
<b>(i) Income derived from investment of general investment deposits</b>				
Finance income from financing, advances and other receivables	7	3,407	7	3,428
Finance income from impaired financing	-	14	-	14
Securities				
- Held-for-trading	-	2	-	2
- Available-for-sale	1	322	1	307
- Held-to-maturity	-	39	-	38
Money-at-call and deposits with financial institutions	1	209	1	210
	<b>9</b>	<b>3,993</b>	<b>9</b>	<b>3,999</b>
Amortisation of premium less accretion of discount	-	(43)	-	(43)
Total finance income and hibah	<b>9</b>	<b>3,950</b>	<b>9</b>	<b>3,956</b>
Gain arising from sale of securities				
- Held-for-trading	-	1	-	1
Foreign exchange gain - realised	-	98	-	98
Gain on Ijarah rental swap obligations	-	43	-	43
	<b>9</b>	<b>4,092</b>	<b>9</b>	<b>4,098</b>

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>(ii) Income derived from investment of other deposits</b>				
Finance income from financing, advances and other receivables	317,572	304,382	317,918	304,366
Finance income from impaired financing	231	623	231	623
Securities				
- Held-for-trading	102	181	102	181
- Available-for-sale	29,464	27,825	27,815	26,239
- Held-to-maturity	3,086	3,364	3,090	3,364
Money-at-call and deposits with financial institutions	31,554	20,545	31,587	20,707
	382,009	356,920	380,743	355,480
Amortisation of premium less accretion of discount	(2,743)	(3,570)	(2,743)	(3,571)
Total finance income and hibah	379,266	353,350	378,000	351,909
Profit from Murabahah trading on automobile	614	-	614	-
Gain arising from sale of securities				
- Held-for-trading	131	149	131	149
- Available-for-sale	3,434	-	2,551	-
Foreign exchange gain - realised	7,377	8,367	7,281	8,314
Gain on Ijarah rental swap obligations	3,799	3,646	3,802	3,646
	394,621	365,512	392,379	364,018

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Finance income from financing, advances and other receivables	67,479	71,374	67,133	71,370
Finance income from impaired financing	60	163	60	162
Securities				
- Held-for-trading	22	42	22	42
- Available-for-sale	6,260	6,533	5,872	6,159
- Held-to-maturity	656	790	653	790
Money-at-call and deposits with financial institutions	6,629	4,786	6,596	4,821
	81,106	83,688	80,336	83,344
Amortisation of premium less accretion of discount	(581)	(843)	(578)	(842)
Total finance income and hibah	80,525	82,845	79,758	82,501
Fee income				
- Commissions	2,356	5,125	2,679	5,130
- Fund management fee	5,032	4,415	-	-
- Other fee income	5,229	8,276	5,220	7,728
- Compensation of late payment charges	-	680	-	680
Gain arising from sale of securities				
- Held-for-trading	29	34	29	34
- Available-for-sale	732	-	546	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(2,459)	(3,764)	(2,459)	(3,764)
Profit from Murabahah trading on automobile	121	-	122	-
Foreign exchange gain/(loss)				
- Realised	1,739	2,092	1,708	2,079
- Unrealised	(7,954)	(5,883)	(7,828)	(5,823)
Gain on Ijarah rental swap obligations	808	856	803	857
Gross dividend from property funds (securities available-for-sale)	-	973	-	-
Reversal of provision on property restoration	-	77	-	77
Gain on Ijarah Automobile	-	1	-	1
Other income	2,514	611	-	-
Gross dividend from subsidiary	-	-	9,695	-
Management fee	270	193	606	-
	88,942	96,531	90,879	89,501

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Allowances for (Note 9(xii)):				
- Collective assessment	(55,820)	(42,894)	(55,820)	(42,894)
- Individual assessment:	166,543	56,217	166,543	56,217
Allowances charged during the year	199,951	114,539	199,951	114,539
Allowances written-back during the year	(33,408)	(58,322)	(33,408)	(58,322)
Bad debt recovered on financing	(10,980)	(88,801)	(10,980)	(88,801)
	99,743	(75,478)	99,743	(75,478)

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Securities available-for-sale	10,239	(1,746)	13,675	766
Other impairment loss	1,048	-	1,048	-
	11,287	(1,746)	14,723	766



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### 31 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Deposits from customers				
- Mudharabah	390	4,110	390	4,110
- Non Mudharabah	107,962	106,597	107,723	106,474
- Wakalah	38	12,003	-	11,487
- Negotiable Instrument Deposit	-	1,221	-	1,221
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	139,051	67,308	139,452	68,182
- Others	625	448	624	450
	248,066	191,687	248,189	191,924

### 32 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Income derived from investment of investment account funds	68	-	68	-
Profit distributed to mudarib	(27)	-	(27)	-
	41	-	41	-

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### 33 PERSONNEL EXPENSES

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Salaries and wages	51,250	56,753	49,390	54,152
Social security costs	312	336	304	329
Pension costs - defined contribution plan	10,338	11,344	9,956	10,859
Other staff related costs	19,380	28,081	18,708	27,259
	<b>81,280</b>	<b>96,514</b>	<b>78,358</b>	<b>92,599</b>

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

Name	Position	Salary and other remuneration*	Employees Provident Fund	Benefit in kinds	Total
		RM'000	RM'000	RM'000	RM'000
<b>2015</b>					
Ahmad S A A AIKharji	Chief Executive Officer & Managing Director	1,430	175	26	1,631
Dato' Mohamad Aslam Khan	Acting Chief Executive Officer	153	24	-	177
	<b>Total</b>	<b>1,583</b>	<b>199</b>	<b>26</b>	<b>1,808</b>
<b>2014</b>					
Dato Sri Abdul Hamidy bin Abdul Hafiz	Chief Executive Officer	4,091	976	633	5,700
Dato' Mohamad Aslam Khan	Acting Chief Executive Officer	47	8	-	55
	<b>Total</b>	<b>4,138</b>	<b>984</b>	<b>633</b>	<b>5,755</b>

\*

### 34 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>Promotion</b>				
Advertisement and publicity	286	2,393	276	2,353
<b>Establishment</b>				
Rental	18,229	19,370	17,678	18,720
Depreciation of property and equipment (Note 15)	10,168	11,077	10,019	10,936
Amortisation of intangible assets (Note 16)	3,552	7,601	3,355	7,357
IT expenses	7,631	12,126	7,615	12,126
Hire of equipment	552	711	537	697
	<b>40,418</b>	<b>50,884</b>	<b>39,480</b>	<b>52,189</b>

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### 34 OTHER OVERHEADS AND EXPENDITURES (Cont'd.)

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>General expenses</b>				
Auditors remuneration				
- Statutory audit:	386	399	344	290
- Ernst & Young Malaysia	386	333	344	290
- Other member firms of Ernst & Young Global	-	66	-	-
- Non-audit services:	301	640	276	640
- Review engagements and regulatory-related services	231	214	206	214
- Other services	70	426	70	426
Professional fees	306	2,464	207	2,436
Directors' remuneration (Note 36)	2,649	2,688	2,485	2,305
Shariah Committee's remuneration (Note 36)	846	716	846	716
Murabahah agent fees	301	628	301	628
Communication expenses	2,820	4,199	2,740	4,106
Other fees	16,879	16,923	16,879	16,923
Others	3,227	26,223	1,835	21,966
	27,715	54,880	25,913	50,010
<b>Total overheads and expenditures</b>	68,133	105,764	65,393	102,199

### 35 FINANCE COST

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Subordinated Murabahah Tawarruq	12,250	13,784	12,250	13,784

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
<b>Directors of the Bank</b>				
Fees	1,380	1,190	1,380	1,190
Other remuneration	1,105	1,115	1,105	1,115
	<b>2,485</b>	<b>2,305</b>	<b>2,485</b>	<b>2,305</b>
<b>Directors of subsidiary company</b>				
Fees	164	341	-	-
Other remuneration	-	42	-	-
	<b>164</b>	<b>383</b>	<b>-</b>	<b>-</b>
<b>Total Directors</b>	<b>2,649</b>	<b>2,688</b>	<b>2,485</b>	<b>2,305</b>
<b>Shariah Committee</b>				
Fees	634	505	634	505
Other remuneration	212	211	212	211
	<b>846</b>	<b>716</b>	<b>846</b>	<b>716</b>

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	
	2015	2014
Directors		
RM1,000 - RM100,000	-	3
RM100,001 - RM150,000	1	-
RM150,001 - RM200,000	-	6
RM200,001 - RM250,000	1	-
RM250,001 - RM300,000	1	-
RM300,001 - RM400,000	4	-
RM400,001 - RM500,000	1	-
<b>Total</b>	<b>8</b>	<b>9</b>

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### 36 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
2015		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>													
Hamad A H D AlMarzouq	Chairman	200	-	-	-	-	-	-	-	-	-	35	235
Mohammad N A AlFouzan	Non-independent non-executive director	220	-	35	-	-	-	-	-	-	-	60	315
Ahmad S A A AlKharji	Non-independent executive director	180	-	25	-	-	35	-	-	25	25	-	290
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	240	60	35	-	-	60	-	-	60	25	-	480
Khalid Sufat	Independent non-executive director	180	60	-	-	-	60	-	-	35	25	-	360
Gopala Krishnan a/l K.Sundran	Independent non-executive director	180	60	60	-	-	60	-	-	-	25	-	385
Dr Paul Quigley	Non-independent non-executive director	60	-	20	-	-	20	-	-	-	-	20	120
Md Adnan Md Zain	Independent non-executive director	180	-	-	-	-	60	-	-	60	-	60	360
	Subtotal	1,440	180	175	-	-	295	-	-	180	100	175	2,545

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

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

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

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### 36 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
<b>Group</b>													
Mohammad Nasser AlFouzan	Non-independent non-executive director	54	-	-	-	-	-	-	-	-	-	6	60
Dr Nabeel A E A Al-Mannaie	Non-independent non-executive director	63	-	-	8	8	-	-	-	-	-	-	79
Shaheen H.A. KH Sh. Alghanem	Non-independent non-executive director	115	-	13	-	6	11	8	8	13	-	-	174
Khalid Sufat	Independent non-executive director	180	56	-	-	6	48	-	-	-	56	-	346
Mohamed Zaheer Mohamed Azreen	Non-independent non-executive director	180	99	6	-	-	38	6	8	48	56	-	441
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
	Subtotal	952	209	129	20	26	193	20	24	61	168	54	1,856

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

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

Name of Directors	Position	Board of Directors Fee	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
<b>Group</b>													
	Amount brought forward	952	209	129	20	26	193	20	24	61	168	54	1,856
Md Adnan Md Zain	Independent non-executive director	173	-	-	-	-	48	4	4	48	-	48	325
Ahmad S A A AIKharji	Non-independent non-executive director	105	-	35	-	-	-	-	-	35	35	-	210
Abdul Hamid Sheikh Mohamed	Independent non-executive director	89	3	-	-	-	-	-	-	-	-	-	92
Wong Fay Lee	Independent non-executive director	54	2	-	-	-	3	-	-	-	-	-	59
Abdulla S A A Almulaifi	Non-independent non-executive director	60	-	-	-	-	-	-	-	-	-	-	60
Dato' Sri Abdul Hamidy Andul Hafiz	Non-independent non-executive director	54	1	-	-	-	2	-	-	-	-	-	57
Jeyaratnam A/L Tamotharam Pillai	Non-independent non-executive director	28	1	-	-	-	-	-	-	-	-	-	29
	<b>Total</b>	<b>1,515</b>	<b>216</b>	<b>164</b>	<b>20</b>	<b>26</b>	<b>246</b>	<b>24</b>	<b>28</b>	<b>144</b>	<b>203</b>	<b>102</b>	<b>2,688</b>



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

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

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

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

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

Name of Directors	Position	Directors Fee RM'000	Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	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
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
<b>Bank</b>													
Mohammad Nasser AlFouzan	Non-independent non- executive director	54	-	-	-	-	-	-	-	-	-	6	60
Dr Nabeel A E A Al-Mannaie	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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### 36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION (Cont'd.)

Name of Shariah Committee Member	TOTAL	Fee	Allowances
	RM '000	RM '000	RM '000
<b>2015</b>			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	190	144	46
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	168	120	48
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	163	130	33
Sheikh Isa Abdulla Yusuf Dowaishan	136	120	16
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	189	120	69
	846	634	212
<b>2014</b>			
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

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### 37 TAXATION

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Malaysian income tax				
- Current year	20	20	-	-
- Over provision of income tax in prior year	-	(134)	-	-
Deferred tax (Note 17):				
- Relating to origination and reversal of temporary differences	(875)	36,208	(875)	36,153
- Underprovision of deferred tax in prior year	875	6,690	875	6,690
	20	42,784	-	42,843

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2015 have reflected these changes.

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

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

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
(Loss)/profit before zakat and taxation	(37,160)	135,610	(35,362)	131,823
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	(9,290)	33,903	(8,841)	32,956
Income subject to different tax rates	(2,203)	(1,290)	-	-
Loss/(income) not subject to tax	5,348	(13,290)	2,879	(13,915)
Expenses not deductible for tax purposes	1,335	2,402	1,132	2,610
Deferred tax assets not recognised on unutilised tax losses and unabsorbed capital allowances	3,955	14,503	3,955	14,502
Underprovision of deferred tax in prior year	875	6,690	875	6,690
Over provision of income tax expense in prior year	-	(134)	-	-
Tax expense for the year	20	42,784	-	42,843

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### 38 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	
	2015	2014
Net (loss)/profit for the year (RM'000)	(37,180)	92,826
Weighted average number of ordinary shares in issue ('000) *	1,425,272	1,425,272
Basic/diluted (loss)/earnings per share (sen)	(2.61)	6.51

\* 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.

### 39 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 47.

#### **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, Kuvveyt Turk Participation K.S.C. and KFH Global Sukuk Fund.

#### **Key management personnel**

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

#### **Directors**

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

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

#### (a) Related party transactions

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

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

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### 39 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.)

2015 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
<b>(iii) Amount due to related parties</b>						
- Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-
- Deposits from customers	-	65,091	5,290	1,366	37	14
- Deposits and placements of banks and other FIs	259,329	76,882	-	-	-	-
- Sundry creditors (Note 21)	434	-	-	-	-	-
	689,301	141,973	5,290	1,366	37	14
<b>(iv) Amount due from related parties</b>						
- Securities	-	-	122,738	-	-	-
- Financing	-	-	352,131	500	-	-
- Deposits and placements with banks and other FIs	-	27,918	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	-	27,922	526,469	500	-	-
<b>(v) Others</b>						
- Purchases of intangible assets	-	-	959	-	-	-
	-	-	959	-	-	-

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

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
<b>2014</b>						
<b>(i) Income</b>						
- Management fees	-	336	-	-	-	-
- Profit income on placements	-	197	-	-	-	-
- Profit income on financing	-	-	12,878	43	3,138	-
	-	533	12,878	43	3,138	-
<b>(ii) Expenditure</b>						
- 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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### 39 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
<b>(iii) Amount due to related parties</b>						
- 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 21)	93,799	-	-	-	-	-
	<b>814,693</b>	<b>94,630</b>	<b>99,698</b>	<b>1,975</b>	<b>-</b>	<b>43</b>
<b>(iv) Amount due from related parties</b>						
- Securities	-	-	106,658	-	-	-
- Financing	-	-	350,597	1,073	-	-
- Deposits and placements with banks and other FIs	-	25,301	-	-	-	-
- Other assets	-	4	51,600	-	-	-
	<b>-</b>	<b>25,305</b>	<b>508,855</b>	<b>1,073</b>	<b>-</b>	<b>-</b>
<b>(v) Others</b>						
- Purchases of intangible assets	-	-	524	-	-	-
	<b>-</b>	<b>-</b>	<b>524</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**(b) Key management personnel compensation**

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

	<b>Group</b>		<b>Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Short-term employee benefits				
- Salary and other remuneration	10,577	25,486	9,589	24,481
- Benefits-in-kind	604	640	597	633
	11,181	26,126	10,186	25,114

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 33 and Note 36.

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

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

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

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

	2014			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)	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%

\* 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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### 40 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.

	2015			2014		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
<b>Group and Bank</b>						
Direct credit substitutes	28,618	28,618	20,129	104,544	104,544	94,303
Transaction related contingencies	85,700	42,850	32,888	116,969	58,484	32,340
Trade related contingencies	10,146	2,029	2,029	10,892	2,178	2,178
Irrevocable commitments to extend credit						
- maturity less than one year	269,352	53,870	52,465	371,642	74,328	56,641
- maturity more than one year	270,554	135,277	124,479	117,597	58,798	55,345
Foreign exchange related contracts *						
- less than one year	8,873	350	163	13,868	13	4
Profit rate related contracts (ljarah rental swap obligation) *						
- five years and above	245,505	13,763	11,799	241,906	18,477	15,574
	918,748	276,757	243,952	977,418	316,822	256,385
			Note 42 (d)		Note 42 (d)	Note 42 (d)

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

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

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

#### Market risk

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

#### Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2015, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM9,267,189 (2014: RM11,361,492). 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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**41 CAPITAL COMMITMENTS**

	<b>Group</b>		<b>Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Capital expenditure :				
Authorised and contracted for				
- purchase of equipment	-	3	-	-
- computer hardware	119	1,820	119	1,820
- computer software	2,225	2,792	2,225	2,792
- capital renovation	563	788	563	788
Authorised but not contracted for				
- computer hardware	1,114	-	1,114	-
- computer software	3,753	334	3,753	334
	<b>7,774</b>	<b>5,737</b>	<b>7,774</b>	<b>5,734</b>

**42 CAPITAL ADEQUACY**

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

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

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

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

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>CET 1/ Tier 1 capital ratio</b>				
Credit risk	20.211%	21.191%	19.515%	20.389%
Credit, market, operational and large exposure risks	18.827%	19.598%	18.241%	18.885%
<b>Total capital ratio/ Risk-weighted capital ratio</b>				
Credit risk	27.368%	27.355%	26.696%	26.590%
Credit, market, operational and large exposure risks	25.493%	25.298%	24.953%	24.628%

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

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

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>CET 1/Tier I capital</u></b>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	158,385	158,385	158,385	158,385
Other reserves	83,814	122,451	57,582	100,880
	1,667,471	1,706,108	1,641,239	1,684,537
Less: Deferred tax assets (net)	(198,141)	(198,097)	(198,141)	(198,028)
Less: Investment in subsidiaries	-	-	(30,200)	(46,193)
<b>Total CET 1/ Tier I capital</b>	<b>1,469,330</b>	<b>1,508,011</b>	<b>1,412,898</b>	<b>1,440,316</b>
<b><u>Tier II capital</u></b>				
Subordinated Murabahah Tawarruq	429,425	349,725	429,425	349,725
Collective impairment on financing	90,873	88,954	90,500	88,301
<b>Total Tier II capital</b>	<b>520,298</b>	<b>438,679</b>	<b>519,925</b>	<b>438,026</b>
<b>Capital base</b>	<b>1,989,628</b>	<b>1,946,690</b>	<b>1,932,823</b>	<b>1,878,342</b>

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

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Computation of Total Risk-Weighted Assets ("RWA")</b>				
Total credit RWA	7,269,805	7,116,278	7,240,016	7,064,119
Total market RWA	32,918	48,843	32,918	48,843
Total operational RWA	481,780	509,794	452,784	493,770
Large exposure risk RWA for equity holdings	20,048	20,048	20,048	20,048
<b>Total Risk-Weighted Assets (ii)</b>	<b>7,804,551</b>	<b>7,694,963</b>	<b>7,745,766</b>	<b>7,626,780</b>
<b>Computation of Capital Ratios</b>				
Core capital (iii)	1,469,330	1,508,011	1,412,898	1,440,316
Capital base (i)	1,989,628	1,946,690	1,932,823	1,878,342
<b>CET 1/Tier 1 capital ratio</b>	<b>18.827%</b>	<b>19.598%</b>	<b>18.241%</b>	<b>18.885%</b>
<b>Total capital ratio</b>	<b>25.493%</b>	<b>25.298%</b>	<b>24.953%</b>	<b>24.628%</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

### 42 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
2015	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	2,102,259	2,102,259	66,732	66,732	5,339
Banks, Development Financial Institutions & MDBs	403,514	403,514	155,477	155,477	12,438
Corporates	4,765,687	4,765,687	4,216,589	4,216,589	337,327
Regulatory Retail	1,865,275	1,865,275	1,389,064	1,389,064	111,125
Residential Mortgages	446,167	446,167	163,940	163,940	13,115
Higher Risk Assets <sup>1</sup>	437,757	437,757	656,636	656,636	52,531
Other Assets	295,165	295,165	119,418	119,418	9,553
Defaulted Exposures <sup>2</sup>	237,008	237,008	257,997	257,997	20,640
	10,552,832	10,552,832	7,025,853	7,025,853	562,068
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	14,113	14,113	11,962	11,962	957
Off-balance sheet exposures other than OTC hedging financial instruments	262,645	262,645	231,990	231,990	18,559
	276,758	276,758	243,952	243,952	19,516
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,829,590</b>	<b>10,829,590</b>	<b>7,269,805</b>	<b>7,269,805</b>	<b>581,584</b>



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

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

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

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

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### 42 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
2014	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	2,033,354	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	1,410,366	112,829
Residential Mortgages	227,367	227,367	80,088	80,088	6,407
Higher Risk Assets <sup>1</sup>	434,670	434,670	652,006	652,006	52,161
Other Assets	474,828	474,828	169,809	169,809	13,585
Defaulted Exposures <sup>2</sup>	302,202	302,202	333,773	333,773	26,702
	10,392,672	10,392,672	6,859,893	6,859,893	548,792
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	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
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,709,494</b>	<b>10,709,494</b>	<b>7,116,278</b>	<b>7,116,278</b>	<b>569,303</b>

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### 42 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				
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 <sup>4</sup>	22,044	18,142	3,902	22,134	22,134	1,771
			<b>32,509</b>	<b>48,843</b>	<b>48,843</b>	<b>3,908</b>
(iv) Operational Risk				<b>509,794</b>	<b>509,794</b>	<b>40,783</b>
(v) Total RWA and Capital Requirements				<b>7,694,963</b>	<b>7,694,963</b>	<b>615,598</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

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

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

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

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

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

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### 42 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
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
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 <sup>1</sup>	434,670	434,670	652,006	652,006	52,161
Other Assets	398,688	398,688	121,672	121,672	9,734
Defaulted Exposures <sup>2</sup>	302,203	302,203	333,773	333,773	26,702
	10,290,756	10,290,756	6,807,734	6,807,734	544,619
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	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
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,607,578</b>	<b>10,607,578</b>	<b>7,064,119</b>	<b>7,064,119</b>	<b>565,130</b>

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

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
<b>2014 (Cont'd.)</b>						
<b>(ii) Large Exposures Risk Requirement</b>		<b>41,998</b>	<b>41,998</b>	<b>20,048</b>	<b>20,048</b>	<b>1,604</b>
	<b>Long Position</b>	<b>Short Position</b>				
<b>(iii) Market Risk</b>						
Benchmark Rate Risk	192,637	164,030	28,607	26,709	26,709	2,137
Foreign Currency Risk <sup>4</sup>	22,044	18,142	3,902	22,134	22,134	1,771
			<b>32,509</b>	<b>48,843</b>	<b>48,843</b>	<b>3,907</b>
<b>(iv) Operational Risk</b>				<b>493,770</b>	<b>493,770</b>	<b>39,502</b>
<b>(v) Total RWA and Capital Requirements</b>				<b>7,626,780</b>	<b>7,626,780</b>	<b>610,144</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

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

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



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

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

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

		Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>2014</b>	<b>Group Risk-Weights</b>									
	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
		<b>2,033,354</b>	<b>502,807</b>	<b>5,105,060</b>	<b>1,918,703</b>	<b>232,020</b>	<b>442,722</b>	<b>474,828</b>	<b>10,709,494</b>	<b>7,116,278</b>

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### 42 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			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>2014 (Cont'd.)</b>	<b>Bank Risk-Weights</b>									
	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
		<b>1,994,662</b>	<b>513,048</b>	<b>5,107,734</b>	<b>1,918,704</b>	<b>232,021</b>	<b>442,722</b>	<b>398,687</b>	<b>10,607,578</b>	<b>7,064,119</b>

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### 42 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
<b>2015</b>				
0%	2,348,879	-	2,327,604	-
20%	637,566	127,513	643,985	128,797
35%	387,966	135,788	387,966	135,788
50%	525,975	262,987	504,611	252,305
75%	1,903,906	1,427,929	1,903,906	1,427,929
100%	4,444,719	4,444,719	4,424,328	4,424,328
150%	580,579	870,869	580,579	870,869
Risk-weighted assets for credit risk	10,829,590	7,269,805	10,772,979	7,240,016
Risk-weighted assets for market risk		32,918		32,918
Risk-weighted assets for operational risk		481,780		452,784
Large exposure risk-weighted assets for equity holdings		20,048		20,048
Total risk-weighted assets		7,804,551		7,745,766
<b>2014</b>				
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

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

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

	2015		2014	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
<b>Group and Bank</b>				
Benchmark Rate Risk	17,643	1,411	26,709	2,137
Foreign Exchange Risk	15,275	1,222	22,134	1,771
Total	32,918	2,633	48,843	3,908

**43 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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**43 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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### 43 SEGMENT INFORMATION (Cont'd.)

#### (a) Primary Segment - By Business Segment

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

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

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

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### 43 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)	-
<b>Total Revenue</b>	<b>219,503</b>	<b>192,641</b>	<b>77,462</b>	<b>206,683</b>	<b>(230,153)</b>	<b>466,135</b>
Segment results	16,626	47,744	76,364	118,688	-	259,422
Unallocated expenses						(123,812)
<b>Income from operations</b>						<b>135,610</b>
Taxation						(42,784)
<b>Net profit for the year</b>						<b>92,826</b>
<b>Other information</b>						
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						<b>10,471,581</b>
Segment liabilities	6,506,193	127,719	117,253	1,632,476	(119,936)	8,263,705
Unallocated corporate liabilities						-
Total liabilities						<b>501,768</b>
						<b>8,765,473</b>
<b>Other segment items</b>						
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	-	-	-	7,601	-	7,601
Other non-cash expense other than depreciation	(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
	<b>466,135</b>	<b>135,610</b>	<b>10,471,581</b>

The Group has fund management operations in Australia.



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**44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

**Determination of fair value and fair value hierarchy**

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

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

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

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

<b>Group</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2015</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets</b>			
Securities available-for-sale	1,058,265	-	1,058,265
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
<b>Total</b>	<b>2,041,916</b>	<b>6,087,520</b>	<b>8,129,436</b>
<b>Financial liability</b>			
Deposits from customers	3,639,561	-	3,639,561
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	<b>3,640,020</b>	<b>429,337</b>	<b>4,069,357</b>
<b>2014</b>			
<b>Financial assets</b>			
Securities held-for-trading	17,482	-	17,482
Securities available-for-sale	1,313,625	-	1,313,625
Securities held-to-maturity	81,255	-	81,255
Financing, advances and other receivables	723,271	5,977,665	6,700,936
Hedging financial instruments	11,361	-	11,361
<b>Total</b>	<b>2,146,994</b>	<b>5,977,665</b>	<b>8,124,659</b>
<b>Financial liability</b>			
Deposits from customers	4,031,404	-	4,031,404
Hedging financial instruments	147	-	147
Subordinated Murabahah Tawarruq	-	342,558	342,558
	<b>4,031,551</b>	<b>342,558</b>	<b>4,374,109</b>

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

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
<b>Bank</b>			
<b>2015</b>			
<b>Financial assets</b>			
Securities available-for-sale	994,127	-	994,127
Securities held-to-maturity	61,088	-	61,088
Financing, advances and other receivables	913,296	6,087,520	7,000,816
Hedging financial instruments	9,267	-	9,267
<b>Total</b>	<b>1,977,778</b>	<b>6,087,520</b>	<b>8,065,298</b>
<b>Financial liabilities</b>			
Deposits from customers	3,555,851	-	3,555,851
Hedging financial instruments	459	-	459
Subordinated Murabahah Tawarruq	-	429,337	429,337
	<b>3,556,310</b>	<b>429,337</b>	<b>3,985,647</b>
<b>Bank</b>			
<b>2014</b>			
<b>Financial assets</b>			
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	723,271	5,977,665	6,700,936
Hedging financial instruments	11,361	-	11,361
<b>Total</b>	<b>2,041,050</b>	<b>5,977,665</b>	<b>8,018,715</b>
<b>Financial liabilities</b>			
Deposits from customers	3,949,559	-	3,949,559
Hedging financial instruments	147	-	147
Subordinated Murabahah Tawarruq	-	342,558	342,558
	<b>3,949,706</b>	<b>342,558</b>	<b>4,292,264</b>

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

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

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**44 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			
	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>				
Securities held-to-maturity	61,251	61,088	81,494	81,255
Financing, advances and other receivables	7,002,145	7,000,816	6,703,522	6,700,936
	7,063,396	7,061,904	6,785,016	6,782,191
<b>Financial Liabilities</b>				
Deposits from customers	3,640,007	3,639,561	4,060,371	4,031,404
Subordinated Murabahah Tawarruq	429,538	429,337	352,627	342,558
	4,069,545	4,068,898	4,412,998	4,373,962

	Bank			
	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>				
Securities held-to-maturity	61,251	61,088	81,494	81,255
Financing, advances and other receivables	7,002,145	7,000,816	6,703,522	6,700,936
	7,063,396	7,061,904	6,785,016	6,782,191
<b>Financial Liabilities</b>				
Deposits from customers	3,556,307	3,555,851	3,963,543	3,949,559
Subordinated Murabahah Tawarruq	429,538	429,337	352,627	342,558
	3,985,845	3,985,188	4,316,170	4,292,117

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**44 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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**44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)**

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

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

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

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

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

**(h) Subordinated Murabahah Tawaruq**

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

**45 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

<b>Group</b>	
<b>2015</b>	<b>2014</b>
<b>RM'000</b>	<b>RM'000</b>
17,903	11,887
22,441	4,598
<b>40,344</b>	<b>16,485</b>

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**45 OPERATING LEASES (Cont'd.)**

	Bank	
	2015 RM'000	2014 RM'000
Within one year	17,500	11,561
Between one and five years	21,790	4,586
	39,290	16,147

**46 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.

**47 HOLDING COMPANY**

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

**48 MATURITY ANALYSIS**

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

Group	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
<b>2015</b>			
<b>Assets</b>			
Cash and short-term funds	1,558,023	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	211,618
Investment accounts due from designated financial institutions	7,490	-	7,490
Securities available-for-sale	142,882	992,340	1,135,222
Securities held-to-maturity	-	61,251	61,251
Financing, advances and receivables	4,626,854	2,375,291	7,002,145
Musarakah capital investment	-	5,898	5,898
Other assets	-	686,380	686,380
<b>Total Assets</b>	6,546,867	4,121,161	10,668,028

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### 48 MATURITY ANALYSIS (Cont'd.)

Group	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
<b>2015 (Cont'd.)</b>			
<b>Liabilities</b>			
Deposits from customers	3,634,538	5,469	3,640,007
Investment accounts of customers	7,490	-	7,490
Deposits and placements of banks and other financial institutions	4,849,350	-	4,849,350
Subordinated Murabahah Tawarruq	-	429,538	429,538
Other liabilities	-	74,171	74,172
<b>Total Liabilities</b>	<b>8,491,378</b>	<b>509,179</b>	<b>9,000,557</b>
<b>Net</b>	<b>(1,944,511)</b>	<b>3,611,982</b>	<b>1,667,471</b>

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

Group	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
<b>2014</b>			
<b>Assets</b>			
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	356,601	1,039,278	1,395,879
Securities held-to-maturity	-	81,494	81,494
Financing, advances and receivables	3,969,663	2,733,859	6,703,522
Musarakah capital investment	-	5,898	5,898
Other assets	-	687,434	687,434
<b>Total Assets</b>	<b>5,923,618</b>	<b>4,547,963</b>	<b>10,471,581</b>
<b>Liabilities</b>			
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
<b>Total Liabilities</b>	<b>8,074,712</b>	<b>690,761</b>	<b>8,765,473</b>
<b>Net</b>	<b>(2,151,094)</b>	<b>3,857,202</b>	<b>1,706,108</b>

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### 48 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
<b>Bank</b>			
<b>2015</b>			
<b>Assets</b>			
Cash and short-term funds	1,558,023	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	239,536
Investment accounts due from designated financial institutions	7,490	-	7,490
Securities available-for-sale	121,383	930,987	1,052,370
Securities held-to-maturity	-	61,251	61,251
Financing, advances and receivables	4,626,854	2,375,291	7,002,145
Musarakah capital investment	-	5,898	5,898
Other assets	-	703,383	703,383
<b>Total Assets</b>	<b>6,553,286</b>	<b>4,076,810</b>	<b>10,630,096</b>
<b>Liabilities</b>			
Deposits from customers	3,550,838	5,469	3,556,307
Investment accounts of customers	7,490	-	7,490
Deposits and placements of banks and other financial institutions	4,922,132	-	4,922,132
Subordinated Murabahah Tawarruq	-	429,538	429,538
Other liabilities	-	73,390	73,390
<b>Total Liabilities</b>	<b>8,480,459</b>	<b>508,398</b>	<b>8,988,857</b>
<b>Net</b>	<b>(1,927,174)</b>	<b>3,568,413</b>	<b>1,641,239</b>



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### 48 MATURITY ANALYSIS (Cont'd.)

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

	Less than 12 months	Over 12 months	Total
	RM'000	RM'000	RM'000
<b>Bank</b>			
<b>2014</b>			
<b>Assets</b>			
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	3,969,663	2,733,859	6,703,522
Musarakah capital investment	-	5,898	5,898
Other assets	-	704,943	704,943
<b>Total Assets</b>	<b>5,884,659</b>	<b>4,504,368</b>	<b>10,389,027</b>
<b>Liabilities</b>			
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
<b>Total Liabilities</b>	<b>8,014,652</b>	<b>689,838</b>	<b>8,704,490</b>
<b>Net</b>	<b>(2,129,993)</b>	<b>3,814,530</b>	<b>1,684,537</b>

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**49 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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**49 FINANCIAL RISK MANAGEMENT (Cont'd.)**

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

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

**2015**

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

<b>Total gross maximum exposure</b>	
<b>Group</b>	<b>Bank</b>
<b>RM'000</b>	<b>RM'000</b>
1,558,023	1,558,023
211,618	239,536
971,626	907,489
61,251	61,251
7,002,145	7,002,145
211,325	210,372
242,000	242,000
9,267	9,267
<b>10,267,255</b>	<b>10,230,083</b>
28,618	28,618
95,845	95,845
539,907	539,907
<b>664,370</b>	<b>664,370</b>
<b>10,931,625</b>	<b>10,894,453</b>

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**49 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
Hedging financial instruments
- Ijarah rental swap
<b>Total On-Balance Sheet</b>
Financial guarantees
Contingent liabilities
Commitments *
<b>Total Off-Balance Sheet</b>
<b>Total On and Off-Balance Sheet</b>

<b>Total gross maximum exposure</b>	
<b>Group</b>	<b>Bank</b>
<b>RM'000</b>	<b>RM'000</b>
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
<b>10,080,214</b>	<b>9,997,727</b>
104,544	104,544
127,861	127,861
489,239	489,239
<b>721,644</b>	<b>721,644</b>
<b>10,801,858</b>	<b>10,719,371</b>

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

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

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

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

By geographical segment: (Cont'd.)

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

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

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

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

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	
<b>2014 Group</b>					
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 Bank Negara Malaysia	222,200	-	-	-	222,200
Hedging financial instruments					
- Ijarah rental swap	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>9,467,662</b>	<b>412,661</b>	<b>347,923</b>	<b>(148,032)</b>	<b>10,080,214</b>
Financial guarantees	104,544	-	-	-	104,544
Contingent liabilities	100,757	-	27,104	-	127,861
Commitments *	489,104	135	-	-	489,239
<b>Total Off-Balance Sheet</b>	<b>694,405</b>	<b>135</b>	<b>27,104</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>10,162,067</b>	<b>412,796</b>	<b>375,027</b>	<b>(148,032)</b>	<b>10,801,858</b>

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

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

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

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

By geographical segment: (Cont'd.)

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

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

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**49 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	
<b>2014</b>					
<b>Bank</b>					
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 Bank Negara Malaysia	222,200	-	-	-	222,200
Hedging financial instruments					
- Ijarah rental swap	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>9,419,123</b>	<b>396,904</b>	<b>329,732</b>	<b>(148,032)</b>	<b>9,997,727</b>
Financial guarantees	104,544	-	-	-	104,544
Contingent liabilities	100,757	-	27,104	-	127,861
Commitments *	489,104	135	-	-	489,239
<b>Total Off-Balance Sheet</b>	<b>694,405</b>	<b>135</b>	<b>27,104</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>10,113,528</b>	<b>397,039</b>	<b>356,836</b>	<b>(148,032)</b>	<b>10,719,371</b>

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



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**49 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.)

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

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

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**49 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 Bank Negara Malaysia	-	222,200	-	-	-	-	-	222,200
Hedging financial instruments	-	-	-	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>1,263,447</b>	<b>2,597,098</b>	<b>1,950,647</b>	<b>538,538</b>	<b>613,743</b>	<b>3,264,773</b>	<b>(148,032)</b>	<b>10,080,214</b>
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
<b>Total Off-Balance Sheet</b>	<b>100,120</b>	<b>182,104</b>	<b>129,978</b>	<b>58,030</b>	<b>-</b>	<b>251,412</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>1,363,567</b>	<b>2,779,202</b>	<b>2,080,625</b>	<b>596,568</b>	<b>613,743</b>	<b>3,516,185</b>	<b>(148,032)</b>	<b>10,801,858</b>

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

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**49 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.)

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

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

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**49 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 Bank	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	RM'000	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	-	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 Bank Negara Malaysia	-	222,200	-	-	-	-	-	222,200
Hedging financial instruments	-	-	-	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>1,263,447</b>	<b>2,572,336</b>	<b>1,950,647</b>	<b>538,538</b>	<b>575,052</b>	<b>3,245,739</b>	<b>(148,032)</b>	<b>9,997,727</b>
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
<b>Total Off-Balance Sheet</b>	<b>100,120</b>	<b>182,104</b>	<b>129,978</b>	<b>58,030</b>	<b>-</b>	<b>251,412</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>1,363,567</b>	<b>2,754,440</b>	<b>2,080,625</b>	<b>596,568</b>	<b>575,052</b>	<b>3,497,151</b>	<b>(148,032)</b>	<b>10,719,371</b>

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

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

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

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
<b>2015 Group</b>							
Cash and short-term funds	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	-	-	-	-	211,618
Securities available-for-sale	31,112	121,383	300,920	518,211	-	-	971,626
Securities held-to-maturity	-	-	61,251	-	-	-	61,251
Financing, advances and other receivables	4,220,544	56,142	338,110	2,479,561	-	(92,212)	7,002,145
Other assets	-	-	-	-	211,325	-	211,325
Statutory deposits with Bank Negara Malaysia	-	-	-	-	242,000	-	242,000
Hedging financial instruments	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>6,021,297</b>	<b>177,525</b>	<b>709,549</b>	<b>2,997,772</b>	<b>453,325</b>	<b>(92,212)</b>	<b>10,267,255</b>
Financial guarantees	3,770	12,765	2,083	10,000	-	-	28,618
Contingent liabilities	25,593	27,904	31,092	2,857	8,398	-	95,845
Commitments *	-	-	-	539,907	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>29,363</b>	<b>40,669</b>	<b>33,175</b>	<b>552,764</b>	<b>8,398</b>	<b>-</b>	<b>664,369</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,050,660</b>	<b>218,194</b>	<b>742,724</b>	<b>3,550,536</b>	<b>461,723</b>	<b>(92,212)</b>	<b>10,931,625</b>

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

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**49 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	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
Cash and short-term funds	1,526,907	-	-	-	-	-	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	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 Bank Negara Malaysia	-	-	-	-	222,200	-	222,200
Hedging financial instruments	-	-	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>5,930,087</b>	<b>192,481</b>	<b>860,794</b>	<b>2,801,468</b>	<b>443,416</b>	<b>(148,032)</b>	<b>10,080,214</b>
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
<b>Total Off-Balance Sheet</b>	<b>160,740</b>	<b>55,537</b>	<b>96,843</b>	<b>283,363</b>	<b>125,161</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,090,827</b>	<b>248,018</b>	<b>957,637</b>	<b>3,084,831</b>	<b>568,577</b>	<b>(148,032)</b>	<b>10,801,858</b>

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

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**49 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
<b>2015</b>							
<b>Bank</b>							
Cash and short-term funds	1,558,023	-	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	-	-	-	-	239,536
Securities available-for-sale	9,613	121,383	258,281	518,212	-	-	907,489
Securities held-to-maturity	-	-	61,251	-	-	-	61,251
Financing, advances and other receivables	4,220,544	56,142	338,110	2,479,561	-	(92,212)	7,002,145
Other assets	-	-	-	-	210,372	-	210,372
Statutory deposits with Bank Negara Malaysia	-	-	-	-	242,000	-	242,000
Hedging financial instruments	-	-	9,267	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>6,027,716</b>	<b>177,525</b>	<b>666,909</b>	<b>2,997,773</b>	<b>452,372</b>	<b>(92,212)</b>	<b>10,230,083</b>
Financial guarantees	3,770	12,765	2,083	10,000	-	-	28,618
Contingent liabilities	25,593	27,904	31,092	2,857	8,399	-	95,846
Commitments *	-	-	-	539,907	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>29,363</b>	<b>40,669</b>	<b>33,175</b>	<b>552,764</b>	<b>8,399</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,057,079</b>	<b>218,194</b>	<b>700,085</b>	<b>3,550,537</b>	<b>460,771</b>	<b>(92,212)</b>	<b>10,894,453</b>

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

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

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

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
<b>2014</b>							
<b>Bank</b>							
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 Bank Negara Malaysia	-	-	-	-	222,200	-	222,200
Hedging financial instruments	-	-	11,361	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>5,905,284</b>	<b>178,325</b>	<b>818,205</b>	<b>2,801,468</b>	<b>442,477</b>	<b>(148,032)</b>	<b>9,997,727</b>
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
<b>Total Off-Balance Sheet</b>	<b>160,740</b>	<b>55,537</b>	<b>96,843</b>	<b>283,364</b>	<b>125,161</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,066,024</b>	<b>233,862</b>	<b>915,048</b>	<b>3,084,832</b>	<b>567,638</b>	<b>(148,032)</b>	<b>10,719,371</b>

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



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**49 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.

<b>2015 Group</b>	<b>Performing rated RM'000</b>	<b>Performing Unrated RM'000</b>	<b>Past due but not impaired RM'000</b>	<b>Restructured &amp; rescheduled RM'000</b>	<b>Impaired RM'000</b>	<b>Total RM'000</b>
Cash and short-term funds	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	211,618	-	-	-	-	211,618
Securities available-for-sale	898,093	63,921	-	-	9,613	971,627
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	4,301,460	2,214,572	339,628	8,462	550,898	7,415,020
Other assets	211,066	-	-	-	260	211,326
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	-	242,000
Hedging financial instruments	9,267	-	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>7,492,778</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>10,680,132</b>
Financial guarantees	28,618	-	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	-	95,845
Commitments *	539,907	-	-	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,157,148</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>11,344,502</b>

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

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**49 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.

<b>2014 Group</b>	<b>Performing rated RM'000</b>	<b>Performing Unrated RM'000</b>	<b>Past due but not impaired RM'000</b>	<b>Restructured &amp; rescheduled RM'000</b>	<b>Impaired RM'000</b>	<b>Total RM'000</b>
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 Bank Negara Malaysia	222,200	-	-	-	-	222,200
Hedging financial instruments	11,361	-	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>6,470,290</b>	<b>2,057,827</b>	<b>471,149</b>	<b>958,970</b>	<b>537,152</b>	<b>10,495,388</b>
Financial guarantees	104,544	-	-	-	-	104,544
Contingent liabilities	127,861	-	-	-	-	127,861
Commitments *	489,239	-	-	-	-	489,239
<b>Total Off-Balance Sheet</b>	<b>721,644</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>7,191,934</b>	<b>2,057,827</b>	<b>471,149</b>	<b>958,970</b>	<b>537,152</b>	<b>11,217,032</b>

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

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**49 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.)

<b>2015</b>	<b>Performing</b>	<b>Performing</b>	<b>Past due but not</b>	<b>Restructured &amp;</b>	<b>Impaired</b>	<b>Total</b>
<b>Bank</b>	<b>rated</b>	<b>Unrated</b>	<b>impaired</b>	<b>rescheduled</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	239,536	-	-	-	-	239,536
Securities available-for-sale	833,955	63,921	-	-	9,613	907,489
Securities held-to-maturity	61,251	-	-	-	-	61,251
Financing, advances and other receivables	4,301,460	2,214,572	339,628	8,462	550,898	7,415,020
Other assets	210,112	-	-	-	260	210,372
Statutory deposits with Bank Negara Malaysia	242,000	-	-	-	-	242,000
Hedging financial instruments	9,267	-	-	-	-	9,267
<b>Total On-Balance Sheet</b>	<b>7,455,604</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>10,642,958</b>
Financial guarantees	28,618	-	-	-	-	28,618
Contingent liabilities	95,845	-	-	-	-	95,845
Commitments *	539,907	-	-	-	-	539,907
<b>Total Off-Balance Sheet</b>	<b>664,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664,370</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,119,974</b>	<b>2,278,493</b>	<b>339,628</b>	<b>8,462</b>	<b>560,771</b>	<b>11,307,328</b>

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

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**49 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.)

<b>2014</b>	<b>Performing</b>	<b>Performing</b>	<b>Past due but not</b>	<b>Restructured &amp;</b>	<b>Impaired</b>	<b>Total</b>
<b>Bank</b>	<b>rated</b>	<b>Unrated</b>	<b>impaired</b>	<b>rescheduled</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
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	526,625	7,118,695
Other assets	219,364	-	-	-	913	220,277
Statutory deposits with Bank Negara Malaysia	222,200	-	-	-	-	222,200
Hedging financial instruments	11,361	-	-	-	-	11,361
<b>Total On-Balance Sheet</b>	<b>6,387,803</b>	<b>2,057,827</b>	<b>471,149</b>	<b>958,970</b>	<b>537,151</b>	<b>10,412,901</b>
Financial guarantees	104,544	-	-	-	-	104,544
Contingent liabilities	127,861	-	-	-	-	127,861
Commitments *	489,239	-	-	-	-	489,239
<b>Total Off-Balance Sheet</b>	<b>721,644</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>721,644</b>
<b>Total On and Off-Balance Sheet</b>	<b>7,109,447</b>	<b>2,057,827</b>	<b>471,149</b>	<b>958,970</b>	<b>537,151</b>	<b>11,134,545</b>

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

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

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

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

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

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

<b>2015 Group and Bank</b>	<b>Total RM'000</b>
<b>Corporate, Commercial and Retail</b>	
Excellent	394,772
Strong	2,199,448
Minimum	1,171,600
Pass with condition	567,062
Early care	43,392
Impaired	224,046
New/ Special Purpose Vehicle	51,479
Unrated	2,442,558
	7,094,357
Less: Collective assessment	(92,212)
<b>Total Corporate, Commercial and Retail</b>	<b>7,002,145</b>

\* Unrated segment includes retail credit exposures

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**49 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.)**

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

\* Unrated segment includes retail credit exposures

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

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

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

**2015**

**Securities**

<b>Moody's</b>	<b>Aaa to Aa3</b>	<b>A1 to A3</b>	<b>Baa1 to Ba3</b>	<b>B+ to C</b>			
<b>S&amp;P</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>			
<b>Fitch</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>			
<b>RAM</b>	<b>AAA to AA3</b>	<b>A to A3</b>	<b>BBB to BB</b>	<b>B to D</b>			<b>Total</b>
<b>MARC</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>	<b>Government - guaranteed</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>							
Securities available-for-sale	242,265	451,865	21,364	-	73,534	182,599	971,627
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
<b>Bank</b>							
Securities available-for-sale	220,990	430,366	-	-	73,534	182,599	907,489
Securities held-to-maturity	61,251	-	-	-	-	-	61,251

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**49 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**

<b>Moodys</b>	<b>Aaa to Aa3</b>	<b>A1 to A3</b>	<b>Baa1 to Ba3</b>	<b>B+ to C</b>			
<b>S&amp;P</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>			
<b>Fitch</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>			
<b>RAM</b>	<b>AAA to AA3</b>	<b>A to A3</b>	<b>BBB to BB</b>	<b>B to D</b>		<b>Government - guaranteed</b>	<b>Total</b>
<b>MARC</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>		<b>RM'000</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>							
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
<b>Bank</b>							
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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**49 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**

**2015**

**Group and Bank**

**Financing and advances to customers**

Corporate financing

Commercial financing

Retail & Consumer financing

<b>Less than 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>Total</b>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
27,284	-	460	27,744
32,966	1,441	5,360	39,767
179,836	73,232	19,049	272,117
<b>240,086</b>	<b>74,674</b>	<b>24,869</b>	<b>339,628</b>

**2014**

**Group and Bank**

**Financing and advances to customers**

Corporate financing

Commercial financing

Retail & Consumer financing

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

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**49 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**

**2015**  
**Group and Bank**

Malaysia  
Middle East  
Others  
**Total**

	<b>Impaired</b>	<b>Past due but not impaired</b>	<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Write-off</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	541,304	338,756	320,418		113,021
	-	581	-		-
	9,594	292	246		-
	550,898	339,629	320,664	92,212	113,021

**2014**  
**Group and Bank**

Malaysia  
Middle East  
Others  
**Total**

	<b>Impaired</b>	<b>Past due but not impaired</b>	<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Write-off</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	495,656	462,706	266,857		105,151
	341	1,158	3		-
	30,629	7,285	282		-
	526,626	471,149	267,142	148,032	105,151

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**49 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**

**2015**

**Group and Bank**

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

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
	399,664	46,043	284,361		10,309
	28	410	-		28,067
	88,202	5,526	-		-
	25,918	4,242	17,426		63,524
	37,086	283,407	18,877		11,120
	550,898	339,628	320,664	92,212	113,020

**2014**

**Group and Bank**

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

	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
	350,237	83,263	174,730		14
	34,796	58,293	22,646		-
	27,946	11,703	156		-
	87,512	103	48,280		-
	26,135	317,787	21,330		105,137
	526,626	471,149	267,142	148,032	105,151

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**49 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 89.5% as at 31 December 2015 (2014: 94.6%). 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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### 49 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK

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

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

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

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

#### **Contractual maturity of total assets and liabilities**

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

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



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

#### (b) LIQUIDITY RISK (Cont'd.)

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

2015

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	3,299,155	335,383	5,469	-	-	3,640,007
Deposits and placements of banks and other financial institutions	4,644,227	205,123	-	-	-	4,849,350
Subordinated Murabahah Tawarruq	-	-	-	429,538	-	429,538
Other liabilities	-	-	-	-	81,662	81,662
<b>Total Liabilities</b>	<b>7,943,382</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>81,662</b>	<b>9,000,557</b>
Shareholder's equity	-	-	-	-	1,667,471	1,667,471
<b>Total Liabilities and Shareholder's equity</b>	<b>7,943,382</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>1,749,133</b>	<b>10,668,028</b>
Commitments & contingencies	29,363	40,669	33,176	552,764	8,398	664,370
<b>Net maturity mismatch</b>	<b>(2,151,775)</b>	<b>137,232</b>	<b>667,086</b>	<b>1,567,641</b>	<b>(884,554)</b>	<b>(664,370)</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

#### (b) LIQUIDITY RISK (Cont'd.)

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

2014 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
<b>ASSETS</b>						
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	1,895,059	-	6,703,522
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	687,434	687,434
<b>Total Assets</b>	<b>5,731,136</b>	<b>192,482</b>	<b>1,333,599</b>	<b>2,358,606</b>	<b>855,758</b>	<b>10,471,581</b>



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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

### 49 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
<b>Total Liabilities</b>	<b>7,573,059</b>	<b>501,653</b>	<b>165,891</b>	<b>352,627</b>	<b>172,243</b>	<b>8,765,473</b>
Shareholder's equity	-	-	-	-	1,706,108	1,706,108
<b>Total Liabilities and Shareholder's equity</b>	<b>7,573,059</b>	<b>501,653</b>	<b>165,891</b>	<b>352,627</b>	<b>1,878,351</b>	<b>10,471,581</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	160,739	54,987	95,679	285,078	125,161	721,644
<b>Net maturity mismatch</b>	<b>(2,002,662)</b>	<b>(364,158)</b>	<b>1,072,029</b>	<b>1,720,901</b>	<b>(1,147,754)</b>	<b>(721,644)</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

#### (b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
<b>Bank</b>						
<b>ASSETS</b>						
Cash and short-term funds	1,558,023	-	-	-	-	1,558,023
Deposits and placements with banks and other financial institutions	117,717	121,819	-	-	-	239,536
Securities held-for-trading	-	-	-	-	-	-
Securities available-for-sale	-	121,383	258,281	518,212	154,494	1,052,370
Securities held-to-maturity	-	-	61,251	-	-	61,251
Financing, advances and receivables	4,151,648	475,206	343,560	2,031,731	-	7,002,145
Musyarakah capital investment	-	-	-	-	5,898	5,898
Other assets	-	-	-	-	710,873	710,873
<b>Total Assets</b>	<b>5,827,388</b>	<b>718,408</b>	<b>663,092</b>	<b>2,549,943</b>	<b>871,265</b>	<b>10,630,096</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,215,455	335,383	5,469	-	-	3,556,307
Deposits and placements of banks and other financial institutions	4,717,009	205,123	-	-	-	4,922,132
Subordinated Murabahah Tawarruq	-	-	-	429,538	-	429,538
Other liabilities	-	-	-	-	80,880	80,880
<b>Total Liabilities</b>	<b>7,932,464</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>80,880</b>	<b>8,988,857</b>
Shareholder's equity	-	-	-	-	1,641,239	1,641,239
<b>Total Liabilities and Shareholder's equity</b>	<b>7,932,464</b>	<b>540,506</b>	<b>5,469</b>	<b>429,538</b>	<b>1,722,119</b>	<b>10,630,096</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	29,363	40,669	33,176	552,764	8,398	664,370
<b>Net maturity mismatch</b>	<b>(2,134,439)</b>	<b>137,233</b>	<b>624,447</b>	<b>1,567,641</b>	<b>(859,252)</b>	<b>(664,370)</b>

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

#### (b) LIQUIDITY RISK (Cont'd.)

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

2014  
Bank

#### 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

#### 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
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
<b>Total Assets</b>	<b>5,706,330</b>	<b>178,326</b>	<b>1,291,010</b>	<b>2,358,609</b>	<b>854,752</b>	<b>10,389,027</b>
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
<b>Total Liabilities</b>	<b>7,513,000</b>	<b>501,652</b>	<b>165,891</b>	<b>352,627</b>	<b>171,320</b>	<b>8,704,490</b>
Shareholder's equity	-	-	-	-	1,684,537	1,684,537
<b>Total Liabilities and Shareholder's equity</b>	<b>7,513,000</b>	<b>501,652</b>	<b>165,891</b>	<b>352,627</b>	<b>1,855,857</b>	<b>10,389,027</b>
Commitments & contingencies	160,739	54,987	97,393	283,364	125,161	721,644
<b>Net maturity mismatch</b>	<b>(1,967,409)</b>	<b>(378,313)</b>	<b>1,027,726</b>	<b>1,722,618</b>	<b>(1,126,266)</b>	<b>(721,644)</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

#### (b) LIQUIDITY RISK (Cont'd.)

##### Contractual maturity of financial liabilities on an undiscounted basis

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

Group	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
Deposits from customers	2,527,261	342,591	5,955	97,823	723,553	3,697,183
Deposit and placements of banks and other financial institutions	4,736,486	211,266	-	-	-	4,947,752
Subordinated Murabahah Tawarruq	-	-	-	502,015	-	502,015
Other liabilities	-	-	-	-	81,662	81,662
<b>Total</b>	<b>7,263,747</b>	<b>553,857</b>	<b>5,955</b>	<b>599,838</b>	<b>884,342</b>	<b>9,228,611</b>
<b>2014</b>						
Deposits from customers	3,535,871	392,196	180,786	-	-	4,108,853
Deposit and placements of banks and other financial institutions	4,096,732	120,806	-	-	-	4,217,538
Subordinated Murabahah Tawarruq	-	-	-	418,755	-	418,755
Other liabilities	-	-	-	-	172,244	172,244
<b>Total</b>	<b>7,632,603</b>	<b>513,002</b>	<b>180,786</b>	<b>418,755</b>	<b>172,244</b>	<b>8,917,390</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

#### (b) LIQUIDITY RISK (Cont'd.)

##### Contractual maturity of financial liabilities on an undiscounted basis (Cont'd.)

Bank	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2015</b>						
Deposits from customers	2,528,310	342,760	5,967	-	723,553	3,600,590
Deposit and placements of banks and other financial institutions	4,809,594	211,192	-	-	-	5,020,785
Subordinated Murabahah Tawarruq	-	-	-	502,015	-	502,015
Other liabilities	-	-	-	-	78,180	78,180
<b>Total</b>	<b>7,337,904</b>	<b>553,952</b>	<b>5,967</b>	<b>502,015</b>	<b>801,733</b>	<b>9,201,570</b>
<b>2014</b>						
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
<b>Total</b>	<b>7,572,539</b>	<b>513,186</b>	<b>181,161</b>	<b>418,755</b>	<b>171,321</b>	<b>8,856,962</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

### 49 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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**49 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 2015, the total risk weighted assets for exposures with benchmark rate risk was RM17.64 million (2014: RM26.71 million) with a total capital charge of RM1.41 million (2014: 2.14 million).

All positions in IRS were fully squared (2014: 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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### 49 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK

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

##### Securities held-for-trading

	2015			2014		
	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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**49 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 2015, the total risk weighted assets for exposures with foreign exchange rate risk was RM15.28 million (2014: RM22.13 million) with a total capital charge of RM1.22 million (2014: RM1.78 million).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2015. 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.

	2015		2014	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
<b>Group</b>				
Singapore Dollar (SGD)	1	(29)	1	(30)
US Dollar (USD)	1	5,003	1	703
Euro (EUR)	1	(993)	1	(867)
<b>Bank</b>				
Singapore Dollar (SGD)	1	(29)	1	30
US Dollar (USD)	1	(219)	1	(804)
Euro (EUR)	1	(561)	1	(405)

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**49 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**

	2015			2014		
	Nominal amount RM'000	Modified duration	BPV	Nominal amount RM'000	Modified duration	BPV
<b>Group</b>						
Ringgit Malaysia	352,000	3.45	120,077	512,000	3.04	153,224
US Dollar	541,020	4.29	244,115	695,953	3.35	244,924
<b>Bank</b>						
Ringgit Malaysia	352,000	3.37	117,437	512,000	3.04	153,224
US Dollar	523,899	4.30	236,525	591,035	3.66	227,744

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**49 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					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<b>ASSETS</b>									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	44,152	167,466	-	-	-	-	211,618	1.22
Securities available-for-sale	21,499	-	121,383	300,920	518,212	173,208	-	1,135,222	2.93
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,145	5.36
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	693,871	-	693,871	
<b>TOTAL ASSETS</b>	<b>3,680,867</b>	<b>3,014,142</b>	<b>823,158</b>	<b>440,754</b>	<b>1,789,462</b>	<b>919,645</b>	<b>-</b>	<b>10,668,028</b>	

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

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

Group 2015	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,516,625	580,273	734,961	5,469	-	802,679	-	3,640,006	2.88
Deposits and placements of banks and other financial institutions	2,174,522	1,783,757	891,071	-	-	-	-	4,849,350	4.01
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	81,662	-	81,662	-
<b>Total Liabilities</b>	<b>4,120,685</b>	<b>2,364,030</b>	<b>1,626,032</b>	<b>5,469</b>	<b>-</b>	<b>884,340</b>	<b>-</b>	<b>9,000,557</b>	
Shareholder's equity	-	-	-	-	-	1,667,471	-	1,667,471	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,120,685</b>	<b>2,364,030</b>	<b>1,626,032</b>	<b>5,469</b>	<b>-</b>	<b>2,551,811</b>	<b>-</b>	<b>10,668,028</b>	
On-balance sheet profit sensitivity gap	(439,818)	650,111	(802,874)	435,285	1,789,462	(1,632,166)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(439,818)</b>	<b>650,111</b>	<b>(802,874)</b>	<b>435,285</b>	<b>1,789,462</b>	<b>(1,632,166)</b>	<b>-</b>	<b>-</b>	

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

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

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
	RM'000	RM'000	RM'000	RM'000	RM'000				RM'000
<b>2014</b>									
<b>ASSETS</b>									
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
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	687,434	-	687,434	
<b>TOTAL ASSETS</b>	<b>3,345,246</b>	<b>3,198,520</b>	<b>225,141</b>	<b>1,047,695</b>	<b>1,724,972</b>	<b>930,007</b>	<b>-</b>	<b>10,471,581</b>	

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

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

Group 2014	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		
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
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	-
<b>Total Liabilities</b>	<b>4,292,213</b>	<b>2,237,848</b>	<b>1,237,360</b>	<b>165,891</b>	<b>-</b>	<b>832,161</b>	<b>-</b>	<b>8,765,473</b>	
Shareholder's equity	-	-	-	-	-	1,706,108	-	1,706,108	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,292,213</b>	<b>2,237,848</b>	<b>1,237,360</b>	<b>165,891</b>	<b>-</b>	<b>2,538,269</b>	<b>-</b>	<b>10,471,581</b>	
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	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(946,967)</b>	<b>960,672</b>	<b>(1,012,219)</b>	<b>881,804</b>	<b>1,724,972</b>	<b>(1,608,262)</b>	<b>-</b>	<b>-</b>	

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**49 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 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<b>ASSETS</b>									
Cash and short-term funds	1,511,355	-	-	-	-	46,668	-	1,558,023	3.11
Deposits and placements with banks and other financial institutions	-	72,070	167,466	-	-	-	-	239,536	1.16
Securities available-for-sale	121,383	-	258,281	518,212	154,494	-	-	1,052,370	3.05
Securities held-to-maturity	-	-	-	61,251	-	-	-	61,251	5.21
Financing, advances and receivables	2,148,013	2,969,990	534,309	78,583	1,271,250	-	-	7,002,145	5.36
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	710,873	-	710,873	
<b>TOTAL ASSETS</b>	<b>3,780,751</b>	<b>3,042,060</b>	<b>960,056</b>	<b>658,046</b>	<b>1,425,744</b>	<b>763,439</b>	<b>-</b>	<b>10,630,096</b>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,512,523	579,801	734,961	5,469	-	723,553	-	3,556,307	2.94
Deposits and placements of banks and other financial institutions	2,241,979	1,789,083	891,070	-	-	-	-	4,922,132	3.96
Subordinated Murabahah Tawarruq	429,538	-	-	-	-	-	-	429,538	3.17
Other liabilities	-	-	-	-	-	80,880	-	80,880	-
<b>Total Liabilities</b>	<b>4,184,040</b>	<b>2,368,884</b>	<b>1,626,031</b>	<b>5,469</b>	<b>-</b>	<b>804,433</b>	<b>-</b>	<b>8,988,857</b>	
Shareholder's equity	-	-	-	-	-	1,641,239	-	1,641,239	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,184,040</b>	<b>2,368,884</b>	<b>1,626,031</b>	<b>5,469</b>	<b>-</b>	<b>2,445,672</b>	<b>-</b>	<b>10,630,096</b>	
On-balance sheet profit sensitivity gap	(403,289)	673,176	(665,975)	652,577	1,425,744	(1,682,233)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(403,289)</b>	<b>673,176</b>	<b>(665,975)</b>	<b>652,577</b>	<b>1,425,744</b>	<b>(1,682,233)</b>	<b>-</b>	<b>-</b>	

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### 49 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	RM'000	%
<b>ASSETS</b>									
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
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	-
Other assets	-	-	-	-	-	704,943	-	704,943	-
<b>TOTAL ASSETS</b>	<b>3,345,246</b>	<b>3,188,817</b>	<b>196,789</b>	<b>1,005,106</b>	<b>1,724,972</b>	<b>928,097</b>	<b>-</b>	<b>10,389,027</b>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
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	-
<b>Total Liabilities</b>	<b>4,295,989</b>	<b>2,242,849</b>	<b>1,236,976</b>	<b>165,891</b>	<b>-</b>	<b>762,785</b>	<b>-</b>	<b>8,704,490</b>	
Shareholder's equity	-	-	-	-	-	1,684,537	-	1,684,537	-
<b>Total Liabilities and Shareholder's equity</b>	<b>4,295,989</b>	<b>2,242,849</b>	<b>1,236,976</b>	<b>165,891</b>	<b>-</b>	<b>2,447,322</b>	<b>-</b>	<b>10,389,027</b>	
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	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(950,743)</b>	<b>945,968</b>	<b>(1,040,187)</b>	<b>839,215</b>	<b>1,724,972</b>	<b>(1,519,225)</b>	<b>-</b>	<b>-</b>	



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### 49 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 2015	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>ASSETS</b>							
Cash and short-term funds	1,503,524	30,509	21,472	-	-	2,518	1,558,023
Deposits and placements with banks and other financial institutions	-	167,466	23,623	-	-	20,529	211,618
Securities available-for-sale	348,225	-	768,283	18,714	-	-	1,135,222
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,703,819	-	298,326	-	-	-	7,002,145
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	693,871	-	-	-	-	-	693,871
<b>Total Assets</b>	<b>9,316,588</b>	<b>197,975</b>	<b>1,111,704</b>	<b>18,714</b>	<b>-</b>	<b>23,047</b>	<b>10,668,028</b>

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

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

Group  
2015 (Cont'd.)

#### LIABILITIES AND SHAREHOLDER'S EQUITY

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

On-balance sheet open position  
Off-balance sheet open position  
**Net open position**

	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
Deposits from customers	3,315,604	198,914	118,687	-	-	6,802	3,640,007
Deposits and placements of banks and other financial institutions	4,362,513	-	446,962	39,875	-	-	4,849,350
Subordinated Murabahah Tawarruq	-	-	429,538	-	-	-	429,538
Other liabilities	81,662	-	-	-	-	-	81,662
<b>Total Liabilities</b>	<b>7,759,779</b>	<b>198,914</b>	<b>995,187</b>	<b>39,875</b>	<b>-</b>	<b>6,802</b>	<b>9,000,557</b>
Shareholder's equity	1,667,471	-	-	-	-	-	1,667,471
<b>Total Liabilities and Shareholder's equity</b>	<b>9,427,250</b>	<b>198,914</b>	<b>995,187</b>	<b>39,875</b>	<b>-</b>	<b>6,802</b>	<b>10,668,028</b>
On-balance sheet open position	(110,662)	(939)	116,517	(21,161)	-	16,244	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>(110,662)</b>	<b>(939)</b>	<b>116,517</b>	<b>(21,161)</b>	<b>-</b>	<b>16,244</b>	<b>-</b>

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

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

Group 2014	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>ASSETS</b>							
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
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	676,073	-	11,361	-	-	-	687,434
<b>Total Assets</b>	<b>8,992,882</b>	<b>107,472</b>	<b>1,333,882</b>	<b>15,734</b>	<b>5,862</b>	<b>15,749</b>	<b>10,471,581</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
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
<b>Total Liabilities</b>	<b>7,301,486</b>	<b>106,339</b>	<b>1,313,778</b>	<b>36,136</b>	<b>-</b>	<b>7,734</b>	<b>8,765,473</b>
Shareholder's equity	1,706,108	-	-	-	-	-	1,706,108
<b>Total Liabilities and Shareholder's equity</b>	<b>9,007,594</b>	<b>106,339</b>	<b>1,313,778</b>	<b>36,136</b>	<b>-</b>	<b>7,734</b>	<b>10,471,581</b>
On-balance sheet open position	(14,712)	1,133	20,104	(20,402)	5,862	8,015	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>(14,712)</b>	<b>1,133</b>	<b>20,104</b>	<b>(20,402)</b>	<b>5,862</b>	<b>8,015</b>	<b>-</b>

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

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

Bank 2015	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
<b>ASSETS</b>							
Cash and short-term funds	1,503,524	30,509	21,472	-	-	2,518	1,558,023
Deposits and placements with banks and other financial institutions	-	167,466	23,623	27,918	14,161	6,368	239,536
Securities available-for-sale	348,225	-	704,145	-	-	-	1,052,370
Securities held-to-maturity	61,251	-	-	-	-	-	61,251
Financing, advances and receivables	6,703,819	-	298,326	-	-	-	7,002,145
Musyarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	701,606	-	9,267	-	-	-	710,873
<b>Total Assets</b>	<b>9,324,323</b>	<b>197,975</b>	<b>1,056,833</b>	<b>27,918</b>	<b>14,161</b>	<b>8,886</b>	<b>10,630,096</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,231,903	198,914	118,687	-	-	6,803	3,556,307
Deposits and placements of banks and other financial institutions	4,368,540	-	513,716	39,876	-	-	4,922,132
Subordinated Murabahah Tawarruq	-	-	429,538	-	-	-	429,538
Other liabilities	80,880	-	-	-	-	-	80,880
<b>Total Liabilities</b>	<b>7,681,323</b>	<b>198,914</b>	<b>1,061,941</b>	<b>39,876</b>	<b>-</b>	<b>6,803</b>	<b>8,988,857</b>
Shareholder's equity	1,641,239	-	-	-	-	-	1,641,239
<b>Total Liabilities and Shareholder's equity</b>	<b>9,322,562</b>	<b>198,914</b>	<b>1,061,941</b>	<b>39,876</b>	<b>-</b>	<b>6,803</b>	<b>10,630,096</b>
On-balance sheet open position	1,761	(939)	(5,108)	(11,958)	14,161	2,083	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>1,761</b>	<b>(939)</b>	<b>(5,108)</b>	<b>(11,958)</b>	<b>14,161</b>	<b>2,083</b>	<b>-</b>

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### 49 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
<b>ASSETS</b>							
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
Musarakah capital investment	5,898	-	-	-	-	-	5,898
Other assets	693,582	-	11,361	-	-	-	704,943
<b>Total Assets</b>	<b>9,010,390</b>	<b>107,472</b>	<b>1,223,838</b>	<b>26,621</b>	<b>5,862</b>	<b>14,844</b>	<b>10,389,027</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
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	-	146	-	-	-	171,320
<b>Total Liabilities</b>	<b>7,307,457</b>	<b>106,339</b>	<b>1,246,824</b>	<b>36,136</b>	<b>-</b>	<b>7,734</b>	<b>8,704,490</b>
Shareholder's equity	1,684,537	-	-	-	-	-	1,684,537
<b>Total Liabilities and Shareholder's equity</b>	<b>8,991,994</b>	<b>106,339</b>	<b>1,246,824</b>	<b>36,136</b>	<b>-</b>	<b>7,734</b>	<b>10,389,027</b>
On-balance sheet open position	18,396	1,133	(22,986)	(9,515)	5,862	7,110	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>18,396</b>	<b>1,133</b>	<b>(22,986)</b>	<b>(9,515)</b>	<b>5,862</b>	<b>7,110</b>	<b>-</b>

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### 49 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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### 49 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 2015. 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

2015

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
<b>Group</b>						
Rate sensitive assets	6,702	160	663	2,574	569	10,668
Rate sensitive liabilities	6,573	1,078	539	5	805	9,001
Monthly mismatch	130	(918)	124	2,568	(236)	
Cumulative mismatch	(561)	(1,826)	(5,202)	1,904	1,667	
<b>Bank</b>						
Rate sensitive assets	6,709	160	663	2,531	567	10,630
Rate sensitive liabilities	6,562	1,078	539	5	804	8,989
Monthly mismatch	147	(918)	124	2,526	(237)	
Cumulative mismatch	(559)	(1,774)	(5,098)	1,878	1,641	

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

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

##### Exposures to profit rate risk (Cont'd.)

2014

<i>RM million</i>	1-3 months	4-6 months	7-12 months	Over 12 months	Non-sensitive	Total
<b>Group</b>						
Rate sensitive assets	6,544	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	
<b>Bank</b>						
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	

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



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### 49 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 (%)

##### 2015

##### 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	(7.44)	(9.75)	(10.91)	(13.59)	(15.11)	(18.16)
Change in Economic Value of Equity	31.00	14.57	7.07	(6.67)	(12.97)	(24.54)
Change in Net Revenue	(8.26)	(10.60)	(11.77)	(14.24)	(15.53)	(18.12)
Change in Economic Value of Equity	30.82	14.48	7.02	(6.63)	(12.88)	(24.37)

##### 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)
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)

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

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

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

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

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

#### (ii) Types of exposures for which each ECAIs is used :

Exposures to Sovereign and Central Banks  
 Exposures to Non-Federal Government Public Sector Entities ("PSEs")  
 Exposures to Multilateral Banks ("MDB's")  
 Exposures to Banking Institutions and Corporates

#### (iii) The breakdown of all rated and unrated exposures in each major risk category for the current financial year are as follows:

2015

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
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Credit exposures (using corporate risk-weights)</b>						
<b>Group Corporates</b>		133,279	192,344	127,516	39,455	4,708,436

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

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

2015 (Cont'd.)

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
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Credit exposures (using corporate risk-weights)</b>						
<b>Bank Corporates</b>		133,279	192,344	127,516	39,455	4,717,513

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
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Credit exposures (using corporate risk-weights)</b>						
<b>Group Corporates</b>		251,469	13,962	78,523	65,095	4,696,012
<b>Bank Corporates</b>		251,469	13,962	60,429	65,095	4,716,780

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

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

2015 (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	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Group</b> Sovereigns/Central Banks		76,637	1,744,050	21,364	-	-	260,208
<b>Bank</b> Sovereigns/Central Banks		55,363	1,744,050	-	-	-	260,208

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Group</b> Banks, MDBs and FDIs		(22,756)	280,855	51,358	37	-	96,825
<b>Bank</b> Banks, MDBs and FDIs		5,161	280,855	51,358	37	-	96,825

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

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

2014

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
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Group</b> Sovereigns/Central Banks		49,353	1,965,726	17,472	-	-	803
<b>Bank</b> Sovereigns/Central Banks		42,330	1,951,529	-	-	-	803

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
<b>On and Off-Balance Sheet Exposures</b>		<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>Group</b> Banks, MDBs and FDIs		2,174	280,202	83,310	55	-	137,066
<b>Bank</b> Banks, MDBs and FDIs		26,571	280,202	83,310	55	-	122,910

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

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

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

2015

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	2,102,259	-	-
Banks, Development Financial Institutions & MDBs	403,514	39,413	-
Corporates	4,765,687	143,186	185,866
Regulatory Retail	1,865,275	-	16,957
Residential Mortgages	446,167	-	1,896
Higher Risk Assets <sup>1</sup>	437,757	-	-
Other Assets	295,165	-	-
Defaulted Exposures <sup>2</sup>	237,008	-	2,367
<b>Total On Balance Sheet Exposures</b>	<b>10,552,832</b>	<b>182,599</b>	<b>207,086</b>
<b>(b) Off-Balance Sheet Exposures*</b>			
OTC Derivatives <sup>3</sup>	14,113	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	262,645	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>276,758</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,829,590</b>	<b>182,599</b>	<b>207,086</b>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

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

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

2014

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	2,033,354	160,301	-
Public Sector Entities			
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 <sup>1</sup>	434,670	-	-
Other Assets	474,828	-	-
Defaulted Exposures <sup>2</sup>	302,202	-	9,336
<b>Total On Balance Sheet Exposures</b>	<b>10,392,672</b>	<b>367,780</b>	<b>233,417</b>
<b>(b) Off-Balance Sheet Exposures*</b>			
OTC Derivatives <sup>3</sup>	18,490	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	298,332	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>316,822</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>10,709,494</b>	<b>367,780</b>	<b>233,417</b>

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

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

2015

Bank

**(i) Credit Risk**

**(a) On-Balance Sheet Exposures**

Sovereigns/Central Banks  
 Banks, Development Financial Institutions & MDBs  
 Corporates  
 Regulatory Retail  
 Residential Mortgages  
 Higher Risk Assets<sup>1</sup>  
 Other Assets  
 Defaulted Exposures<sup>2</sup>  
**Total On-Balance Sheet Exposures**

**(b) Off-Balance Sheet Exposures\***

OTC Derivatives<sup>3</sup>  
 Off-balance sheet exposures other than OTC  
 derivatives<sup>2</sup>  
**Total Off Balance Sheet Exposures**  
**Total On and Off-Balance Sheet Exposures**

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
2,059,621	-	-
431,431	39,413	-
4,774,763	143,186	185,866
1,865,275	-	16,957
446,167	-	1,896
437,757	-	-
244,198	-	-
237,008	-	2,367
<b>10,496,220</b>	<b>182,599</b>	<b>207,086</b>
14,113	-	-
262,645	-	-
<b>276,758</b>	<b>-</b>	<b>-</b>
<b>10,772,978</b>	<b>182,599</b>	<b>207,086</b>



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### 49 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  
 Banks, Development Financial Institutions & MDBs  
 Corporates  
 Regulatory Retail  
 Residential Mortgages  
 Higher Risk Assets<sup>1</sup>  
 Other Assets  
 Defaulted Exposures<sup>2</sup>  
**Total On-Balance Sheet Exposures**

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
1,994,662	160,301	-
458,769	39,307	-
4,580,262	168,172	205,775
1,894,135	-	16,928
227,367	-	1,378
434,670	-	-
398,687	-	-
302,202	-	9,336
<b>10,290,754</b>	<b>367,780</b>	<b>233,417</b>

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

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

2014 (Cont'd.)

Bank

Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
RM'000	RM'000	RM'000
18,489	-	-
298,333	-	-
316,822	-	-
<b>10,607,576</b>	<b>367,780</b>	<b>233,417</b>

**(i) Credit Risk (Cont'd.)**

**(b) Off-Balance Sheet Exposures\***

OTC Derivatives<sup>3</sup>

Off-balance sheet exposures other than OTC derivatives<sup>2</sup>

Defaulted Exposures<sup>2</sup>

**Total Off Balance Sheet Exposures**

**Total On and Off-Balance Sheet Exposures**

\* Credit equivalent of off-balance sheet items

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Comprising Ijarah Rental Swaps, Cross Currency Ijarah Rental Swaps and Promissory Foreign Exchange Contracts.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015

### 49 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
2015				
Direct credit substitutes	28,618		28,618	20,129
Transaction related contingent items	85,700		42,850	32,888
Short-term self liquidating trade related contingencies	10,146		2,029	2,029
Foreign exchange related contracts				
- One year or less	8,873	265	350	163
Profit rate related contracts				
- Over five years	245,505	9,002	13,763	11,799
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	270,554		135,277	124,479
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	269,352		53,870	52,465
	918,748	9,267	276,757	243,952

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### 49 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				
- One year or less	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
	<b>977,418</b>	<b>11,361</b>	<b>316,822</b>	<b>256,385</b>

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

#### (j) Equities (Disclosure for banking book positions)

2015

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
<b>Privately Held</b>			
<b>(a) Subsidiaries</b>	<b>30,200</b>	<b>(11,520)</b>	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(11,520)	Capital Deduction
	<b>155,382</b>	<b>(10,500)</b>	<b>217,323</b>
<b>(b) Investment</b>			
Intrared Sdn Bhd	36,100	-	54,150
KFH Global Sukuk Fund	86,638	-	129,957
Al Faiz Fund 1	32,644	(10,500)	33,215
<b>(c) Musyarakah Capital Investment</b>	<b>5,898</b>	-	<b>8,847</b>

2014

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
<b>Privately Held</b>			
<b>(a) Subsidiaries</b>	<b>46,193</b>	<b>(26,761)</b>	Capital Deduction
Kuwait Finance House (Labuan) Berhad	10,200	-	Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-	-	Capital Deduction
KFH Asset Management Sdn. Bhd.	20,000	(11,520)	Capital Deduction
Kuwait Finance House (Australia) Pty Ltd	15,993	(15,241)	Capital Deduction
	<b>134,297</b>		<b>201,446</b>
<b>(b) Investment</b>			
Intrared Sdn Bhd	36,100	-	54,150
KFH Global Sukuk Fund	70,558	-	105,837
Al Faiz Fund 1	27,639	-	41,459
<b>(c) Musyarakah Capital Investment</b>	<b>5,898</b>	-	<b>8,847</b>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2015**

**50 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:**

<b>2015</b>		<b>2014</b>	
<b>Group and Bank</b>		<b>Group and Bank</b>	
<b>Number of events occur</b>	<b>Amount</b>	<b>Number of events occur</b>	<b>Amount</b>
	<b>RM'000</b>		<b>RM'000</b>
-	-	-	-
-	-	-	-

**51 COMPARATIVE**

Certain comparative figures have been reclassified to conform with current year's presentation.