KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2023

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

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1 PERFORMANCE OVERVIEW

The Group and the Bank recorded a profit before tax of RM88.1 million for the year ended 31 December 2023.

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2023 stood at 47.454% and 48.560% respectively.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

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

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

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

In 2023, there was one (1) Shariah non-compliance incident reported to the Board as disclosed in Note 46 (a) to the financial statements.

<u>Roles and Responsibilities of the Board</u>

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Accountability is part and parcel of governance in the Bank. Whilst the Board is accountable to the shareholder, the management is accountable to the Board. The Board ensures that the management acts in the best interests of the Bank and its stakeholders, and strives to improve the performance of the Bank.

The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by the management team of the highest caliber. Continuous reviews are conducted on the Bank's corporate and business governance in an effort to strengthen controls and enhance good governance practices in staying relevant to the challenges of the changing market environment.

Board Composition and Balance

The Board currently has six (6) members, comprising three (3) independent non-executive directors and two (2) non-independent non-executive directors and one (1) non-independent executive director.

The Board comprise of members who are seasoned bankers and have wealth of experience in various banking segments including retail, corporate banking investment and credit management. The current independent members of the Board assist the Board in ensuring effective check and balance on the function of the Board. The composition of the Board also comprise nominee director of KFHK to reflect the interest of the shareholder. A brief profile of each Director is presented below.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile

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

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

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

Mr AlOsaimi is currently the CEO of Faiha International Real Estate Company K.S.C. He was appointed as an Independent Non-Executive Director of Kuwait Finance House K.S.C.P. ("KFHK") on 23 March 2014 and has been appointed as a member of Board Executive Committee, Board Investment Committee and Board Audit and Compliance Committee of KFHK. Mr AlOsaimi has also been appointed as a Non-Executive Director of Ahli United Bank B.S.C., Bahrain on 22 March 2023 and is a member of Board Executive Committee, Board Risk Committee and Board Audit & Compliance Committee.

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

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

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

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

Mr AlFouzan was appointed as a Non-Independent Non-Executive Director ("NINED") of KFHMB on 7 October 2014 and was re-designated as an Independent Non-Executive Director of KFHMB on 7 October 2020. Mr AlFouzan was subsequently re-designated as a NINED on 7 October 2023. He is currently a Board member of Kuwait Finance House K.S.C.P ("KFHK") (since 2020) and the Chairman of Kuwait Finance House (Bahrain) B.S.C., a subsidiary of KFHK. Furthermore, he is also a Board Member of Sharjah Islamic Bank in United Arab Emirates.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile (Cont'd.)

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

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

Mr AlKharji was appointed as a NINED of KFHMB on 1 June 2014. Subsequent thereto, he became the Chief Executive Officer and Managing Director (“CEO & MD”) of KFHMB and upon his resignation as CEO & MD, he remained as a Board Member and was re-designated as a NINED in July 2016. He was subsequently re-designated as Non-Independent Executive Director in 2017 to comply with the definition of Executive Director under BNM’s Corporate Governance Policy. He is currently a Board Member of Kuveyt Turk Participation Bank Inc and KFH Capital Investment Company, subsidiaries of Kuwait Finance House K.S.C.P ("KFHK") in Turkey and Kuwait respectively. Following the completion of the acquisition of Ahli United Bank, Mr AlKharji has been appointed as the Group Chief Executive Officer of Ahli United Banks B.S.C., Bahrain on 20 March 2023. Mr AlKharji had recently been appointed as a Board Member of Ahli United Bank Egypt S.A.E. on 9 October 2023 and serves as a member of Risk Committee and Compensation Committee.

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

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

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

En Khalid was appointed as an Independent Non-Executive Director (“INED”) of KFHMB on 3 January 2011. He was then re-designated as a NINED on 3 January 2020 upon the expiry of his 9-year tenure as an INED.

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

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile (Cont'd.)

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

En Abdul Khalil bin Abdul Hamid ("En Abdul Khalil") holds a Bachelor of Economics (B. Admin) degree from the University of Malaya, Malaysia.

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

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

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

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

Mr Azreen was appointed as an INED of KFHMB on 1 March 2020.

Mr Azreen started his career in 1991 at KPMG in Colombo, Sri Lanka and then joined Messrs Ernst & Young ("EY"), Bahrain Office in October 1996 as Senior Accountant and was assigned the responsibilities of managing business community training unit which provide in house training to EY employees and its clients on various accounting and finance disciplines. He then joined KFHK in 1999 as Investment Manager, Direct Investment Department. He was later transferred to head the Banking Performance Monitoring Unit and the Credit Due Diligence Unit of International Banking Sector which oversee the performances of the banking subsidiaries. His last position in KFHK was as the Senior Manager, FI Credit Management under Treasury Division.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2023, seven (7) Board meetings were held and attended by the directors. In the said Board meetings, strategic matters as well as reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals, reviewing of the Bank's significant policies and other matters were tabled for deliberation, approval and endorsement by the members of the Board.

The agenda for every Board meeting together with meeting documents were circulated to all directors in advance prior to the scheduled Board meetings for their perusal. The Board has an annual schedule established for Board and Board Committee meetings and are also aware of matters that are specifically reserved for its decision.

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

Name of Directors	No. of Meetings Attended	Percentage of Attendance (%)
Muad S M M AlOsaimi (Chairman)	7/7	100%
Mohammad Nasser AlFouzan	7/7	100%
Ahmed S. A A Al Kharji	7/7	100%
Khalid Sufat	7/7	100%
Abdul Khalil Abdul Hamid	7/7	100%
Mohamed Zaheer Mohamed Azreen	7/7	100%

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees

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

Board Audit Committee

The Board Audit Committee ("BAC") currently consists of two (2) INEDs and one (1) NINED. Seven (7) BAC meetings were held during the financial year.

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

Name of Directors	No. of Meetings Attended	Percentage of Attendance (%)
Mohamed Zaheer Mohamed Azreen (Chairman)	7/7	100%
Khalid Sufat	7/7	100%
Mohammad Nasser AlFouzan ^	5/5	100%
Abdul Khalil Abdul Hamid *	2/2	100%

Notes:
^ Resigned with effect from 7 October 2023
* Appointed as a Member with effect from 7 October 2023

The roles and responsibilities of the BAC are to assist the Board in discharging its oversight duties and oversee the financial reporting process to ensure the balance, transparency and integrity of its published financial information as well as accuracy and appropriateness of data in relation to sustainability and climate risk reporting to ensure information reported is according to relevant sustainability reporting standards. The BAC also reviews the effectiveness of the Bank's internal controls, risk management processes, cyber security controls, the internal audit function, the independent audit process including the appointment and assessing the performance of the external auditor, related party transactions, the process for monitoring compliance with laws and regulations affecting financial reporting and its code of business conduct.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees (Cont'd.)

Board Risk Management Committee

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

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

Name of Directors	No. of Meetings Attended	Percentage of Attendance (%)
Abdul Khalil Abdul Hamid (Chairman)	6/6	100%
Mohammad Nasser AlFouzan	6/6	100%
Mohamed Zaheer Mohamed Azreen	6/6	100%

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational, technology, legal, compliance and other emerging risks as well as to ensure that the risk identification and mitigation is in place and functioning. The BRMC also oversees the formulation of risk strategies on an on-going basis and addresses issues arising from the changes in both the external business environment and internal operating conditions. In addition, the BRMC recommends to the Board the Bank's Sustainability Roadmap/Climate Risk Policy and oversees the Bank's sustainability and climate related practices towards embedding Environmental, Social and Governance ("ESG") considerations across the Bank's decision-making processes as well as managing sustainability and climate related risk and to ensure risk identification and mitigation are in place and functioning. The BRMC further approves the Annual Compliance Plan, framework and policies, provides oversight on overall technology and cybersecurity strategic matters, review and approve outsourcing matters, review Independent Credit Review reports and recommend other risk related matters to the Board for approval.

Board Nominating And Remuneration Committee

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

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

Name of Directors	No. of Meetings Attended	Percentage of Attendance (%)
Mohamed Zaheer Mohamed Azreen (Chairman)	6/6	100%
Mohammad Nasser AlFouzan	6/6	100%
Abdul Khalil Abdul Hamid	6/6	100%

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees (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 and re-appointment of directors, Chief Executive Officer, key responsible persons 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 responsible persons; and

(b) to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer, Shariah Committee members and key responsible persons as well as to ensure that the Bank's compensation packages are competitive and consistent with the Bank's culture, objectives and strategies.

Board Credit Committee

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

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

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

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

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

(b) to veto/no objection/modify terms of the Bank's recovery proposals/actions that are within the authority limits as per the Delegation of Authority Matrix as well as to review and ensure appropriate actions are being taken for recovery of corporate accounts, other impaired accounts, early alert accounts and accounts transferred to Profit Sharing Investment Account;

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

(d) to review and ensure the Bank's sustainability and climate related risks are considered in relation to credit and treasury investment proposals.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees (Cont'd.)

Board Corporate Governance Committee

The Board Corporate Governance Committee ("BCGC") currently consists of one (1) INED, two (2) NINEDS and one (1) NIED. One (1) BCGC meeting was held during the financial year.

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

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

Notes:
** Appointed as Member with effect from 7 October 2023

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

Board Remuneration

A summary of the total remuneration of the directors, in aggregate with categorization into appropriate Board Committees for the financial year ended 31 December 2023 is disclosed under Note 33 of the financial statements.

Board Training

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Training programmes / workshops attended by directors in the year 2023 were as follows:

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	**Muad S M M AlOsaimi**	1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.
		20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.
		5 December 2023	Anti-Money Laundering And Counter Financing of Terrorism (AML/CFT)	Money laundering and terrorism financing (AML/CFT) continues to be an on-going threat which has the potential to adversely affect the country’s reputation. There are also economic and social consequences if the threat of money laundering and terrorism financing continues unchecked. The globalisation of the financial services industry and advancement in technology has posed challenges to regulators and law enforcement agencies as criminals have become more sophisticated in utilizing reporting institutions to launder illicit funds and use them as conduits for money laundering and terrorism financing activities.
2	**Ahmad S. AlKharji**	1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	**Ahmad S. AlKharji (Cont'd)**	20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.
		5 December 2023	Anti-Money Laundering And Counter Financing of Terrorism (AML/CFT)	Money laundering and terrorism financing (AML/CFT) continues to be an on-going threat which has the potential to adversely affect the country’s reputation. There are also economic and social consequences if the threat of money laundering and terrorism financing continues unchecked. The globalisation of the financial services industry and advancement in technology has posed challenges to regulators and law enforcement agencies as criminals have become more sophisticated in utilizing reporting institutions to launder illicit funds and use them as conduits for money laundering and terrorism financing activities.
3	**Mohammed Nasser Al-Fouzan**	1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	**Mohammed Nasser Al-Fouzan (Cont'd)**	20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.
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4	**Mohamed Zaheer Mohamed Azreen**	1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
4	**Mohamed Zaheer Mohamed Azreen (Cont'd)**	20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.
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5	**Khalid Sufat**	22 May 2023	Cybersecurity Trends & Development By NetAssist	The session discusses on cybersecurity trends and development which shall hold new challenges and provide huge opportunities to businesses.
		31 May 2023	Base Erosion And Profit Shifting (BEPS) Pillar 2 And Tax Corporate Governance Framework (TCGF)	The session discusses on Base Erosion And Profit Shifting (BEPS) Pillar 2 And Tax Corporate Governance Framework (TCGF).

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
5	**Khalid Sufat (Cont'd)**	1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.
		13 June 2023	MIA International Accountants Conference 2023	The Conference is set to upskill accountancy professionals for the future relevance of the profession towards sustainable nation building.
		20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		25 July 2023	MIA Webinar Series: "ESG Oversight For Boards"	This webinar will share the role of boards in ESG oversight as well as the latest ESG developments and trends, with a focus on the 26th Conference of the Parties' outcomes and what they mean to boards.
		16 October 2023	Briefing On Reinsurance - By CEO Of Malaysian Reinsurance	The session discusses on Reinsurance.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
5	**Khalid Sufat (Cont'd)**	8 November 2023	The 2024 Budget Forum	• Obtain information and clarification from the Ministry of Finance (MOF) and Inland Revenue Board of Malaysia (IRBM) on the latest changes and impact to taxpayers with regard to the 2024 Budget Proposals. • Get to know the key issues arising from the major Budget changes in 2024 and their impact on your business.
		10 November 2023	Anti-Money Laundering (AML) & Anti-Bribery & Corruption (ABC)	The session discusses on the importance of understading AML and ABC.
		5 December 2023	Anti-Money Laundering And Counter Financing of Terrorism (AML/CFT)	Money laundering and terrorism financing (AML/CFT) continues to be an on-going threat which has the potential to adversely affect the country's reputation. There are also economic and social consequences if the threat of money laundering and terrorism financing continues unchecked. The globalisation of the financial services industry and advancement in technology has posed challenges to regulators and law enforcement agencies as criminals have become more sophisticated in utilizing reporting institutions to launder illicit funds and use them as conduits for money laundering and terrorism financing activities.
		22 November 2023	BNM-FIDE Forum Virtual Dialogue Session	**Session 1: Cloud Requirements in RMiT Policy Document.** • Provide an overview of the cloud adoption landscape in the Malaysian financial industry. • Outline the supervisory expextations on Board oversight of cloud risk management by financial institutions (FIs) to achieve information security objectives. • Describe a shift to risk-based cloud consultation process to incentiviese financial institutions to develop sound risk management framework and maintain a good track record in cloud adoption. • Exchange views on FIs approaches to overcome key operational challenges in the cloud journey. **Session 2: Artificial Intelligence & Machine Learning (AI/ML) Adoption Landscape in the Industry.** • Provide insights from surveys conducted by BNM on AI/ML adoption within Malaysian financial service providers. • Discuss the challenges encountered and enhancements sought in AI/ML adoption. • Set future expectations and considerations in the dynamic realm of AI/ML.
		30 November 2023	Sustainability Developments & Outlook	The aim is to help create a favourable policy and regulatory environment that enables and incentivises companies to operate more sustainably.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
6	**Abdul Khalil Abdul Hamid**	12 January 2023	1st Distinguished Board Leadrship Series For 2023, Can America Stop China's Rise? Will ASEAN Be Damaged?	This session is to discuss on the implication with regard to the conflict that may be occurred between US and China due to the rise China's economy and what will be the implication on international trade finance and investment.
		1 June 2023	Climate Risk Management	The session highlights on:- • Overview of Sustainability and ESG. • Impact of Climate Risk on the Financial Services Industry. • Regulatory Expectations on Climate Risk. • Overview of Bank Negara Malaysia ("BNM") Climate Risk Management and Scenario Analysis and Action Items required.
		20 July 2023	Sustainability & Impact on Organisations: What Directors Need to Know?	The session among others, highlights on the following:- • Understand sustainability implications for the banking sector. • Familiarize wit ESG frameworks (GRI, SASB, TCFD). • Stay updated on regulatory requirements and guidelines. • Recognize the demand for sustainable finance products. • Foster stakeholder engagement and dialogue. • Integrate sustainability into long-term strategic planning. • Seek collaboration and learning and development. • Invest in continuous learning and development. • Implement robust risk management frameworks for sustainability risks. • Emphasize robust sustainability reporting and transparency.
		13 June 2023	Understanding The Impact Of Digital Transformation In The Financial Indsutry: What Board Members Need To Know	This session is to discuss on the impact of Digital Tranformation in the financial industry.
		22 June 2023	ESG In Insurance: Strategy And Transformation Webcast	The training highlights on the following areas:- • Leading insurers are using an ESG lens to enhance how they conduct their own business. • Insurance organization are using ESG capabilities and experience to help their clients and stakeholders on their own ESG journeys.
		5 September 2023	National Climate Governance Summit 2023	The objective is to empower listed companies and SMEs in Malaysia to build climate resilient businesses and contribute to climate governance through enhanced knowledge and understanding of climate action and best practices.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
6	**Abdul Khalil Abdul Hamid (Cont'd.)**	13 September 2023	ESG - IFRS S1 And S2 And Beyond	• The session discusses on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures are the first IFRS sustainability disclosure standards that have been issued by the ISSB in June 2023. • IFRS S1 sets out the general requirements for a complete set of sustainability-related financial disclosures. • IFRS S1 is designed to applied in conjunction with IFRS S2, which is a topic-based standard that specifies disclosures relating to climate.
		14 September 2023	Sustainability In The Digital Age	The session discusses on the initiative to explore the opportunities and challenges of leveraging digital capabilities to drive transformative systems changes for a sustainable and equitable world.
		20 September 2023	Recovery And Resolution Planning Sharing Session	This session is to discuss on the Recovery and Resolution Planning in the Financial Industry.
		17 October 2023	Navigating AI Governance & ESG Reporting For The Future	The session discusses on the implication of using the Artificial Intelligence in the ESG reporting.
		19 October 2023	KPMG ESG Talk - Addressing Challenges in Implementing International Sustainability Standards Boards (ISSB) Standards	The session discusses on how to address the challenges in implementing the ISSB standards.
		26 October 2023	Cyber Security Training	As corporate fiduciaries, the Board of Directors are responsible for overseeing management strategy, as well as for their identification and planned response to enterprise-wide risks impacting the company and its value to stakeholders and shareholders. A serious attack can destroy not only a company's financial health but also have systemic effects causing harm to the economy as a whole and even national security.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by directors in the year 2023 were as follows: (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
6	**Abdul Khalil Abdul Hamid (Cont'd.)**	9 November 2023	AI And Financial Institutions: Friend or Foe?	**Unlook opportunities Amidst Digital Distuptions: Embrace AI in Finance** Discover how digital disruptions have enabled the financial industry, creating new avenues for innovation and business model transformation. Overcome initial fears about job loss, reminiscent of the ATM era, and delve into the world of Artificial Intelligence (AI). Learn how AI, exemplified by CharFPT, could enhance human capacities and why informed decision-making and tech-savviness are paramount for nevigating this evolving landscape.
		22 November 2023	BNM-FIDE Forum Virtual Dialogue Session	**Session 1: Cloud Requirements in RMiT Policy Document** • Provide an overview of the cloud adoption landscape in the Malaysian financial industry. • Outline the supervisory expextations on Board oversight of cloud risk management by financial institution (Fis) to achieve information security objectives. • Describe a shift to risk-based cloud consultation process to incentiviese financial institutions to develop sound risk management framework and maintain a good track record in cloud adoption. • Exchange views on FI approaches to overcome key operational challenges in the cloud journey. **Session 2: Artificial Intelligence & Machine Learning (AI/ML) Adoption Landscape in the Industry** • Provide insights from surveys conducted by BNM on AI/ML adoption within Malaysian financial service providers. • Discuss the challenges encountered and enhancements sought in AI/ML adoption. • Set future expectations and considerations in the dynamic realm of AI/ML.
		5 December 2023	Anti-Money Laundering And Counter Financing of Terrorism (AML/CFT)	Money laundering and terrorism financing (AML/CFT) continues to be an on-going threat which has the potential to adversely affect the country's reputation. There are also economic and social consequences if the threat of money laundering and terrorism financing continues unchecked. The globalisation of the financial services industry and advancement in technology has posed challenges to regulators and law enforcement agencies as criminals have become more sophisticated in utilizing reporting institutions to launder illicit funds and use them as conduits for money laundering and terrorism financing activities.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Remuneration

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

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

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

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

Components of Remunerations

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

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

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

c) Benefits
Is part of total remuneration that provide employees with paid time-off, medical and financial protection, financing product at preferential rates, etc. This is in line with the market practice.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Remuneration (Cont'd.)

Measurement of Performance

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

a) Financial driver such as profitability, cost and asset management, stakeholders' return, business growth etc.

b) Risk related and non-financial measurement such as mandatory compliance with audit, Shariah and risk, Key strategic initiatives, customer care / stakeholder management and people related measures.

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

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

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

Variable Remuneration

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

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

The yearly performance assessment and remuneration for the identified Key Responsible Persons (KRPs) or Senior Officers in the Bank has to be approved by the Board upon recommendation by BNRC. Currently the Bank has 12 of such Senior Officers or KRPs. These individuals are also the Bank’s Material Risk Takers (MRT). Beside the Senior Officers, the Bank has also identified 23 Other Material Risk Takers (OMRT) which can materially commit or control significant amounts of the Bank’s resources and among the most highly remunerated officers in the Bank. The remuneration payout of these Material Risk Takers has to be approved by the Board.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

Variable Remuneration (Cont'd.)

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

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

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

(ii) Key Internal Control Processes

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

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

Internal Audit Function

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Internal Audit Function (Cont'd.)

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

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

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

Management reports

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

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

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

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

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd)

Highlights of major achievements

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

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

- Reviewed and assessed the Bank's IT and Cyber Security, implementing controls aligned with regulatory requirements and standards to ensure effective protection against technology and cybersecurity risk.

- Developed Climate Risk Policy which incorporates the Bank's governance on climate risk, the Three Lines of Defence (3LOD), Climate Risk Appetite, climate taxonomy, metrics and targets, Climate Risk Management (including Stress Test and Scenario Analysis on Climate Risk) and Climate Risk Transmission.

- Established the Bank's strategy and internal communication plan on management of Climate Risk whereby the strategic pillars are:

  a) Sustainable Operations
  b) Reduced Financed Emissions
  c) Transition Financing

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

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

Risk Management Framework

BRMC also reviews and assesses the adequacy of risk management policies as well as ensuring that sufficient infrastructure, resources and systems are in place to sustain effective risk management practices. The risk management principles, policies, procedures and practices are updated regularly to ensure relevance and compliance with current applicable laws, regulations, as well as changes in the business and regulatory environment and also to ensure that all current policies and procedures are easily available to all employees.

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Three Lines of Defence Concept

The Bank adopts the concept of three (3) lines of defense i.e. Risk Taking Units, Risk Control Units and Internal Audit. The Risk Taking Units are responsible for the day-to-day management of risks assumed by them in their business activities, while the Risk Control Units manage the provision of specialised resources for establishing appropriate risk management frameworks and developing appropriate risk management tools and methodologies. Additionally, Internal Audit complements the concept by providing independent assurance of the effectiveness of the risk management process and approaches implemented by the Bank.

Credit Risk Management

The Bank defines credit risk as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. The Corporate segment continues to contribute major share of the Bank’s financing and investment assets with 66% while the Consumer financing segment contributed 34% of the Bank’s total financing and investment assets in 2023.

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

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

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

The Bank’s credit risk policies and procedures set the principles in governing the way the Bank and its related subsidiaries conduct their credit risk management activities. It ensures credit risk underwriting is consistent across the Bank and provides guidance in the formulation of supplementary credit policies and practices specific to business units.

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

The Bank takes into consideration Environmental, Social and Governance ("ESG") and climate-change risks in the Bank's Credit Risk Strategy and has embedded the requirements in the Corporate Credit Risk Policy. Establishment of ESG programme has been initiated and shall continue in year 2024 with further refinement on the strategy and process.

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Market Risk Management

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

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

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

(ii) Non-Traded Market Risk
Rate of return risk and foreign exchange risk arising mainly from retail and commercial banking assets and liabilities, as well as financial investments designated as available-for-sale.

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

Liquidity Risk Management

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

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

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

Operational Risk Management ("ORM")

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

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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

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

A clear delegation of authority had been approved and implemented in order to provide clear job responsibility. This delegation of authority is regularly reviewed in order to align it with the latest structure of the Bank. The Bank also continuously reviews its technology practices and processes in order to ensure acceptable standards are in place and adhered to.

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

Compliance

Under the Bank’s Regulatory Compliance Policy, the Line Management plays an important role in cultivating a compliance, ethical and integrity culture within the organisation. The Bank has appointed Business Unit Compliance Officers (“BUCOs”) at divisional / departmental levels who are responsible to identify applicable regulatory requirements at their respective divisions / departments and work with central compliance function on an ongoing basis to manage compliance risks through assessing the level of compliance, identifying compliance deficiencies, gaps in work processes as well as updating on the status of any corrective actions.

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

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

- Implemented a dedicated Anti-Money Laundering (“AML”) system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System (“MIS”) for prompt detection and reporting of suspicious transactions;

- Established Customer Due Diligence ("CDD") policy and procedures to address the establishment of new business relationship with customers;

- Periodic review of MIS to optimise detection of potential money laundering and terrorist financing activities and incorporate regular screening exercise for designated persons or entities suspected to be involved in terrorism as issued by United Nations Security Council (“UNSC”) and Office of Foreign Assets Control (OFAC) United States (“US”);

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Compliance (Cont'd.)

- Periodic review of MIS to optimise detection of potential money laundering and terrorist financing activities and incorporate regular screening exercise for designated persons or entities suspected to be involved in terrorism as issued by United Nations Security Council ("UNSC") and Office of Foreign Assets Control (OFAC) United States ("US");

- Constantly updating record keeping procedures in accordance with the statutory requirements;

- Conduct regular AML/CFT training sessions to ensure high level of staff awareness at all levels;

- Conduct compliance review as part of Compliance's mandate to provide independent assurance to the Board and senior management on the level of compliance within the Bank; and

- Regular updates to the management, BRMC and the Bank's Chairman on AML/CFT matters.

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

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

Capital Adequacy Framework Initiatives

The Bank is of the view that it is important to have in place sound practices in managing the range of risks facing the Bank and its potential impacts on the capital. The Bank currently has adopted Pillar 1, 2 and 3 under BNM Capital Adequacy Framework for Islamic Banks ("CAFIB").

Pillar 1

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

- Credit Risk Charge – Standardised Approach

- Market Risk Charge – Standardised Approach

- Operational Risk Charge – Basic Indicator Approach

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

2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

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

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

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

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

Pillar 3

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

Stress Test

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

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

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

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

The stress test reports are presented to the senior management and Board level committees and submitted to BNM on a semi-annual basis.

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2023.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiary is nominees services.

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

RESULTS

	Group RM'000	Bank RM'000
Profit before taxation	88,109	88,109
Taxation	(62,120)	(62,120)
Net profit for the year	25,989	25,989
Profit attributable to:		
Owners of the parent	25,989	25,989

DIVIDENDS

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

DIRECTORS' REPORT

DIRECTORS

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

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

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

<u>KFH Nominees (Tempatan) Sdn Bhd</u>
Mexdelina Hussein
Mohd Hazran Abd Hadi (Resigned on 8th July 2024)
Roslinawati Zainal (Appointed on 5th July 2024)

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party, whereby the 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 amounting to RM2,811,048) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which the director is a member, or with a company in which he has a substantial financial interest except as disclosed in to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2023.

DIRECTORS' REPORT

ISSUE OF SHARES

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

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than as those disclosed in Notes 4, 5, 7, 8, 20, 23, 27 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 BNM's expectations on financial reporting have been complied with, including those as set out in Policy Document on Financial Reporting for Islamic Banking Institutions.

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

OTHER STATUTORY INFORMATION (Cont'd.)

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

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

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

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

(f) In the opinion of the directors:

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

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

DIRECTORS' REPORT

OUTLOOK FOR 2024

Despite escalating uncertainties in the global landscape, Malaysia's economy remains resilient. The GDP is forecasted to expand by approximately between 4% and 5% in 2024.

Growth in 2024 will be driven mainly by resilient domestic expenditure, with some support emanating from the expected recovery in electrical and electronics ("E&E") exports. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity.

The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production. Meanwhile, upside risks to growth mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	27-Jul-23	AA+ / MARC-1	Stable

ZAKAT OBLIGATIONS

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

AUDITORS

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

Auditors' remuneration are as follows:

	RM'000
- Statutory audit	617
- Non-audit services	186
	803

Signed on behalf of the Board in accordance with a resolution of the directors on 15 July 2024.

Muad S M M AlOsaimi
Director

Mohamed Zaheer Mohamed Azreen
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

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

We, Muad S M M AlOsaimi and Mohamed Zaheer Mohamed Azreen, being two of the directors of Kuwait Finance House (Malaysia) Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 44 to 185 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2023 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors on 15 July 2024.

Muad S M M AlOsaimi	**Mohamed Zaheer Mohamed Azreen**
Director	Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

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

I, Mohamed Zaheer Mohamed Azreen, 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 44 to 185, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed
at Kuala Lumpur, in the Federal Territory
on 15 July 2024

Mohamed Zaheer Mohamed Azreen
Director

BEFORE ME

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

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

REPORT OF SHARIAH COMMITTEE

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

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad (PBUH), his family and companions.

Assalamualaikum Warahmatullahi Wabarakatuh.

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

(a) Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae (ceased of Chairman on 31 March & reappointed as Chairman on 1 December 2023)
(Attendance 3 of 3)
(b) Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam (Ceased as a Member on 1 April 2023)
(Attendance 2 of 2)
(c) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi (Appointed as Chairman from 1 April 2023 to 30 November 2023 and being a Member effective 1 December 2023)
(Attendance 7 of 7)
(d) Sheikh Isa Abdulla Yusuf Dowaishan (Ceased as a Member since 1 December 2023)
(Attendance 6 of 6)
(e) Sheikh Prof. Dr. Azman Bin Mohd Noor (Member)
(Attendance 7 of 7)
(f) Sheikh Mehmet Odabasi (Appointed as a Member since 1 April 2023)
(Attendance 5 of 5)
(g) Sheikh Abdul Rahman Abdulla Khalil Jasim (Appointed as a Member since 1 April 2023)
(Attendance 5 of 5)

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

(a) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;

(b) To evaluate and endorse sample of contracts and agreements of the Bank's transactions;

(c) To clarify Shariah rulings in relation to the Bank's transactions as observed by the Shariah 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.

REPORT OF SHARIAH COMMITTEE (CONT'D.)

(f) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:

(i) when the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and

(ii) when the Bank submits applications to Bank Negara Malaysia for the approval of new products in accordance with guidelines on product approval issued by Bank Negara Malaysia.

(g) To review annual financial statements of the Bank.

To achieve this compliance assurance, the Shariah Committee held 7 meetings and issued 3 notes, in which we have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by the Bank and its subsidiary (“the Group”) during the year ended 31 December 2023.

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

We are on the view that the overall operations, business, affairs and activities of the Bank are in compliance with Shariah, but it has come to our attention that a Shariah non-compliance event has occurred and has been rectified, which is regarding the failure to conduct commodity trading for KFH Libshara accounts on weekends and public holidays. The Bank is required to adhere to the Shariah Committee procedures and rulings on daily trading in relation with this product.

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

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

(a) the contracts, transactions and dealings entered into by the Bank and the Group during the year ended 31 December 2023 that we have reviewed are in compliance with Shariah rules, principles, resolutions and recommendations of the Shariah Committee;

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

(c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, if any, have been put aside in a separate account for channeling 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 has been addressed adequately.

REPORT OF SHARIAH COMMITTEE (CONT'D.)

This opinion is rendered based on what has been presented to us by the management of the Bank and its Shariah Division.

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

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

Date: 15/7/2024

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

Date: 15/7/2024

Sheikh Prof. Dr. Azman Mohd Noor
Member
Signature:

Date : 15/7/2024

Sheikh Mehmet ODABASI
Member
Signature

Date : 15/7/2024

Sheikh Abdul Rahman Abdulla Khalil Jasim
Member
Signature:

Date : 15/7/2024
Kuala Lumpur, Malaysia

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Ernst & Young PLT
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200401033666 (672174-T)

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2023 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including material accounting policy information, as set out on pages 44 to 185.

In our opinion, the accompanying financial statements which have been prepared on a basis other than that of a going concern as disclosed in Note 2 to the financial statements, give a true and fair view of the financial position of the Group and the Bank as at 31 December 2023, 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, 2016 in Malaysia.

Basis for opinion

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

Emphasis of matter

We draw attention to Note 3.4(b)(i), Note 4 and Note 44 to the financial statements. The Bank's correspondent account maintained with an international bank in the United States of America is subject to an ex parte writ of execution from a third party. As a result, the Bank's access to that account with a balance of RM115.8 million as at 31 December 2023 is currently restricted (no withdrawal allowed). Our opinion is not modified in respect of this matter.

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

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

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

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

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements of the Group and the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so. As described in Note 2 to the financial statements, the financial statements have been prepared on a basis other than that of a going concern.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. As described in Note 2 to the financial statements, the financial statements have been prepared on a basis other than that of a going concern.

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

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

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other matters

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

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

Yap Kah Foo
No. 03574/05/2025 J
Chartered Accountant

Kuala Lumpur, Malaysia
15 July 2024

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

	Note	Group 2023 RM'000	Group 2022 RM'000
ASSETS			
Cash and short-term funds	4	180,692	145,073
Deposits and placements with banks and other financial institutions	5	2,471	3,696
Gold depository	6	122,694	112,353
Debt instruments at fair value through other comprehensive income ("FVOCI")	7	3,828,608	3,090,185
Financing, advances and other receivables	8	3,306,309	3,459,219
Other assets	9	81,315	87,167
Hedging financial instruments	10	6,835	7,400
Statutory deposit with Bank Negara Malaysia	11	104,497	92,371
Right-of-use assets	13	6,883	53,873
Property and equipment	14	12,053	8,088
Intangible assets	15	12,151	14,122
Deferred tax assets	16	-	81,708
TOTAL ASSETS		**7,664,508**	**7,155,255**
LIABILITIES			
Deposits from customers	17	3,373,577	3,521,810
Investment accounts of customers	19	2,493	3,734
Deposits and placements of banks and other financial institutions	18	2,429,145	1,786,900
Hedging financial instruments	10	691	2,441
Lease liabilities	13	8,638	58,184
Other liabilities	20	81,148	97,660
TOTAL LIABILITIES		**5,895,692**	**5,470,729**
SHAREHOLDER'S EQUITY			
Share capital	22	1,425,272	1,425,272
Reserves	23	343,544	259,254
TOTAL SHAREHOLDER'S EQUITY		**1,768,816**	**1,684,526**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**7,664,508**	**7,155,255**

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Group	
	Note	2023 RM'000	2022 RM'000
COMMITMENTS AND CONTINGENCIES	37	786,928	718,846
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	39	47.454%	41.099%
Total capital ratio	39	48.560%	42.198%
NET ASSETS PER SHARE (RM)		1.24	1.18

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

		Bank	
		2023	**2022**
	Note	**RM'000**	**RM'000**
ASSETS			
Cash and short-term funds	4	180,692	145,073
Deposits and placements with banks and other financial institutions	5	2,471	3,696
Gold depository	6	122,694	112,353
Debt instruments at FVOCI	7	3,828,608	3,090,185
Financing, advances and other receivables	8	3,306,309	3,459,219
Other assets	9	81,315	87,167
Hedging financial instruments	10	6,835	7,400
Statutory deposit with Bank Negara Malaysia	11	104,497	92,371
Investment in subsidiary *	12	-	-
Right-of-use assets	13	6,883	53,873
Property and equipment	14	12,053	8,088
Intangible assets	15	12,151	14,122
Deferred tax assets	16	-	81,708
TOTAL ASSETS		**7,664,508**	**7,155,255**
LIABILITIES			
Deposits from customers	17	3,373,581	3,521,814
Investment accounts of customers	19	2,493	3,734
Deposits and placements of banks and other financial institutions	18	2,429,145	1,786,900
Hedging financial instruments	10	691	2,441
Lease liabilities	13	8,638	58,184
Other liabilities	20	81,141	97,653
TOTAL LIABILITIES		**5,895,689**	**5,470,726**
SHAREHOLDER'S EQUITY			
Share capital	22	1,425,272	1,425,272
Reserves	23	343,547	259,257
TOTAL SHAREHOLDER'S EQUITY		**1,768,819**	**1,684,529**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**7,664,508**	**7,155,255**

* Investment amount below RM1,000.

STATEMENT OF FINANCIAL POSITION (CONT'D.)

		Bank	
	Note	2023 RM'000	2022 RM'000
COMMITMENTS AND CONTINGENCIES	37	786,928	718,846
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	39	47.454%	41.100%
Total capital ratio	39	48.560%	42.199%
NET ASSETS PER SHARE (RM)		1.24	1.18

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

INCOME STATEMENTS

	Note	Group 2023 RM'000	Group 2022 RM'000	Bank 2023 RM'000	Bank 2022 RM'000
Operating revenue	24	371,578	364,884	371,578	366,789
Income derived from investment of depositors' funds and others	25	272,087	265,951	272,087	265,951
Income derived from investment of investment account funds	29	91	93	91	93
Income derived from investment of shareholder's equity	26	99,400	98,840	99,400	100,745
Total gross income		371,578	364,884	371,578	366,789
Credit loss written back/(charged) on financial assets	27	25,035	(31,376)	25,035	(31,376)
Total distributable income		396,613	333,508	396,613	335,413
Income attributable to depositors	28	(180,947)	(114,255)	(180,947)	(114,255)
Profit distributed to investment account holders	29	(54)	(55)	(54)	(55)
Total net income		215,612	219,198	215,612	221,103
Personnel expenses	30	(59,808)	(55,981)	(59,808)	(55,981)
Other overheads and expenditures	31	(66,787)	(91,390)	(66,787)	(91,390)
Finance cost	32	(908)	(1,933)	(908)	(1,933)
Profit before taxation		88,109	69,894	88,109	71,799
Taxation	34	(62,120)	8,202	(62,120)	8,202
Net profit for the year		**25,989**	**78,096**	**25,989**	**80,001**
Attributable to:					
- Equity holder of the Bank		25,989	78,096	25,989	80,001
Earning per share (sen)					
- Basic/Diluted	35	1.82	5.48		

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666)

(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2023 RM'000	**2022 RM'000**	**2023 RM'000**	**2022 RM'000**
Net profit for the year	25,989	78,096	25,989	80,001
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Debt securities at FVOCI:				
- Net unrealised gain/(loss)	83,638	(81,469)	83,638	(81,469)
- Net realised gain reclassified to the income statements	(2,021)	(7,409)	(2,021)	(7,409)
- Changes in allowance for expected credit losses	(3,728)	4,641	(3,728)	4,641
Exchange differences on translation of foreign operations:				
- Net loss taken to equity	-	(3,798)	-	-
Income tax relating to components of other comprehensive income (Note 16)	(19,588)	21,298	(19,588)	21,298
Other comprehensive income/(loss) for the year, net of tax	58,301	(66,737)	58,301	(62,939)
Total comprehensive income for the year	84,290	11,359	84,290	17,062
Total comprehensive income for the year attributable to equity holder of the Bank	84,290	11,359	84,290	17,062

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	
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	FVOCI Reserve RM'000	Retained Earnings RM'000	Total RM'000
Group						
At 1 January 2023	1,425,272	247,491	-	(22,974)	34,737	1,684,526
Profit for the financial year	-	-	-	-	25,989	25,989
Other comprehensive income	-	-	-	58,301	-	58,301
Transfer to statutory reserve	-	12,995	-	-	(12,995)	-
At 31 December 2023	1,425,272	260,486	-	35,327	47,731	1,768,816
At 1 January 2022	1,425,272	207,491	3,798	39,965	23,641	1,700,167
Profit for the financial year	-	-	-	-	78,096	78,096
Other comprehensive income	-	-	(3,798)	(62,939)	-	(66,737)
Transfer to statutory reserve	-	40,000	-	-	(40,000)	-
Fair value adjustment on amount due from related party	-	-	-	-	(27,000)	(27,000)
At 31 December 2022	1,425,272	247,491	-	(22,974)	34,737	1,684,526
Bank						
At 1 January 2023	1,425,272	247,491	-	(22,974)	34,740	1,684,529
Profit for the financial year	-	-	-	-	25,989	25,989
Other comprehensive income	-	-	-	58,301	-	58,301
Transfer to statutory reserve	-	12,995	-	-	(12,995)	-
At 31 December 2023	1,425,272	260,486	-	35,327	47,734	1,768,819
At 1 January 2022	1,425,272	207,491	-	39,965	21,739	1,694,467
Profit for the financial year	-	-	-	-	80,001	80,001
Other comprehensive income	-	-	-	(62,939)	-	(62,939)
Transfer to statutory reserve	-	40,000	-	-	(40,000)	-
Fair value adjustment on amount due from related party	-	-	-	-	(27,000)	(27,000)
At 31 December 2022	1,425,272	247,491	-	(22,974)	34,740	1,684,529

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

STATEMENTS OF CASH FLOWS

	Group		Bank	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	88,109	69,894	88,109	71,799
Adjustments for:				
Impairment (writeback)/allowances on financing, advances and other receivables (Note 27)	(17,047)	31,842	(17,047)	31,842
Unwinding of modification loss	(6,795)	(7,185)	(6,795)	(7,185)
Amortisation of premium less accretion of discounts (Notes 25 and 26)	3,922	2,901	3,922	2,901
Depreciation of right-of-use assets (Note 31)	11,564	14,025	11,564	14,025
Depreciation of property and equipment (Note 31)	3,387	2,620	3,387	2,620
Amortisation of intangible assets (Note 31)	6,781	6,184	6,781	6,184
Property and equipment written off (Note 31)	2	79	2	79
Gain on disposal of property and equipment (Note 26)	-	(8)	-	(8)
Net gain on sale of financial assets at FVOCI (Notes 25 and 26)	(2,021)	(7,409)	(2,021)	(7,409)
Income from financial assets at fair value through profit or loss ("FVTPL") (Note 26)	(1,390)	(2,115)	(1,390)	(2,115)
Gain from liquidation of KFH Labuan (Note 26)	-	-	-	(5,090)
Impairment (writeback)/allowances on securities (Note 27)	(3,728)	4,641	(3,728)	4,641
Impairment writeback on deposit and placements with banks and other financial institutions (Note 27)	(16)	(189)	(16)	(189)
Finance income from amount due from related party (Note 26)	(1,305)	-	(1,305)	-
Unrealised loss on foreign translations (Note 26)	22,106	10,535	22,106	10,535
Profit expense on lease liabilities (Note 32)	908	1,933	908	1,933
Operating profit before working capital changes	104,477	127,748	104,477	124,563
Decrease/(Increase) in operating assets	158,950	117,968	158,950	117,968
Deposit and placement with banks and other financial institutions	6,139	33,384	6,139	33,384
Restricted cash in other financial institutions	(5,001)	(5,695)	(5,001)	(5,695)
Financing, advances and other receivables	175,614	185,425	175,614	185,425
Other assets	(5,676)	(2,777)	(5,676)	(2,777)
Statutory deposit with Bank Negara Malaysia	(12,126)	(92,369)	(12,126)	(92,369)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
Increase/(Decrease) in operating liabilities	574,482	(199,360)	574,482	(215,263)
Deposits from customers	(149,475)	(404,479)	(149,475)	(420,382)
Deposits and placements of banks and other financial institutions	740,470	194,131	740,470	194,131
Other liabilities	(16,513)	10,988	(16,513)	10,988
Net cash generated from operating activities	**837,909**	**46,356**	**837,909**	**27,268**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchases of securities	(776,465)	(34,928)	(776,465)	(34,928)
Proceed from liquidation of subsidiary	-	-	-	17,140
Proceeds from disposal of property and equipment	-	8	-	8
Purchase of property and equipment (Note 14)	(11,606)	(5,958)	(11,606)	(5,958)
Purchase of intangible assets (Note 15)	(558)	(114)	(558)	(114)
Net cash used in investing activities	**(788,629)**	**(40,992)**	**(788,629)**	**(23,852)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of lease liabilities (Note 13)	(14,289)	(15,096)	(14,289)	(15,096)
Net cash used in financing activities	**(14,289)**	**(15,096)**	**(14,289)**	**(15,096)**
Net increase/(decrease) in cash and cash equivalents	**34,991**	**(9,732)**	**34,991**	**(11,680)**
Cash and cash equivalents at beginning of year	34,310	49,646	34,310	49,646
Exchange differences on translation of opening balances	(4,373)	(5,604)	(4,373)	(3,656)
Cash and cash equivalents at end of year	**64,928**	**34,310**	**64,928**	**34,310**
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 4)	180,692	145,073	180,692	145,073
Deposits and placements with banks and other financial institutions (Note 5)	2,471	3,696	2,471	3,696
Less: Deposit with contractual maturity more than 3 months	(2,471)	(3,696)	(2,471)	(3,696)
Less: Restricted cash in other financial institutions	(115,764)	(110,763)	(115,764)	(110,763)
Cash and cash equivalents	**64,928**	**34,310**	**64,928**	**34,310**

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

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in the provisions of Islamic banking business as allowed under the Islamic Financial Services Act, 2013. The principal activities of the subsidiary is nominees services.

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

The holding company of the Bank is Kuwait Finance House K.S.C.P. ("KFHK"), a Kuwaiti Shareholding Public Company, incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Bank with the Central Bank of Kuwait. The registered office of Kuwait Finance House K.S.C.P. is located at Al-Qebla, Block 10, Abdullah Al-Mubarak Street, Building # 4, P.O. Box: 24989, Safat 13110, State of Kuwait.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 15 July 2024.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

Upon undertaking a strategic review exercise to ascertain the best strategic alternative for Kuwait Finance House (Malaysia) Berhad, Kuwait Finance House K.S.C.P. (“KFHK”) has on 18 July 2023 formally notified Bank Negara Malaysia (“BNM”) of its intention to exit the Malaysia market.

On 2 November 2023, the Board of Directors of Kuwait Finance House (Malaysia) Berhad approved the governance structure and preliminary wind down approach and strategy in relation to the plan arising from the outcome of the strategic review made by KFHK.

Management has initiated the exercise to wind down the Group’s and the Bank's operation and would proceed to surrender KFHMB’s banking license prior to the commencement of member's voluntary winding up process within a reasonable timeline as approved by relevant authorities and in accordance with applicable regulatory requirements. Hence, the financial statements of the Group and the Bank for the year ended 31 December 2023 have been prepared on a basis other than that of a going concern.

Accordingly, where appropriate, the carrying value of the assets are written down to their recoverable amounts and liabilities are recorded to the extent that such cost are committed at the end of reporting year.

The Group and the Bank present the statements of financial position in order of liquidity.

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

3 MATERIAL ACCOUNTING POLICIES

3.1 Changes in Accounting Policies

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

Description	Effective for annual periods beginning on or after
MFRS 112 Income Taxes (Amendments for deferred tax assets and liabilities arising from a single transaction)	1 January 2023
MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (Amendments for Definition of estimates)	1 January 2023
MFRS 17 Insurance Contracts	1 January 2023
MFRS 101 Presentation of Financial Statement (Amendments for Accounting Policies, Estimates and Error)	1 January 2023
International Tax Reform—Pillar Two Model Rules (Amendments to MFRS 112 Income Taxes)	1 January 2023

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

3.2 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
MFRS 101 Presentation of Financial Statement (Amendments for Non-Current Liabilities with Covenants)	1 January 2024
MFRS 16 Leases (Amendments for Lease Liability in Sale and Leaseback)	1 January 2024
Supplier Finance Arrangements (Amendments to MFRS 107 Statement of Cash Flows and MFRS 7 Financial Instruments: Disclosures)	1 January 2024
Lack of Exchangeability (Amendments to MFRS 121 The Effects of Changes in Foreign Exchange Rates)	1 January 2025
MFRS 18 Presentation and Disclosure in Financial Statements	1 January 2027
Amendment to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	Deferred

The adoption of the above standards are not expected to have a material impact on the financial statements of the Group and Bank.

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

3.3 Summary of Material Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

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

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

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

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

(ii) Basis of Consolidation

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

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

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

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

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling interest in the former subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets

(i) Recognition and initial measurement

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

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

(ii) Classification

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

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

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

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

Business model assessment

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

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

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

Assessment whether contractual cash flows are solely payments of principal and profit

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

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

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

Reclassifications

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

(iii) Derecognition

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(iv) Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group and the Bank recalculate the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

(v) Impairment

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

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

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

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group or the Bank in accordance with the contract and the cash flows that the Group or the Bank expect to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Group or the Bank if the commitment is drawn down and the cash flows that the Group or the Bank expect to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

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

The Group and Bank determine whether the financial assets are credit impaired based on indicators disclosed in Note 45(a)(i)(iii).

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (Cont'd.)

Write-off

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

(c) Financial liabilities

Deposits from customers, deposits and placements of banks and financial institutions are measured at amortised cost. With the exception of hedging financial instruments, the Group and the Bank do not have any financial liabilities classified at FVTPL.

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

(d) Provision for Liabilities

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

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

(e) Fair value measurement

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

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

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 and the Bank does not have any non-financial instruments that are measured at fair value as at reporting date.

The Group and the Bank 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 41.

(f) Leases

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

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

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

The Group and the Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-Use Assets

The Group and the Bank measures the right-of-use assets at cost:

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

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

Right-of-use assets are depreciated on a straight line basis over the lease term.

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(f) Leases (Cont'd.)

(ii) Lease Liabilities

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

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

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

During the financial year ended 31 December 2023, the lease term of lease liabilities has been reviewed and adjusted to reflect the estimated lease term over the course of the wind down process as disclosed in Note 2 to the financial statements.

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(g) Property and Equipment, and Depreciation

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

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

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

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

* 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.

During the financial year ended 31 December 2023, the useful life of property and equipment has been reviewed and adjusted to reflect its estimated remaining useful life over the course of the wind down process as disclosed in Note 2 to the financial statements.

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

(h) Computer software

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(i) 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.

(j) Income Tax

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(j) Income Tax (Cont'd.)

(ii) Deferred tax (Cont'd.)

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

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

(k) Revenue Recognition

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

(i) Finance Income Recognition

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

<u>Murabahah</u>

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

<u>Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'</u>

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(k) Revenue Recognition (Cont'd.)

(ii) Fee and Other Income Recognition

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

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

(l) Profit Expense Recognition

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

(m) Effective Profit Method

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

Amortised cost and gross carrying amount

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

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

(n) Presentation of profit income and expense

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

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

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

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

(o) Foreign Currencies

(i) Functional and Presentational Currency

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(o) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions

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

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

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

(p) Derivatives and Hedging Activities

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

(i) Foreign Exchange Contracts

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

(ii) Hedge documentation, effectiveness assessment, and discontinuation

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

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

(iii) Fair value hedge

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

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(q) Financial Guarantees and Financing Commitments

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

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

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

(r) Employee Benefits

(i) Short-Term Benefits

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

(ii) Defined Contribution Plan

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

(s) Zakat

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(t) Impairment of Non-Financial Assets

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

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

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

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

(u) Cash and Cash Equivalents

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

(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.

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

(w) 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 Group and 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 Group and the Bank as the entrepreneur (“Mudharib”), whereby the Customer(s) shall place a specified sum of money with the the Group and the Bank, and the the Group 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").

(x) Gold Depository

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

3.4 Significant Accounting Estimates and Judgments

(a) Significant Accounting Estimates

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

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

The Group and the Bank review their individually significant financing, advances and other receivables at each reporting date to assess whether an impairment loss should be recorded in the income statements. In particular, management’s judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment losses. In estimating these cash flows, the Group and the Bank make judgements about the customer’s financial situation and make estimates on the net realisable value of collateral. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowances.

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

(i) Impairment losses on financing, advances and other receivables (cont'd.)

The Group's and the Bank's ECL calculations under MFRS 9 are outputs of complex ECL models with a number of underlying assumptions regarding the choices of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) Criteria for assessing possible significant increase in credit risk and qualitative information to determine if allowances should be measured using lifetime ECL basis;
(ii) The segmentation of financial assets when their ECL is assessed on a collective basis;
(iii) Development of ECL models, including the various formulas and the choice of inputs; and
(iv) Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL models.

As the current ECL models may not generate levels of ECL with sufficient reliability yet in view of emerging risks from the current economic environment, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECL as of the financial year end.

The overlays and post-model adjustments involved significant level of judgements and estimates which reflect management's views of uncertainties in the forward-looking assessment for ECL estimation. The drivers of the management judgemental adjustments and estimates continue to evolve with the economic environment.

(ii) Incremental Borrowing Rate

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgments

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

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

Where the quoted and observable market prices of certain securities are not available, fair value is estimated using pricing models or discounted cash flow techniques. The usage of these models and techniques require the Group and the Bank to make certain estimates and assumptions, including but not limited to estimated future cash flows and discount rates.

(iv) Deferred tax and income taxes

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

(b) Significant Accounting Judgments

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

(i) Significant judgements on litigation

Impairment provision, if any, arising from legal proceedings as discussed in Note 44 require a high degree of judgement. When matters are at an early stage, accounting judgement can be difficult because of the high degree on uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether any impairment provision is required against the restricted cash. Professional advice is taken on the assessment of litigation to determine whether a present obligation exists.

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

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

3 MATERIAL ACCOUNTING POLICIES (Cont'd.)

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

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

(iii) Measurement of the expected credit loss allowance

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

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

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

(iv) Deferred tax and income taxes

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

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

4 CASH AND SHORT-TERM FUNDS

	Group and Bank 2023 RM'000	Group and Bank 2022 RM'000
Cash and balances with banks and other financial institutions	63,022	33,742
Money at call and interbank placements with remaining maturity less than one month	119,273	112,830
	182,295	146,572
Less : ECL Allowance	(1,603)	(1,499)
	180,692	145,073

Included in money at call and interbank placements is a balance of RM115.8 million in a correspondent account maintained with an international bank in the United States of America that is restricted (no withdrawal allowed) following an ongoing litigation as disclosed in Note 44.

4.1 Impairment allowance for cash and short-term funds

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	182,295	-	-	182,295
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	182,295	-	-	182,295

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

4 CASH AND SHORT-TERM FUNDS

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

An analysis of changes in the ECL allowances as follows:

31-Dec-23 Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	1,499	-	-	1,499
Allowance made during the year (Note 27)	104	-	-	104
ECL allowance as at 31 December 2023	1,603	-	-	1,603

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

5 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2023 RM'000	**2022 RM'000**
Bank Negara Malaysia ^	2,493	3,734
	2,493	3,734
Less : ECL Allowance	(22)	(38)
	2,471	3,696

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

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

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

Group and Bank	31-Dec-23			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	2,493	-	-	2,493
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	2,493	-	-	2,493

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

An analysis of changes in the ECL allowances as follows:

31-Dec-23 Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	38	-	-	38
Allowance writeback during the year (Note 27)	(16)	-	-	(16)
ECL allowance as at 31 December 2023	22	-	-	22

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

6 GOLD DEPOSITORY

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

7 DEBT INSTRUMENTS MEASURED AT FVOCI

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

Group and Bank	2023 RM'000	2022 RM'000
Government Sukuk	2,751,731	2,365,821
Non-Government Sukuk	1,076,877	724,364
	3,828,608	3,090,185

Group and Bank	31-Dec-23			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	3,828,608	-	-	3,828,608
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,828,608	-	-	3,828,608

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

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

An analysis of changes in ECLs for debt instruments measured at FVOCI is as follows:

	31-Dec-23			
Group and Bank	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2023	9,357	-	-	9,357
Allowance writeback during the year (Note 27)	(3,728)	-	-	(3,728)
ECL allowance as at 31 December 2023	5,629	-	-	5,629

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

8 FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group and Bank	
	2023	**2022**
	RM'000	**RM'000**
(i) At amortised cost		
Term financing		
- House financing	1,132,858	1,129,597
- Personal financing	941,254	846,484
- Cashline financing	1,784	3,492
- Syndicated financing	185,554	160,500
- Hire purchase receivables	520,784	576,040
- Other term financing	820,871	1,106,193
Staff financing	17,890	19,050
	3,620,995	3,841,356
Less: Impairment allowances		
- Stage 1 Financing	(147,063)	(147,965)
- Stage 2 Financing	(69,328)	(111,310)
- Stage 3 Financing	(98,021)	(121,971)
Net financing and advances to customers	3,306,583	3,460,110
Less: Impairment allowances		
- Stage 1 Undrawn	(31)	(95)
- Stage 1 Letter of Credit (Note 37)	(241)	(531)
- Stage 1 Financial Guarantee (Note 37)	(2)	(265)
Net financing, advances and other receivables	3,306,309	3,459,219

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

	Group and Bank	
	2023	2022
	RM'000	RM'000
(ii) By contract		
Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	1,763,949	1,877,260
Murabahah (cost-plus)	1,805,606	1,911,789
Mudharabah (profit sharing)	43,705	43,705
Qard (benevolent financing) (Note 8(x))	892	983
Musyarakah (profit and loss sharing)	6,091	6,810
Istisna'	752	809
	3,620,995	3,841,356
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	184,924	288,117
- Others	793,790	934,849
Individuals	2,642,281	2,618,390
	3,620,995	3,841,356
(iv) By residual contractual maturity		
Maturity within one year	905,698	1,152,218
More than one year to three years	109,572	97,723
More than three years to five years	276,324	298,193
More than five years	2,329,401	2,293,222
	3,620,995	3,841,356
(v) By geographical distribution		
Malaysia	3,618,681	3,838,845
Middle East	1,160	1,285
Other countries	1,154	1,226
	3,620,995	3,841,356
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	1,895	1,925
- Hire purchase receivables	520,784	576,040
- Syndicated financing	185,554	160,500
- Term financing	799,540	709,591
Variable rate		
- House financing	1,130,963	1,127,516
- Term financing	982,259	1,265,784
	3,620,995	3,841,356

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

	Group and Bank	
	2023	**2022**
	RM'000	**RM'000**
(vii) By sector		
Construction	303,133	297,716
Electricity, gas and water	14,497	35,781
Finance, insurance and business services	12,632	17,378
Household	2,642,281	2,618,390
Manufacturing	101,470	155,820
Real Estate	222,492	277,166
Transports, storage and communication	57,470	104,733
Wholesale & retail trade and restaurants & hotels	237,695	321,723
Others	29,325	12,649
	3,620,995	3,841,356
(viii) By economic purpose		
Purchase of transport vehicles	520,784	576,040
Purchase of landed properties		
- residential	1,132,858	1,129,441
- non-residential	155,285	193,324
Purchase of fixed assets	-	18,352
Working capital	560,272	808,889
Construction	192,984	162,510
Personal use	940,849	859,219
Other purposes	117,963	93,581
	3,620,995	3,841,356

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

(ix) Financing by types and Shariah contract

	31-Dec-23						
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
House financing	1,126,040	63	-	6,003	-	752	1,132,858
Personal financing	-	940,478	-	-	776	-	941,254
Syndicated financing	-	185,554	-	-	-	-	185,554
Cashline financing	-	1,784	-	-	-	-	1,784
Hire purchase receivables	520,784	-	-	-	-	-	520,784
Other term financing	101,038	676,128	43,705	-	-	-	820,871
Staff financing	16,087	1,599	-	88	116	-	17,890
	1,763,949	1,805,606	43,705	6,091	892	752	3,620,995

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

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

	Group and Bank 2023 RM'000	Group and Bank 2022 RM'000
(x) Purpose and Source of Qard financing		
As at 1 January	983	1,034
Source of Qard fund:	-	332
- Depositors' Fund	-	251
- Shareholders' Fund	-	81
Uses of Qard fund:	(91)	(383)
- Financing for asset purchase	(70)	(289)
- Staff Benevolent	(21)	(94)
As at 31 December (Note 8(ii))	892	983
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	263,632	272,802
- Impaired during the year	42,142	37,368
- Reclassified to performing during the year	(2,992)	(9,410)
- Amount recovered	(26,900)	(29,465)
- Amount written off	(50,511)	(8,404)
Reinstatement of previously written down accounts	107	741
At 31 December	225,478	263,632
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less Stage 3 impairment	3.60%	3.78%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Stage 1 and 2		
As at 1 January	260,166	237,577
Movement of net allowance during the year (Note 27)	(43,501)	22,589
At 31 December	216,665	260,166
As % of total gross financing, advances and other receivables less Stage 3 impairment	6.15%	6.99%
Stage 3		
At 1 January	121,971	120,381
Movement of net allowance during the year (Note 27)	26,454	9,253
Allowance charged during the year	51,296	25,107
Allowance written-back during the year	(24,842)	(15,854)
Amount written off	(50,511)	(8,404)
Reinstatement of previously written down accounts	107	741
At 31 December	98,021	121,971

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

(xiii) Impaired financing by sector

	Group and Bank 2023 RM'000	Group and Bank 2022 RM'000
Finance, insurance and business services	-	5,169
Household	50,400	46,033
Manufacturing	27,458	73,142
Real Estate	140,722	130,358
Wholesale & retail trade and restaurants & hotels	6,898	8,930
	225,478	263,632

(xiv) Impairment allowance for financing and advances to customers

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

Group and Bank	31-Dec-23			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	3,095,960	45,840	-	3,141,800
Past due but not impaired	94,990	158,727	-	253,717
Individually impaired	-	-	225,478	225,478
Total	3,190,950	204,567	225,478	3,620,995

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

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

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

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	148,856	111,310	121,971	382,137
Transfer to 12-month ECL	12,373	(11,511)	(862)	-
Transfer to lifetime ECL not credit impaired	(4,852)	7,628	(2,776)	-
Transfer to lifetime ECL credit impaired	(853)	(4,731)	5,584	-
Allowance (written back) / made during the year	(8,187)	(33,368)	24,508	(17,047)
Write-offs	-	-	(50,511)	(50,511)
Reinstatement of previously written down accounts	-	-	107	107
ECL allowance as at 31 December 2023	147,337	69,328	98,021	314,686

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

9 OTHER ASSETS

	Note	Group and Bank 2023 RM'000	Group and Bank 2022 RM'000
Deposits and prepayments		7,112	7,730
Amount due from related party	(i)	74,006	78,971
Fee receivable		-	100
Sundry debtors		197	366
		81,315	87,167

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

10 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value Assets RM'000	Fair Value Liabilities RM'000
2023			
Forward foreign exchange related contracts			
- in connection with fair value hedges	495,210	6,397	263
- other derivatives without a hedging relationship	82,871	438	428
Total	578,081	6,835	691
2022			
Forward foreign exchange related contracts			
- in connection with fair value hedges	332,557	5,931	985
- other derivatives without a hedging relationship	80,542	1,469	1,456
Total	413,099	7,400	2,441

The Group's and the Bank's derivatives designated for fair value hedges consists of forward foreign exchange related contracts that are used to protect against exposures to variability in foreign currency exchange rates. This hedging strategy is applied towards interbank borrowings and corporate customer deposits. The changes in the fair value of the forward foreign exchange contract and interbank borrowings or corporate customer deposits are recognised in the income statements. The measurement of the hedged item results in a net loss of RM1,188,597 as at 31 December 2023 (31 December 2022: Net loss of RM4,658,084).

11 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

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

12 INVESTMENT IN SUBSIDIARY

	Bank	
	2023 RM'000	2022 RM'000
Unquoted shares, at cost - in Malaysia	*-	*-
	-	-

* Denotes amount below RM1,000.

Details of the subsidiary is as follows:

Subsidiary	Principal activity	Country of Incorporation	Equity interest held (%) 2023	2022
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100	100

13 RIGHT-OF-USE OF ASSETS AND LEASE LIABILITIES

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

	Group and Bank			
	Building RM'000	Office Equipment RM'000	Motor Vehicle RM'000	Total RM'000
As at 1 January 2023	53,649	142	82	53,873
Additions	3,674	-	165	3,839
Depreciation charge (Note 31)	(11,409)	(58)	(97)	(11,564)
Adjustment/remeasurement	(39,265)	-	-	(39,265)
As at 31 December 2023	6,649	84	150	6,883
As at 1 January 2022	60,866	49	182	61,097
Additions	2,629	175	-	2,804
Depreciation charge (Note 31)	(13,843)	(82)	(100)	(14,025)
Adjustment/remeasurement	3,997	-	-	3,997
As at 31 December 2022	53,649	142	82	53,873

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

Set out below are the carrying amounts of lease liabilities and the movements during the year:

		Group and Bank			
		Building RM'000	Office Equipment RM'000	Motor Vehicle RM'000	Total RM'000
As at 1 January 2023		57,952	141	91	58,184
Additions		3,674	-	165	3,839
Accretion of profit	Note 32	903	3	2	908
Payment		(14,122)	(61)	(106)	(14,289)
Adjustment/remeasurement		(40,004)	-	-	(40,004)
As at 31 December 2023		8,403	83	152	8,638

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

The undiscounted maturity analysis of lease liabilities are as follows:

	Group and Bank	
	2023 RM'000	2022 RM'000
Less than one year	7,576	14,966
Between one and five years	1,203	46,298
	8,779	61,264

14 PROPERTY AND EQUIPMENT

Group and Bank 2023	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost							
As at 1 January	20,045	7,733	8,369	40,011	627	3,502	80,287
Additions	335	-	182	3,474	-	7,615	11,606
Disposals	-	-	(1)	(1,801)	-	-	(1,802)
Write-offs	(459)	(124)	(270)	(261)	-	-	(1,114)
Transfers	143	-	5	4,176	-	(8,576)	(4,252)
As at 31 December	20,064	7,609	8,285	45,599	627	2,541	84,725
Accumulated depreciation							
As at 1 January	19,051	7,687	8,247	36,587	627	-	72,199
Charge for the year (Note 31)	712	28	66	2,581	-	-	3,387
Disposals	-	-	(1)	(1,801)	-	-	(1,802)
Write-offs	(459)	(124)	(270)	(259)	-	-	(1,112)
As at 31 December	19,304	7,591	8,042	37,108	627	-	72,672
Net book value							
As at 31 December	760	18	243	8,491	-	2,541	12,053

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

15 INTANGIBLE ASSETS

	Group and Bank	
	2023 RM'000	2022 RM'000
Computer software		
Cost		
As at 1 January	105,177	101,644
Additions	558	114
Write-offs	(211)	-
Transfers from property and equipment (Note 14)	4,252	3,419
As at 31 December	109,776	105,177
Accumulated amortisation		
As at 1 January	91,055	84,871
Amortisation for the year (Note 31)	6,781	6,184
Write-offs	(211)	-
As at 31 December	97,625	91,055
Carrying amount		
As at 31 December	12,151	14,122

16 DEFERRED TAXATION

	Group and Bank	
	2023 RM'000	2022 RM'000
As at 1 January	81,708	52,208
Recognised in other comprehensive income	(19,588)	21,298
Recognised in profit and loss (Note 34)	(62,120)	8,202
As at 31 December	-	81,708
Presented after appropriate offsetting as follows:		
Deferred tax assets	11,096	83,028
Deferred tax liabilities	(11,096)	(1,320)
Deferred tax assets (net)	-	81,708

16 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group and Bank:	Temporary difference in ECL RM'000	Unutilised tax losses RM'000	Other temporary differences RM'000	Total RM'000
2023				
As at 1 January	31,834	20,340	30,854	83,028
Recognised in profit or loss	(29,258)	(20,340)	(12,123)	(61,721)
Recognised in other comprehensive income	-	-	(10,211)	(10,211)
As at 31 December	2,576	-	8,520	11,096
2022				
As at 1 January	32,020	8,000	24,933	64,953
Recognised in profit or loss	(186)	12,340	(4,290)	7,864
Recognised in other comprehensive income	-	-	10,211	10,211
As at 31 December	31,834	20,340	30,854	83,028

Deferred tax liabilities of the Group and Bank:	Unrealised gain/(loss) on securities FVOCI RM'000	Accelerated capital allowances RM'000	Total RM'000
2023			
As at 1 January	-	1,320	1,320
Recognised in profit or loss	-	399	399
Recognised in other comprehensive income	9,377	-	9,377
As at 31 December	9,377	1,719	11,096
2022			
As at 1 January	11,087	1,658	12,745
Recognised in profit or loss	-	(338)	(338)
Recognised in other comprehensive income	(11,087)	-	(11,087)
As at 31 December	-	1,320	1,320

16 DEFERRED TAXATION (Cont'd.)

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

	Group and Bank	
	2023	**2022**
	RM'000	**RM'000**
Expected Credit Loss	178,521	-
Unutilised tax losses	490,629	501,306

The unutillised tax losses above are available for offset against future taxable profits of the Bank and the subsidiary respectively up to year of assessment 2028 as per statutory period limit on cumulative losses utilisation which brought forward from YA2018.

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

The deferred tax assets have not been recognised as at 31 December 2023 as the directors are of the view that it is not probable for the Group and the Bank to realise the deferred tax asset during the wind down process as disclosed in Note 2 to the financial statements.

17 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
(i) By type of deposit				
Qard				
- Demand deposits	302,750	323,370	302,754	323,374
- Gold deposits	120,701	111,624	120,701	111,624
Murabahah				
- Term placement	2,813,816	2,954,812	2,813,816	2,954,812
- Savings deposits	136,310	132,004	136,310	132,004
	3,373,577	3,521,810	3,373,581	3,521,814
(ii) By type of customer				
Business enterprises	1,599,338	1,211,746	1,599,338	1,211,746
Individuals	308,929	335,246	308,929	335,246
Subsidiaries	-	-	4	4
Government and statutory bodies	1,363,376	1,598,437	1,363,376	1,598,437
Others	101,934	376,381	101,934	376,381
	3,373,577	3,521,810	3,373,581	3,521,814
(iii) By contractual maturity				
Due within six months	3,044,778	3,116,921	3,044,782	3,116,925
More than six months to one year	328,789	404,865	328,789	404,865
More than one year to three years	10	24	10	24
	3,373,577	3,521,810	3,373,581	3,521,814

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2023 RM'000	2022 RM'000
Murabahah		
Licensed Islamic banks	300,000	150,000
Other financial institutions	2,129,145	1,636,900
	2,429,145	1,786,900

19 INVESTMENT ACCOUNTS

	Group and Bank	
	2023 RM'000	2022 RM'000
As at 1 January	3,734	5,550
Net withdrawals during the year	(1,295)	(1,871)
Income from investment	91	93
Profit distributed to mudarib	(37)	(38)
As at 31 December	2,493	3,734
Investment asset:		
Wadiah placement with BNM	2,493	3,734

Profit sharing ratio and rate of return

	Investment account holder			
	Average profit sharing ratio		Average rate of return	
	Group and Bank			
	2023 (%)	2022 (%)	2023 (%)	2022 (%)
Unrestricted investment accounts:				
Less than 3 months	60	60	1.75	1.28

	Group and Bank	
By type of customer	2023 RM'000	2022 RM'000
Business enterprises	1,096	1,673
Individuals	1,374	1,992
Other enterprises	23	69
	2,493	3,734

20 OTHER LIABILITIES

		Group		Bank	
		2023	2022	2023	2022
		RM'000	RM'000	RM'000	RM'000
	Note				
Sundry creditors	(i)	38,743	33,967	38,736	33,960
Accrued restoration cost		7,141	4,612	7,141	4,612
Other provisions and accruals		33,842	57,579	33,842	57,579
Undistributed charity funds	(ii)	1,422	1,502	1,422	1,502
		81,148	97,660	81,141	97,653

(i) Included in sundry creditors is an amount payable to holding company of RM5.0 million (2022: RM5.1 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

	Group and Bank	
	2023	2022
	RM'000	RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	1,502	253
Penalty charges on late payment	312	5,751
Total sources of funds during the year	1,814	6,004
Uses of charity funds:		
Compensation of late payment charges	-	(2,000)
Payment for recovery cost and other expenses	(36)	(2,430)
Contribution to non-profit organisations	(310)	(5)
Aid to needy family	(46)	(67)
Total uses of funds during the year	(392)	(4,502)
Undistributed charity funds as at 31 December	1,422	1,502

21 PROVISION FOR ZAKAT

In 2023, zakat is calculated based on opening reserve method of Kuwait Finance House (Malaysia) Berhad and paid by Kuwait Finance House K.S.C.P. ("KFHK") who is the sole shareholder of the Bank.

22 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
Group and Bank	**2023 Units'000**	**2022 Units'000**	**2023 RM'000**	**2022 RM'000**
Issued and fully paid:				
As at 1 January/ As at 31 December	1,425,272	1,425,272	1,425,272	1,425,272

23 RESERVES

		Group		Bank	
	Note	**2023 RM'000**	**2022 RM'000**	**2023 RM'000**	**2022 RM'000**
Non-distributable					
Statutory reserve	(i)	260,486	247,491	260,486	247,491
FVOCI reserve	(ii)	35,327	(22,974)	35,327	(22,974)
		295,813	224,517	295,813	224,517
Distributable					
Retained earnings		47,731	34,737	47,734	34,740
		343,544	259,254	343,547	259,257

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

(i) Statutory reserve

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

(ii) FVOCI Reserve

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

24 OPERATING REVENUE

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

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

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group and Bank	
	2023	**2022**
	RM'000	**RM'000**
Finance income from financing, advances and other receivables	161,225	156,868
Finance income from impaired financing	472	1,911
Finance income from financial assets at FVOCI	107,094	98,327
Money-at-call and deposits with financial institutions	233	577
	269,024	257,683
Amortisation of premium less accretion of discount	(2,954)	(2,197)
Total finance income and hibah	266,070	255,486
Gain arising from sale of securities		
- Financial assets at FVOCI	1,525	5,604
Foreign exchange gain - realised	4,492	4,861
	272,087	265,951

26 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2023	**2022**	**2023**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Finance income from financing, advances and other receivables	53,129	50,247	53,129	50,247
Finance income from impaired financing	159	611	159	611
Finance income from financial assets at FVOCI	35,203	31,490	35,203	31,490
Money-at-call and deposits with financial institutions	77	186	77	186
	88,568	82,534	88,568	82,534
Amortisation of premium less accretion of discount	(968)	(704)	(968)	(704)
Total finance income and hibah	87,600	81,830	87,600	81,830
Fee and other income				
- Commissions	2,577	2,514	2,577	2,514
- Other fee income	2,891	4,088	2,891	4,088
- Gain from liquidition of KFH Labuan	-	-	-	5,090
Gain arising from sale of securities				
- Financial assets at FVOCI	496	1,805	496	1,805
Foreign exchange related contract gain/(loss)				
- Realised	25,247	16,644	25,247	13,459
- Unrealised	(22,106)	(10,535)	(22,106)	(10,535)
Income from financial assets at fair value through profit or loss ("FVTPL")	1,390	2,115	1,390	2,115
Finance income from amount due from related party	1,305	-	1,305	-
Gain on disposal of property, plant and equipment	-	8	-	8
Reversal of provision on property restoration	-	371	-	371
	99,400	98,840	99,400	100,745

27 CREDIT LOSS WRITTEN BACK / (CHARGED) ON FINANCIAL ASSETS

The table below shows the net ECL writeback/(charged) on financial instruments for the year recorded in the income statement:

	31-Dec-23			
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Cash and short-term funds	(104)	-	-	(104)
Deposit and placements with banks and other financial institutions	16	-	-	16
Financing and advances to customers	1,519	41,982	(26,454)	17,047
Bad debt recovered	-	-	4,348	4,348
Debt instruments measured at FVOCI	3,728	-	-	3,728
Total impairment loss writeback/(charged)	5,159	41,982	(22,106)	25,035

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

28 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group and Bank	
	2023 RM'000	**2022 RM'000**
Deposits from customers		
- Murabahah	111,392	73,006
Deposits and placements of banks and other financial institutions		
- Murabahah and wakalah	69,423	41,121
- Others	132	128
	180,947	114,255

29 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

	Group and Bank	
	2023 RM'000	**2022 RM'000**
Income derived from investment of investment account funds	91	93
Profit distributed to mudarib	(37)	(38)
	54	55

30 PERSONNEL EXPENSES

	Group and Bank	
	2023 RM'000	2022 RM'000
Salaries and wages	35,144	35,185
Social security costs	315	277
Pension costs - defined contribution plan	6,971	6,859
Other staff related costs	17,378	13,660
	59,808	55,981

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

Name	Position	Salary and other remuneration* RM'000	Bonus^ RM'000	Employees Provident Fund RM'000	Benefit in kinds RM'000	Total RM'000
2023						
Mohd Hazran Abd Hadi	Chief Executive Officer	1,120	-	169	-	1,289
	Total	**1,120**	**-**	**169**	**-**	**1,289**
2022						
Mohd Hazran Abd Hadi	Chief Executive Officer	1,020	1,250	363	-	2,633
	Total	**1,020**	**1,250**	**363**	**-**	**2,633**

* Includes leave encashment, gratuity, home passage, corporate membership and housing allowances.
* Fixed remuneration is cash-based and non-deferred in nature.
^ Bonus amount above reflect the bonus amount paid during the year.

31 OTHER OVERHEADS AND EXPENDITURES

	Group & Bank	
	2023 RM'000	2022 RM'000
Promotion		
Advertisement and publicity	2,321	4,925
Establishment		
Rental	257	229
Depreciation of property and equipment (Note 14)	3,387	2,620
Amortisation of intangible assets (Note 15)	6,781	6,184
IT expenses	5,699	16,659
Hire of equipment	228	353
Depreciation of right-of-use asset (Note 13)	11,564	14,025
	27,916	40,070
General expenses		
Auditors remuneration		
- Statutory audit	617	492
- Non-audit services:	186	264
- Review engagements and regulatory related services	89	167
- Other services	97	97
Professional fees	2,616	2,835
Directors' remuneration (Note 33)	2,811	2,203
Shariah Committee's remuneration (Note 33)	683	699
Communication expenses	2,006	1,894
Write-off of property and equipment	2	79
Legal fees	11,418	21,800
Others	16,211	16,129
	36,550	46,395
Total overheads and expenditures	66,787	91,390

32 FINANCE COST

	Group and Bank	
	2023 RM'000	2022 RM'000
Profit expenses on lease liabilities	908	1,933

33 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group and Bank	
	2023 RM'000	**2022 RM'000**
Directors of the Bank		
Fees	2,811	2,203
Other remuneration	-	-
	2,811	2,203
Directors of subsidiary company		
Fees	-	-
Other remuneration	-	-
	-	-
Total directors remuneration*	2,811	2,203
Shariah Committee		
Fees	624	624
Other remuneration	59	75
Total Shariah Committee Remuneration	683	699

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	
	2023	**2022**
Directors		
RM1,000 - RM100,000	-	-
RM100,001 - RM150,000	-	-
RM150,001 - RM200,000	-	-
RM200,001 - RM250,000	-	1
RM250,001 - RM300,000	-	-
RM300,001 - RM400,000	1	3
RM400,001 - RM500,000	3	2
RM500,001 - RM600,000	2	-
Total	6	6

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

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

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

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
Group and Bank								
2023								
Muad S M M AlOsaimi	Chairman	465	-	-	-	-	78	543
Mohammad Nasser AlFouzan	Non-independent non-executive director	233	56	78	77	-	21	465
Ahmad S A A AlKharji	Non-independent executive director	233	-	-	-	-	77	310
Khalid Sufat	Non-independent non-executive director	233	78	-	-	77	77	465
Abdul Khalil Abdul Hamid	Independent non-executive director	233	21	78	77	77	-	486
Mohamed Zaheer Mohamed Azreen	Independent non-executive director	233	77	78	77	77	-	542
	Total	1,630	232	234	231	231	253	2,811

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

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

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

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

Name of Shariah Committee Member	Total RM '000	Fee RM '000	Fixed Allowances RM '000	Non-Fixed Allowances RM '000
2023				
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	57	48	2	7
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	41	30	2	9
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	144	136	8	-
Sheikh Isa Abdulla Yusuf Dowaishan	118	110	8	-
Prof. Dr. Azman Mohd Noor	130	120	8	2
Sheikh Mehmet Odabasi	96	90	6	-
Sheikh Abdul Rahman Abdulla Khalil Jasim	97	90	7	-
	683	624	41	18
2022				
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	165	144	8	13
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	140	120	8	12
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	128	120	8	-
Sheikh Isa Abdulla Yusuf Dowaishan	128	120	8	-
Prof. Dr. Azman Mohd Noor	138	120	8	10
	699	624	40	35

34 TAXATION

	Group & Bank	
	2023 **RM'000**	**2022** **RM'000**
Deferred tax (Note 16):		
- Relating to origination and reversal of temporary differences	27,483	(7,902)
- Over/(Under) provision in prior years	34,637	(300)
Total for Taxation	62,120	(8,202)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2022: 24%) of the estimated assessable profit for the year.

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

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

	Group		Bank	
	2023 **RM'000**	**2022** **RM'000**	**2023** **RM'000**	**2022** **RM'000**
Profit before taxation	88,109	69,894	88,109	71,799
Taxation at Malaysian statutory tax rate of 24% (2022: 24%)	21,146	16,775	21,146	17,232
Income not subject to tax	-	(2,526)	-	(2,983)
Expenses not deductible for tax purposes	3,830	3,329	3,830	3,329
Utilisation of previously unrecognised tax losses	-	(25,480)	-	(25,480)
Deferred tax assets not recognised on unutilised tax losses	2,507	-	2,507	-
Over/(Under) provision of deferred tax in prior year	34,637	(300)	34,637	(300)
Tax expense for the year	62,120	(8,202)	62,120	(8,202)

35 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	
	2023	**2022**
Net profit for the year (RM'000)	25,989	78,096
Weighted average number of ordinary shares in issue ('000)	1,425,272	1,425,272
Basic/diluted earnings per share (sen)	1.82	5.48

36 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 43.

Subsidiary
Details of subsidiary are disclosed in Note 12.

Subsidiaries of holding company
Subsidiaries of the holding company are KFH (Bahrain) B.S.C., Ahli United Bank (Bahrain) B.S.C. (AUB), Kuwait Turkish Participation Bank (KTPB), Al Enma'a Real Estate Company K.S.C.P., Baitak Real Estate Investment Company S.S.C., Ahli United Bank (U.K.) PLC ("AUBUK"), Ahli United Bank K.S.C.P. ("AUBK"), Ahli United Bank (Egypt) S.A.E. ("AUBE"), Commercial Bank of Iraq P.S.C. ("CBIQ"), KFH Capital, Development Enterprises Holding Co., Aref Investment Group, Kuwait Finance House Real Estate Company, International Integrated Computer Systems Group Co., Bahrain Pearl Company, Saudi Kuwaiti Finance House and Baitak Nominees Company.

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.

36 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

Bank 2023	**Holding company RM'000**	**Subsidiaries RM'000**	**Subsidiaries & joint ventures of holding companies RM'000**	**Key management personnel RM'000**	**Companies with common directors RM'000**	**Directors RM'000**
(i) Income						
Profit income on placements	-	-	-	-	-	-
Profit income on financing	-	-	-	43	-	-
Finance income from related party (Note 26)	-	-	1,305	-	-	-
	-	-	1,305	43	-	-
(ii) Expenditure						
Profit expense on deposits	-	-	660	529	-	1
Other fees	-	-	16,152	-	-	-
	-	-	16,812	529	-	1

36 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

Bank 2023 (Cont'd.)	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & joint ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(iii) Amount due to related parties						
Deposits from customers	-	4	8,348	849	-	298
Deposits and placements of banks and other FIs	35	-	69	-	-	-
Sundry creditors (Note 20)	5,023	-	-	-	-	-
	5,058	4	8,417	849	-	298
(iv) Amount due from related parties						
Financing	-	-	-	1,298	-	-
Deposits and placements with banks and other FIs	2,444	-	160	-	-	-
Other assets	-	-	74,006	-	-	-
	2,444	-	74,166	1,298	-	-
(v) Others						
Purchases of intangible assets	-	-	245	-	-	-
	-	-	245	-	-	-

36 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

Bank 2022	Holding company RM'000	` Subsidiaries RM'000	Subsidiaries & joint ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(i) Income						
Profit income on placements	1	-	-	-	-	-
Profit income on financing	-	-	-	59	-	-
	1	-	-	59	-	-
(ii) Expenditure						
Profit expense on deposits	702	-	1,920	512	-	1
Other fees	-	-	16,500	-	-	-
	702	-	18,420	512	-	-

36 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

Bank **2022 (Cont'd.)**	**Holding company RM'000**	**Subsidiaries RM'000**	**Subsidiaries & joint ventures of holding companies RM'000**	**Key management personnel RM'000**	**Companies with common directors RM'000**	**Directors RM'000**
(iii) Amount due to related parties						
Deposits from customers	-	4	8,711	2,027	-	464
Deposits and placements of banks and other FIs	-	-	140	-	-	-
Sundry creditors (Note 20)	5,072	-	-	-	-	-
	5,072	4	8,851	2,027	-	464
(iv) Amount due from related parties						
Financing	-	-	-	1,563	-	-
Deposits and placements with banks and other FIs	3,732	-	240	-	-	-
Other assets	-	-	78,971	-	-	-
	3,732	-	79,211	1,563	-	-
(v) Others						
Purchases of intangible assets	-	-	365	-	-	-
	-	-	365	-	-	-

36 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group and Bank	
	2023 RM'000	2022 RM'000
Short-term employee benefits		
- Salary and other remuneration	7,978	9,257
- Benefits-in-kind	-	-
	7,978	9,257

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

(c) Credit transactions and exposures with connected parties

	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non-performing credit exposure RM'000
2023				
Financing, credit facility and leasing (except guarantee)	99,701	1	99,701	-
Off-balance sheet exposures	600	1	600	-
	100,301	2	100,301	-
Total exposure to connected parties as % capital base			5.7%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.3%	0.0%

36 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

* 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.

37 COMMITMENTS AND CONTINGENCIES

(a) Commitments and contigencies

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

	2023			2022		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Group and Bank						
Direct credit substitutes	895	895	-	20,617	20,353	19,469
Transaction related contingencies	93,294	46,647	35,769	98,660	48,799	36,832
Irrevocable commitments to extend credit						
- maturity less than one year	83,426	16,685	16,684	134,769	12,887	12,458
- maturity more than one year	31,232	15,616	10,852	46,603	20,776	15,333
Foreign exchange related contracts *						
- less than one year	408,304	11,886	2,688	243,620	6,623	2,115
- one year to five years	169,777	5,836	1,687	174,577	8,844	3,085
	786,928	97,565	67,680	718,846	118,282	89,292

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

37 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

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

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

	Group and Bank	
	2023	**2022**
	RM'000	**RM'000**
Financial guarantees	895	20,617
Letters of credit	93,294	98,660
Other undrawn commitments	114,658	181,372
Total commitment	208,847	300,649
Less : ECL allowance	(274)	(891)
	208,573	299,758

The credit equivalent and risk-weighted amounts are derived from using the credit conversion factors and risk weights respectively as specified in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks ("CAFIB").

Market risk

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

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2023, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM6,834,624 (2022: RM7,400,360). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

37 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments

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

Financial guarantees

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	895	-	-	895
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	895	-	-	895

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

An analysis of changes in the ECLs, as follows:

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	265	-	-	265
Net remeasurement of loss allowance	2	-	-	2
New financial assets originated or purchased	-	-	-	-
Financial assets that have matured	(265)	-	-	(265)
ECL allowance as at 31 December 2023	2	-	-	2

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

37 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Letters of credit

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade:				
Neither past due nor impaired	93,294	-	-	93,294
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	93,294	-	-	93,294

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

An analysis of changes in the ECLs, as follows:

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	531	-	-	531
Net remeasurement of loss allowance	(290)	-	-	(290)
ECL allowance as at 31 December 2023	241	-	-	241

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

37 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Other undrawn commitments

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Neither past due nor impaired	112,936	-	-	112,936
Past due but not impaired	-	1,722	-	1,722
Individually impaired	-	-	-	-
Total	112,936	1,722	-	114,658

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

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

Group and Bank	31-Dec-23 Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2023	95	*-	*-	95
Net remeasurement of loss allowance	(35)	-	-	(35)
New financial assets originated or purchased	1	-	-	1
Financial assets that have matured	(30)	-	-	(30)
ECL allowance as at 31 December 2023	31	* -	* -	31

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

* Denotes amount below RM1,000.

38 CAPITAL COMMITMENTS

	Group and Bank	
	2023 RM'000	**2022 RM'000**
Capital expenditure:		
Authorised and contracted for		
- computer hardware	4,697	2,805
- purchase of equipment	3	3
- computer software	4,441	3,148
- capital renovation	56	56
Authorised but not contracted for		
- computer software	55,274	45,258
	64,471	51,270

39 CAPITAL ADEQUACY

The Group and the Bank has adopted Bank Negara Malaysia's CAFIB guidelines to further improve capital adequacy assessment; enhance risk management processes, measurements and management capabilities; as well as to promote thorough and transparent reporting.

For the purpose of the computation of capital adequacy ratios, the Group and the Bank 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 Group and the Bank has also provided detailed Capital Adequacy disclosures as per the requirements stipulated in Bank Negara Malaysia CAFIB - Disclosures Requirements (Pillar 3) guidelines.

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

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

	Group		Bank	
	2023	**2022**	**2023**	**2022**
CET 1/ Tier 1 capital ratio	47.454%	41.099%	47.454%	41.100%
Total capital ratio	48.560%	42.198%	48.560%	42.199%

39 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
CET 1/Tier I capital				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	260,486	247,491	260,486	247,491
Other reserves	83,058	11,763	83,061	11,766
CET 1 capital before regulatory adjustment	1,768,816	1,684,526	1,768,819	1,684,529
Less: Regulatory adjustment on CET1 capital	(37,718)	(91,064)	(37,718)	(91,064)
Deferred tax assets (net)	-	(81,708)	-	(81,708)
Other regulatory adjustment	(37,718)	(9,356)	(37,718)	(9,356)
Total CET 1/Tier I capital	1,731,098	1,593,462	1,731,101	1,593,465
Tier II capital				
Collective impairment on financing *	40,340	42,611	40,340	42,611
Total Tier II capital	40,340	42,611	40,340	42,611
Capital base	1,771,438	1,636,073	1,771,441	1,636,076

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

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

	Group		Bank	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Computation of Total Risk-Weighted Assets ("RWA")				
Total credit RWA	3,227,208	3,408,881	3,227,208	3,408,881
Total market RWA	13,922	9,378	13,922	9,378
Total operational RWA	406,833	458,884	406,835	458,821
Total Risk-Weighted Assets	3,647,963	3,877,143	3,647,965	3,877,080

40 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.

(a) Primary Segment - By Business Segment

The Group comprises the following main business segments:

(i) Treasury and Capital Market

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

(ii) Corporate Banking

The corporate banking operations focus on business needs to corporate customers, primarily public listed and non-public listed companies as well as financial institutions and small medium sized enterprises. The products and services offered to customers include direct long and short term financing, advisory banking service, equity financing, asset-financing, Islamic securities/sukuk issuance, syndicated financing, mergers and acquisition advisory services and debt restructuring advisory services.

(iii) Retail Banking

Retail Banking provides everyday banking solutions to individual customers covering Islamic financial products and services such as property financing, personal financing, auto financing, wealth management, remittance and foreign exchange, deposits and internet banking services.

40 SEGMENT INFORMATION (Cont'd.)

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

Group 2023	Treasury & Capital Markets RM'000	Corporate Banking RM'000	Retail Banking and Others RM'000	Elimination RM'000	Total RM'000
External revenue	146,789	66,381	158,408	-	371,578
Revenue from other segments	113,879	2,344	67,141	(183,364)	-
Total Revenue	260,668	68,725	225,549	(183,364)	371,578
Segment results	40,355	22,390	103,314	-	166,059
Unallocated expenses					(77,950)
Profit before taxation					88,109
Taxation					(62,120)
Net profit for the year					25,989
Other information					
Segment assets	4,016,176	797,324	2,794,151	(4)	7,607,647
Unallocated corporate assets					56,861
Total assets					7,664,508
Segment liabilities	9,271,687	567,129	7,865,601	(4)	17,704,413
Unallocated corporate liabilities					(11,808,721)
Total liabilities					5,895,692
Other segment items					
Purchase of property and equipment	-	-	11,606	-	11,606
Purchase of intangible assets	-	-	558	-	558
Depreciation of property and equipment	-	-	3,387	-	3,387
Amortisation of intangible assets	-	-	6,781	-	6,781
Other non-cash expense expenses other than depreciation	-	(2,263)	27,299	-	25,036

(b) Secondary Segment - By Geographical Locations

Group 2023	Operating Revenue RM'000	Profit Before Taxation RM'000	Total Assets RM'000
Outside Malaysia	403	403	139,615
Malaysia	371,175	87,706	7,524,893
	371,578	88,109	7,664,508

40 SEGMENT INFORMATION (Cont'd.)

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

Group 2022	Treasury & Capital Markets RM'000	Corporate Banking RM'000	Retail Banking and Others RM'000	Elimination RM'000	Total RM'000
External revenue	141,723	76,315	146,846	-	364,884
Revenue from other segments	102,975	2,240	60,964	(166,179)	-
Total Revenue	244,698	78,555	207,810	(166,179)	364,884
Segment results	70,377	42,842	59,474	(1,905)	170,788
Unallocated expenses					(100,894)
Profit before taxation					69,894
Taxation					8,202
Net profit for the year					78,096
Other information					
Segment assets	3,243,394	1,045,057	2,728,870	(4)	7,017,317
Unallocated corporate assets					137,938
Total assets					7,155,255
Segment liabilities	7,743,530	600,932	6,620,644	(4)	14,965,102
Unallocated corporate liabilities					(9,494,373)
Total liabilities					5,470,729
Other segment items					
Purchase of property and equipment	-	-	5,958	-	5,958
Purchase of intangible assets	-	-	114	-	114
Depreciation of property and equipment	-	-	2,620	-	2,620
Amortisation of intangible assets	-	-	6,184	-	6,184
Other non-cash expenses other than depreciation	-	6,527	(37,904)	-	(31,377)

(b) Secondary Segment - By Geographical Locations

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

41 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instrument measured at fair value

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

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

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

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

Group and Bank	Level 2 RM'000	Level 3 RM'000	Total RM'000
2023			
Financial assets			
Debt instruments measured at FVOCI	3,828,608	-	3,828,608
Hedging financial instruments	6,835	-	6,835
Total	3,835,443	-	3,835,443
Financial liabilities			
Hedging financial instruments	691	-	691
	691	-	691
Group and Bank			
2022			
Financial assets			
Debt instruments measured at FVOCI	3,090,185	-	3,090,185
Hedging financial instruments	7,400	-	7,400
Total	3,097,585	-	3,097,585
Financial liabilities			
Hedging financial instruments	2,441	-	2,441
	2,441	-	2,441

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

Financial instrument not measured at fair value

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

The on-balance sheet financial assets and financial liabilities of the Group and of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all the Group and of the Bank assets and liabilities with the exception of investments in subsidiaries, interest in associates and joint ventures, property, plant and equipment and provision for current and deferred taxation.

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

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

Group	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,395,148	3,395,148	3,306,309
Financial Liabilities				
Deposits from customers	3,373,576	-	3,373,576	3,373,577

Group	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,597,345	3,597,345	3,459,219
Financial Liabilities				
Deposits from customers	3,521,808	-	3,521,808	3,521,810

Bank	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,395,148	3,395,148	3,306,309
Financial Liabilities				
Deposits from customers	3,373,580	-	3,373,580	3,373,581

Bank	**Level 2**	**Level 3**	**Total Fair Value**	**Carrying Value**
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Financing, advances and other receivables	-	3,597,345	3,597,345	3,459,219
Financial Liabilities				
Deposits from customers	3,521,812	-	3,521,812	3,521,814

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

Determination of fair value and fair value hierarchy

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

(a) Cash and short-term funds

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

(b) Deposits and placements with banks and other financial institutions

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

(c) Hedging financial instruments

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

(d) Financing, advances and other receivables

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

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	Discounted cash flow method	Profit rate	4.0% - 6.0%

(e) Deposits from customers, deposits and placement of banks and other financial institutions

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

42 SIGNIFICANT AND SUBSEQUENT EVENTS

(a) Significant events during the year

Upon undertaking a strategic review exercise to ascertain the best strategic alternative for Kuwait Finance House (Malaysia) Berhad, Kuwait Finance House K.S.C.P. ("KFHK") has on 18 July 2023 formally notified Bank Negara Malaysia ("BNM") of its intention to exit the Malaysia market.

On 2 November 2023, the Board of Directors of Kuwait Finance House (Malaysia) Berhad approved the governance structure and preliminary wind down approach and strategy in relation to the plan arising from the outcome of the strategic review made by KFHK.

(b) Subsequent events after the reporting date

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

43 HOLDING COMPANY

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

44 LITIGATION

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

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

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

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

Further briefing and adjudication of the motion to vacate the restraining notice and the attachment motion is pending.The case is currently at the preliminary stage. The directors are of the opinion that the claim can be successfully dismissed.

45 FINANCIAL RISK MANAGEMENT

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

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

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

(a) Credit Risk

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

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

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

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

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

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

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Note 45(a)(i)(iii) describe how the Bank determines whether a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Note 45(a)(i)(iv) describe how the Bank defines credit-impaired and default.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Note 45(a)(i)(v) describe the inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with MFRS 9 is that it should consider forward-looking information. Note 45(a)(i)(vi) describe how the Bank has incorporated this in its ECL models.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis under Note 45(a)(i)(vii).

(i) Credit risk grades

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

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

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

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Credit rating mapping table

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

For retail banking, KFHMB has in place a series of internal scorecards, which will assess the credit worthiness of the individual customers prior to approval. The main attributes of the credit assessment within the scorecard is mostly based on statistically derived default patterns within the customer profile and also credit bureau data. The performance of the scorecard is being reviewed to ensure that it continues to effectively discriminate between good and potentially bad customers.

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

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

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

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

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

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Criteria under Stage 2 highlighted as follows:

		Retail	Non-Retail
	Primary indicators		
1	Rating deterioration since inception	• Rating detorioration will not be applicable to the retail portfolio	• 2 Notches down to 5- or Ba3 and worse
	Secondary indicators		
2	Credit Review / Early Warning indicators ("EWI")	• Early warning indicators • Credit Review / Credit Committee decision	• Early warning indicators • Credit Review / Credit Committee decision
3	Restructure and reschedule	• Restructure and reschedule customers which has DPD < 90days	• Restructure and reschedule customers as approved by Credit Committee
	Backstop		
4	30 Days Past Due ("DPD")	• Backstop of 30 DPD will be applied to all facilities	• Backstop of 30 DPD will be applied to all facilities
5	Rating / Probability of Default ("PD") cut-off	• Rating cut-off will not be applicable to the retail portfolio	• Internal rating cut-off of 7-

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

Criteria under Stage 3 highlighted as follows:

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

Qualitative criteria:

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

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

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

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

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

(iv) Definition of default and credit-impaired assets

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

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

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

- the customer is past due 90 days or more on any material credit obligation to the Bank.

- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

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

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

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

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

	2022	2023
Gross Domestic Product ("GDP") (RM Billion)	1,549.40	1,614.28
Kuala Lumpur Stock Exchange Index ("KLSE") (Index)	1,357.42	1,449.91

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

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

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

The following exposures are assessed individually:

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

Non-Retail
- Stage 3 facilities

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

(ii) Maximum exposure to credit risk without taking account of any collateral

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Group and Bank 2023	**Total maximum exposure RM'000**
Cash and short-term funds	180,692
Placements of investment accounts with Bank Negara Malaysia	2,471
Securities FVOCI	3,828,608
Financing, advances and other receivables	3,306,583
Other assets	81,315
Statutory deposits with Bank Negara Malaysia	104,497
Hedging financial instruments	6,835
Total On-Balance Sheet	7,511,001
Financial guarantees	893
Contingent liabilities	93,053
Commitments	114,627
Total Off-Balance Sheet	208,573
Total On and Off-Balance Sheet	7,719,574
Group and Bank	
2022	
Cash and short-term funds	145,073
Placements of investment accounts with Bank Negara Malaysia	3,696
Securities FVOCI	3,090,185
Financing, advances and other receivables	3,460,110
Other assets	87,167
Statutory deposits with Bank Negara Malaysia	92,371
Hedging financial instruments	7,400
Total On-Balance Sheet	6,886,002
Financial guarantees	20,352
Contingent liabilities	98,129
Commitments	181,277
Total Off-Balance Sheet	299,758
Total On and Off-Balance Sheet	7,185,760

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By geographical segment:

	Geographical region				
Group and Bank	**Malaysia RM'000**	**Middle East RM'000**	**Others RM'000**	**Stage 1 & 2 impairment RM'000**	**Total maximum exposure RM'000**
2023					
Cash and short-term funds	44,849	2,982	134,464	(1,603)	180,692
Placements of investment accounts with Bank Negara Malaysia	2,493	-	-	(22)	2,471
Securities FVOCI	3,828,608	-	-	-	3,828,608
Financing, advances and other receivables	3,520,805	1,160	1,009	(216,391)	3,306,583
Other assets	81,315	-	-	-	81,315
Statutory deposits with Bank Negara Malaysia	104,497	-	-	-	104,497
Hedging financial instruments	6,835	-	-	-	6,835
Total On-Balance Sheet	7,589,402	4,142	135,473	(218,016)	7,511,001
Financial guarantees	895	-	-	(2)	893
Contingent liabilities	93,294	-	-	(241)	93,053
Commitments	114,642	-	16	(31)	114,627
Total Off-Balance Sheet	208,831	-	16	(274)	208,573
Total On and Off-Balance Sheet	7,798,233	4,142	135,489	(218,290)	7,719,574

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By geographical segment: (Cont'd.)

Group and Bank 2022	Geographical region Malaysia RM'000	Middle East RM'000	Others RM'000	Stage 1 & 2 impairment RM'000	Total maximum exposure
Cash and short-term funds	13,044	4,426	129,102	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	(38)	3,696
Securities FVOCI	3,090,185	-	-	-	3,090,185
Financing, advances and other receivables	3,716,874	1,285	1,226	(259,275)	3,460,110
Other assets	87,167	-	-	-	87,167
Statutory deposits with Bank Negara Malaysia	92,371	-	-	-	92,371
Hedging financial instruments	7,400	-	-	-	7,400
Total On-Balance Sheet	7,010,775	5,711	130,328	(260,812)	6,886,002
Financial guarantees	20,617	-	-	(265)	20,352
Contingent liabilities	98,660	-	-	(531)	98,129
Commitments	181,356	-	16	(95)	181,277
Total Off-Balance Sheet	300,633	-	16	(891)	299,758
Total On and Off-Balance Sheet	7,311,408	5,711	130,344	(261,703)	7,185,760

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By industry sector:

	Industry							
Group and Bank	**Trading and manufacturing RM'000**	**Banks and financial institutions RM'000**	**Construction and real estate RM'000**	**Transportation, storage and communication RM'000**	**Government RM'000**	**Others RM'000**	**Stage 1 & 2 Impairment RM'000**	**Total gross maximum exposure RM'000**
2023								
Cash and short-term funds	-	182,295	-	-	-	-	(1,603)	180,692
Placements of investment accounts with Bank Negara Malaysia	-	2,493	-	-	-	-	(22)	2,471
Securities FVOCI	-	1,272,178	601,173	400,860	604,959	949,438	-	3,828,608
Financing, advances and other receivables	314,267	12,632	476,118	57,470	-	2,662,487	(216,391)	3,306,583
Other assets	-	-	-	-	-	81,315	-	81,315
Statutory deposits with Bank Negara Malaysia	-	104,497	-	-	-	-	-	104,497
Hedging financial instruments	-	6,835	-	-	-	-	-	6,835
Total On-Balance Sheet	314,267	1,580,930	1,077,291	458,330	604,959	3,693,240	(218,016)	7,511,001
Financial guarantees	295	-	600	-	-	-	(2)	893
Contingent liabilities	442	-	8,708	2,870	-	81,274	(241)	93,053
Commitments	50,866	-	34,015	210	-	29,567	(31)	114,627
Total Off-Balance Sheet	51,603	-	43,323	3,080	-	110,841	(274)	208,573
Total On and Off-Balance Sheet	365,870	1,580,930	1,120,614	461,410	604,959	3,804,081	(218,290)	7,719,574

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By industry sector: (Cont'd.)

	Industry							
Group and Bank	**Trading and manufacturing RM'000**	**Banks and financial institutions RM'000**	**Construction and real estate RM'000**	**Transportation, storage and communication RM'000**	**Government RM'000**	**Others RM'000**	**Stage 1 & 2 Impairment RM'000**	**Total gross maximum exposure RM'000**
2022								
Cash and short-term funds	-	146,572	-	-	-	-	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	-	3,734	-	-	-	-	(38)	3,696
Securities FVOCI	-	819,220	716,064	420,818	530,396	603,687	-	3,090,185
Financing, advances and other receivables	415,730	17,378	544,767	104,734	-	2,636,776	(259,275)	3,460,110
Other assets	-	-	-	-	-	87,167	-	87,167
Statutory deposits with Bank Negara Malaysia	-	92,371	-	-	-	-	-	92,371
Hedging financial instruments	-	7,400	-	-	-	-	-	7,400
Total On-Balance Sheet	415,730	1,086,675	1,260,831	525,552	530,396	3,327,630	(260,812)	6,886,002
Financial guarantees	20,017	-	600	-	-	-	(265)	20,352
Contingent liabilities	271	-	17,415	2,870	-	78,104	(531)	98,129
Commitments	77,687	-	54,026	210	-	49,449	(95)	181,277
Total Off-Balance Sheet	97,975	-	72,041	3,080	-	127,553	(891)	299,758
Total On and Off-Balance Sheet	513,705	1,086,675	1,332,872	528,632	530,396	3,455,183	(261,703)	7,185,760

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By residual maturity:

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
Group and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2023							
Cash and short-term funds	3,440	-	-	-	178,855	(1,603)	180,692
Placements of investment accounts with Bank Negara Malaysia	2,493	-	-	-	-	(22)	2,471
Securities FVOCI	212,651	192,312	891,055	2,532,590	-	-	3,828,608
Financing, advances and other receivables	705,910	195,057	348,471	2,273,536	-	(216,391)	3,306,583
Other assets	-	-	-	-	81,315	-	81,315
Statutory deposits with Bank Negara Malaysia	-	-	-	-	104,497	-	104,497
Hedging financial instruments	5,634	1,201	-	-		-	6,835
Total On-Balance Sheet	930,128	388,570	1,239,526	4,806,126	364,667	(218,016)	7,511,001
Financial guarantees	3	-	892	-	-	(2)	893
Contingent liabilities	592	81,314	11,388	-	-	(241)	93,053
Commitments	83,092	605	2,293	28,668	-	(31)	114,627
Total Off-Balance Sheet	83,687	81,919	14,573	28,668	-	(274)	208,573
Total On and Off-Balance Sheet	1,013,815	470,489	1,254,099	4,834,794	364,667	(218,290)	7,719,574

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
Group and Bank	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2022							
Cash and short-term funds	146,572	-	-	-	-	(1,499)	145,073
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	-	-	(38)	3,696
Securities FVOCI	192,879	193,656	764,054	1,939,596	-	-	3,090,185
Financing, advances and other receivables	1,033,846	25,618	381,177	2,278,744	-	(259,275)	3,460,110
Other assets	-	-	-	-	87,167	-	87,167
Statutory deposits with Bank Negara Malaysia	-	-	-	-	92,371	-	92,371
Hedging financial instruments	-	-	7,400	-	-	-	7,400
Total On-Balance Sheet	1,377,031	219,274	1,152,631	4,218,340	179,538	(260,812)	6,886,002
Financial guarantees	2	-	20,615	-	-	(265)	20,352
Contingent liabilities	270	78,254	20,136	-	-	(531)	98,129
Commitments	114,472	19,500	3,928	43,472	-	(95)	181,277
Total Off-Balance Sheet	114,744	97,754	44,679	43,472	-	(891)	299,758
Total On and Off-Balance Sheet	1,491,775	317,028	1,197,310	4,261,812	179,538	(261,703)	7,185,760

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

(iii) Amounts arising from ECL

Overlays and adjustments for expected credit loss

As the current MFRS 9 models are not expected to generate levels of expected credit loss ("ECL") with sufficient reliability in view of the emerging risks from current economic environment and the remaining effect of COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year ended 31 December 2023.

These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults.

The overlays and post-model adjustments involved significant level of judgement and reflect the management's views of possible severities of the macroeconomic uncertainty in the forward looking assessment for ECL estimation purposes.

Write-off policy

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

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 December 2023 was RM50,510,857 (2022 : RM8,404,444). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

(iv) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represents gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts represent the amounts committed or guaranteed, respectively.

Explanation of the terms : 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.3(b)(v).

Group and Bank	2023			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash & Bank Balances				**182,295**
High Grade	182,295	-	-	182,295
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(1,603)	-	-	(1,603)
Carrying amount	**180,692**	**-**	**-**	**180,692**
Deposit and placement with banks				**2,493**
High Grade	2,493	-	-	2,493
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(22)	-	-	(22)
Carrying amount	**2,471**	**-**	**-**	**2,471**

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Cash & Bank Balances				**146,572**
High Grade	146,572	-	-	146,572
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(1,499)	-	-	(1,499)
Carrying amount	**145,073**	-	-	**145,073**
Deposit and placement with banks				**3,734**
High Grade	3,734	-	-	3,734
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(38)	-	-	(38)
Carrying amount	**3,696**	**-**	**-**	**3,696**

Group and Bank	2023			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				**3,828,608**
High Grade	3,828,608	-	-	3,828,608
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(5,629)	-	-	(5,629)
Carrying amount	**3,828,608**	**-**	**-**	**3,828,608**

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				**3,090,185**
High Grade	3,090,185	-	-	3,090,185
Standard Grade	-	-	-	-
Impaired	-	-	-	-
Loss allowance	(9,357)	-	-	(9,357)
Carrying amount	**3,090,185**	**-**	**-**	**3,090,185**

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Group and Bank	2023			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Financing (Gross)				**3,620,995**
High Grade	163,470	-	-	163,470
Standard Grade	546,688	45,840	-	592,528
Unrated	2,480,792	158,727	50,400	2,689,919
Impaired	-	-	175,078	175,078
Loss allowance	(147,063)	(69,328)	(98,021)	(314,412)
Carrying amount	**3,043,887**	**135,239**	**127,457**	**3,306,583**

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Financing (Gross)				**3,841,356**
High Grade	457,244	-	-	457,244
Standard Grade	351,518	174,895	-	526,413
Unrated	2,478,406	115,660	46,033	2,640,099
Impaired	-	-	217,600	217,600
Loss allowance	(147,965)	(111,310)	(121,971)	(381,246)
Carrying amount	**3,139,203**	**179,245**	**141,662**	**3,460,110**

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Group and Bank	2023			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments				**114,658**
High Grade	18,308	-	-	18,308
Standard Grade	65,060	-	-	65,060
Unrated	29,568	1,722	-	31,290
Impaired	-	-	-	-
Loss allowance	(31)	* -	-	(31)
Carrying amount	**112,905**	**1,722**	**-**	**114,627**
Trade Facilities (Financial Guarantee & Letter of Credit)				**94,189**
High Grade	93,747	-	-	93,747
Standard Grade	442	-	-	442
Impaired	-	-	-	-
Loss allowance	(243)	-	-	(243)
Carrying amount	**93,946**	**-**	**-**	**93,946**

* Denotes amount below RM1,000.

Group and Bank	2022			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments				**181,371**
High Grade	133,268	-	-	133,268
Standard Grade	3,545	-	-	3,545
Unrated	44,558	-	-	44,558
Impaired	-	-	-	-
Loss allowance	(95)	-	-	(95)
Carrying amount	**181,276**	**-**	**-**	**181,276**
Trade Facilities (Financial Guarantee & Letter of Credit)				**119,277**
High Grade	118,817	-	-	118,817
Standard Grade	460	-	-	460
Impaired	-	-	-	-
Loss allowance	(796)	-	-	(796)
Carrying amount	**118,481**	**-**	**-**	**118,481**

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

Credit quality per class of financial assets

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

Group and Bank 2023	**Neither past due nor impaired rated RM'000**	**Neither past due nor impaired unrated RM'000**	**Past due but not impaired RM'000**	**Restructured & rescheduled RM'000**	**Impaired RM'000**	**Total RM'000**
Cash and short-term funds	182,295	-	-	-	-	182,295
Placements of investment accounts with Bank Negara Malaysia	2,493	-	-	-	-	2,493
Securities FVOCI	3,828,608	-	-	-	-	3,828,608
Financing, advances and other receivables	766,321	2,310,832	253,717	64,647	225,478	3,620,995
Other assets	-	81,315	-	-	-	81,315
Statutory deposits with Bank Negara Malaysia	104,497	-	-	-	-	104,497
Hedging financial instruments	6,835	-	-	-	-	6,835
Total On-Balance Sheet	4,891,049	2,392,147	253,717	64,647	225,478	7,827,038
Financial guarantees	895	-	-	-	-	895
Contingent liabilities	93,294	-	-	-	-	93,294
Commitments	112,936	-	1,722	-	-	114,658
Total Off-Balance Sheet	207,125	-	1,722	-	-	208,847
Total On and Off-Balance Sheet	5,098,174	2,392,147	255,439	64,647	225,478	8,035,885

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

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

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

Group and Bank 2022	**Neither past due nor impaired rated RM'000**	**Neither past due nor impaired unrated RM'000**	**Past due but not impaired RM'000**	**Restructured & rescheduled RM'000**	**Impaired RM'000**	**Total RM'000**
Cash and short-term funds	146,572	-	-	-	-	146,572
Placements of investment accounts with Bank Negara Malaysia	3,734	-	-	-	-	3,734
Securities FVOCI	3,090,185	-	-	-	-	3,090,185
Financing, advances and other receivables	916,717	2,410,374	115,134	135,499	263,632	3,841,356
Other assets	87,167	-	-	-	-	87,167
Statutory deposits with Bank Negara Malaysia	92,371	-	-	-	-	92,371
Hedging financial instruments	7,400	-	-	-	-	7,400
Total On-Balance Sheet	4,344,146	2,410,374	115,134	135,499	263,632	7,268,785
Financial guarantees	20,617	-	-	-	-	20,617
Contingent liabilities	98,660	-	-	-	-	98,660
Commitments	181,372	-	-	-	-	181,372
Total Off-Balance Sheet	300,649	-	-	-	-	300,649
Total On and Off-Balance Sheet	4,644,795	2,410,374	115,134	135,499	263,632	7,569,434

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

(v) Credit risk exposure based on the Group and the Bank's internal credit risk rating

Group and Bank
2023
Securities

Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B+ to C**			
S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
RAM	**AAA to AA3**	**A to A3**	**BBB to BB**	**B to D**		**Government -**	
MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**	**guaranteed**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group and Bank							
Securities FVOCI	1,076,877	-	-	-	-	2,751,731	3,828,608

Group and Bank
2022
Securities

Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B+ to C**			
S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**			
RAM	**AAA to AA3**	**A to A3**	**BBB to BB**	**B to D**		**Government -**	
MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**	**guaranteed**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Group and Bank							
Securities FVOCI	724,364	-	-	-	-	2,365,821	3,090,185

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

(i) Impaired and past due financing by days past due

Group and Bank 2023	**Less than 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**Total RM'000**
Financing and advances to customers				
Retail & Consumer financing	173,545	56,100	24,072	253,717
	173,545	56,100	24,072	253,717

Group and Bank 2022	**Less than 30 days RM'000**	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**Total RM'000**
Financing and advances to customers				
Retail & Consumer financing	206,053	69,343	34,382	309,778
	206,053	69,343	34,382	309,778

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

(vii) *Collateral held and other credit enhancements*

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

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

- Margin agreement for derivatives, for which the Group and the Bank has also entered into master netting agreements;

- Charges over business assets such as premises, inventory and accounts receivable; and

- Charges over financial instruments such as debt securities and equities.

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

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

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

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

Financing and advances	**Percentage of exposure that is subjected to collateral requirements**		
RM'000	**2023**	**2022**	**Principle type of collateral**
Financing and advances	3,306,309	3,459,219	
Corporate	67.36%	59.21%	Real Estate, Securities, Cash & Sovereign Guarantees
Retail	43.54%	44.43%	Real Estate & Cash

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

Mortgage portfolio – LTV distribution	Credit-impaired (Gross carrying amount) (RM'000)	
	2023	2022
LTV ratio		
< 50%	7,445	-
51–70%	5,077	4,246
71–90%	14,655	10,241
91–100%	6,639	6,418
>100%	-	-
Total	33,816	20,905

Collateral

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

The main types of collateral accepted include real estate, securities, cash and sovereign guarantees. The Group and the Bank also obtains guarantees from parent companies for finance facilities extended to their subsidiaries. In line with the Group and 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 Group and the Bank is at 75.3% as at 31 December 2023 (2022: 72.0%). The financial effect of collateral held for other financial assets is not significant.

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

In order to cater for the inherently higher credit risks associated to dealings in Musyarakah and Mudharabah contracts, the Group and the Bank has been maintaining an internal credit policy to cover the Group and 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 Group and the Bank has introduced greater control where all new proposals are tabled to Management Committee for approval and subsequently to Board Credit Committee for concurrence. This further augments the Board’s credit monitoring oversight role, specifically on the relatively higher risk profit-sharing portfolio.

45 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 Group and the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Group and the Bank has adopted the BNM’s liquidity standard on Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). While the LCR encourages the short-term resilience (30 days) of a banking institution’s liquidity risk profile, the NSFR aims to reduce funding risk over a time horizon of up to one year. LCR aims to ensure that banking institutions hold sufficient high-quality liquid assets (HQLA) to withstand an acute liquidity stress scenario over a 30-day horizon where a stable funding profile reduces the likelihood of a banking institution’s liquidity position being severely eroded by material disruptions to its regular sources of funding.

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

Contractual maturity of total assets and liabilities

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities as at 31 December 2023 and 31 December 2022. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2023 Group	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	3,440	-	-	-	177,252	180,692
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	2,471
Debt instruments at FVOCI	212,651	192,312	891,055	2,532,590	-	3,828,608
Financing, advances and receivables	608,746	183,263	339,837	2,174,463	-	3,306,309
Hedging financial instrument assets	5,634	1,201	-	-	-	6,835
Other assets	-	-	-	-	339,593	339,593
Total Assets	832,942	376,776	1,230,892	4,707,053	516,845	7,664,508
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,485,017	328,789	10	-	559,761	3,373,577
Deposits and placements of banks and other financial institutions	2,342,841	86,304	-	-	-	2,429,145
Investment accounts of customers	-	-	-	-	2,493	2,493
Hedging financial instrument liabilities	481	210	-	-	-	691
Lease liabilities	6,590	893	1,155	-	-	8,638
Other liabilities	-	-	-	-	81,148	81,148
Total Liabilities	4,834,929	416,196	1,165	-	643,402	5,895,692
Shareholder's equity	-	-	-	-	1,768,816	1,768,816
Total Liabilities and Shareholder's equity	4,834,929	416,196	1,165	-	2,412,218	7,664,508
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	83,687	81,919	14,573	28,668	-	208,847
Net maturity mismatch	(4,085,674)	(121,339)	1,215,154	4,678,385	(1,895,373)	(208,847)

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2022 Group	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,004	-	-	-	143,069	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	3,696
Debt instruments at FVOCI	192,879	193,656	764,054	1,939,596	-	3,090,185
Financing, advances and receivables	855,111	5,424	486,549	2,112,135	-	3,459,219
Equity instruments at FVOCI	-	-	-	-	-	-
Hedging financial instrument assets	5,467	1,933	-	-	-	7,400
Other assets	-	-	-	-	449,682	449,682
Total Assets	1,059,157	201,013	1,250,603	4,051,731	592,751	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,549,924	404,865	24	-	566,997	3,521,810
Deposits and placements of banks and other financial institutions	1,740,735	46,165	-	-	-	1,786,900
Investment accounts of customers	-	-	-	-	3,734	3,734
Hedging financial instrument liabilities	1,418	1,023	-	-	-	2,441
Lease liabilities	7,889	6,898	43,397	-	-	58,184
Other liabilities	-	-	-	-	97,660	97,660
Total Liabilities	4,299,966	458,951	43,421	-	668,391	5,470,729
Shareholder's equity	-	-	-	-	1,684,526	1,684,526
Total Liabilities and Shareholder's equity	4,299,966	458,951	43,421	-	2,352,917	7,155,255
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	124,745	108,812	23,581	43,511	-	300,649
Net maturity mismatch	(3,365,554)	(366,750)	1,183,601	4,008,220	(1,760,166)	(300,649)

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2023 Bank	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	3,440	-	-	-	177,252	180,692
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	2,471
Debt instruments at FVOCI	212,651	192,312	891,055	2,532,590	-	3,828,608
Financing, advances and receivables	608,746	183,263	339,837	2,174,463	-	3,306,309
Hedging financial instrument assets	5,634	1,201	-	-	-	6,835
Other assets	-	-	-	-	339,593	339,593
Total Assets	832,942	376,776	1,230,892	4,707,053	516,845	7,664,508
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,485,017	328,789	10	-	559,765	3,373,581
Deposits and placements of banks and other financial institutions	2,342,841	86,304	-	-	-	2,429,145
Investment accounts of customers	-	-	-	-	2,493	2,493
Hedging financial instrument liabilities	481	210	-	-	-	691
Lease liabilities	6,590	893	1,155	-	-	8,638
Other liabilities	-	-	-	-	81,141	81,141
Total Liabilities	4,834,929	416,196	1,165	-	643,399	5,895,689
Shareholder's equity	-	-	-	-	1,768,819	1,768,819
Total Liabilities and Shareholder's equity	4,834,929	416,196	1,165	-	2,412,218	7,664,508
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	83,687	81,919	14,573	28,668	-	208,847
Net maturity mismatch	(4,085,674)	(121,339)	1,215,154	4,678,385	(1,895,373)	(208,847)

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2022 Bank	Up to 6 months RM'000	>6 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity date RM'000	Total RM'000
ASSETS						
Cash and short-term funds	2,004	-	-	-	143,069	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	3,696
Debt instruments at FVOCI	192,879	193,656	764,054	1,939,596	-	3,090,185
Financing, advances and receivables	855,111	5,424	486,549	2,112,135	-	3,459,219
Hedging financial instrument assets	5,467	1,933	-	-	-	7,400
Other assets	-	-	-	-	449,682	449,682
Total Assets	1,059,157	201,013	1,250,603	4,051,731	592,751	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,549,928	404,865	24	-	566,997	3,521,814
Deposits and placements of banks and other financial institutions	1,740,735	46,165	-	-	-	1,786,900
Investment accounts of customers	-	-	-	-	3,734	3,734
Hedging financial instrument liabilities	1,418	1,023	-	-	-	2,441
Lease liabilities	7,889	6,898	43,397	-	-	58,184
Other liabilities	-	-	-	-	97,653	97,653
Total Liabilities	4,299,970	458,951	43,421	-	668,384	5,470,726
Shareholder's equity	-	-	-	-	1,684,529	1,684,529
Total Liabilities and Shareholder's equity	4,299,970	458,951	43,421	-	2,352,913	7,155,255
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	124,745	108,812	23,581	43,511	-	300,649
Net maturity mismatch	(3,365,558)	(366,750)	1,183,601	4,008,220	(1,760,162)	(300,649)

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

Group	Up to 6 months RM'000	> 6 -12 months RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Not on demand & no maturity RM'000	Total RM'000
2023						
Deposits from customers	2,526,125	336,156	11	-	559,761	3,422,053
Deposit and placements of banks and other financial institutions	2,387,170	88,765	-	-	-	2,475,935
Investment accounts of customers	-	-	-	-	2,493	2,493
Lease liabilities	6,664	912	1,203	-	-	8,779
Other liabilities	-	-	-	-	81,148	81,148
Total	4,919,959	425,833	1,214	-	643,402	5,990,408
2022						
Deposits from customers	2,585,628	413,398	26	-	566,997	3,566,049
Deposit and placements of banks and other financial institutions	1,768,624	47,279	-	-	-	1,815,903
Investment accounts of customers	-	-	-	-	3,734	3,734
Lease liabilities	7,938	7,028	46,298	-	-	61,264
Other liabilities	-	-	-	-	97,660	97,660
Total	4,362,190	467,705	46,324	-	668,391	5,544,610

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

Bank	**Up to 6 months RM'000**	**> 6 -12 months RM'000**	**> 1 – 5 years RM'000**	**Over 5 years RM'000**	**Not on demand & no maturity RM'000**	**Total RM'000**
2023						
Deposits from customers	2,526,125	336,156	11	-	559,765	3,422,057
Deposit and placements of banks and other financial institutions	2,387,170	88,765	-	-	-	2,475,935
Investment accounts of customers	-	-	-	-	2,493	2,493
Lease liabilities	6,664	912	1,203	-	-	8,779
Other liabilities	-	-	-	-	81,141	81,141
Total	4,919,959	425,833	1,214	-	643,399	5,990,405
2022						
Deposits from customers	2,585,632	413,398	26	-	566,997	3,566,053
Deposit and placements of banks and other financial institutions	1,768,624	47,279	-	-	-	1,815,903
Investment accounts of customers	-	-	-	-	3,734	3,734
Lease liabilities	7,938	7,028	46,298	-	-	61,264
Other liabilities	-	-	-	-	97,653	97,653
Total	4,362,194	467,705	46,324	-	668,384	5,544,607

45 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 Group and 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 the Group and the Bank.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK

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

i. Traded Market Risk

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

ii. Non-Traded Market Risk

Rate of Return in the Banking Book

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

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

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2023	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	3,440	-	-	-	-	177,252	-	180,692	-
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	-	-	2,471	3.03
Securities FVOCI	-	212,651	192,312	891,055	2,532,590	-	-	3,828,608	4.38
Financing, advances and receivables	1,371,472	368,105	260,991	80,081	1,098,203	127,457	-	3,306,309	5.55
Hedging financial instrument assets	-	4,151	2,684	-	-	-	-	6,835	-
Other assets	-	-	-	-	-	339,593	-	339,593	-
TOTAL ASSETS	1,377,383	584,907	455,987	971,136	3,630,793	644,302	-	7,664,508	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (cont'd.)

Group 2023	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,059,218	1,048,850	850,628	294,180	-	120,701	-	3,373,577	3.28
Deposits and placements of banks and other financial institutions	1,070,489	1,007,607	351,049	-	-	-	-	2,429,145	3.82
Investment accounts of customers	2,493	-	-	-	-	-	-	2,493	-
Hedging financial instrument liabilities	-	481	210	-	-	-	-	691	-
Other liabilities	-	-	-	-	-	89,786	-	89,786	-
Total Liabilities	2,132,200	2,056,938	1,201,887	294,180	-	210,487	-	5,895,692	
Shareholder's equity	-	-	-	-	-	1,768,816	-	1,768,816	
Total Liabilities and Shareholder's equity	2,132,200	2,056,938	1,201,887	294,180	-	1,979,303	-	7,664,508	
On-balance sheet profit sensitivity gap	(754,817)	(1,472,031)	(745,900)	676,956	3,630,793	(1,335,001)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(754,817)	(1,472,031)	(745,900)	676,956	3,630,793	(1,335,001)	-	-	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	2,004	-	-	-	-	143,069	-	145,073	-
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	-	3,696	2.78
Securities FVOCI	-	187,853	198,682	764,054	1,939,596	-	-	3,090,185	4.30
Financing, advances and receivables	1,386,102	583,611	5,731	310,281	1,047,841	125,653	-	3,459,219	5.12
Hedging financial instrument assets	-	2,442	4,958	-	-	-	-	7,400	-
Other assets	-	-	-	-	-	449,682	-	449,682	-
TOTAL ASSETS	1,391,802	773,906	209,371	1,074,335	2,987,437	718,404	-	7,155,255	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Group 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**- Over 5 - RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,169,682	1,166,829	768,550	305,125	-	111,624	-	3,521,810	2.82
Deposits and placements of banks and other financial institutions	1,366,149	314,179	106,572	-	-	-	-	1,786,900	3.23
Investment accounts of customers	3,734	-	-	-	-	-	-	3,734	-
Hedging financial instrument liabilities	985	93	1,363	-	-	-	-	2,441	-
Other liabilities	-	-	-	-	-	155,844	-	155,844	-
Total Liabilities	2,540,550	1,481,101	876,485	305,125	-	267,468	-	5,470,729	
Shareholder's equity	-	-	-	-	-	1,684,526	-	1,684,526	
Total Liabilities and Shareholder's equity	2,540,550	1,481,101	876,485	305,125	-	1,951,994	-	7,155,255	
On-balance sheet profit sensitivity gap	(1,148,748)	(707,195)	(667,114)	769,210	2,987,437	(1,233,590)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,148,748)	(707,195)	(667,114)	769,210	2,987,437	(1,233,590)	-	-	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank 2023	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	3,440	-	-	-	-	177,252	-	180,692	-
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	-	-	2,471	3.03
Securities FVOCI	-	212,651	192,312	891,055	2,532,590	-	-	3,828,608	4.38
Financing, advances and receivables	1,371,472	368,105	260,991	80,081	1,098,203	127,457	-	3,306,309	5.55
Hedging financial instrument assets	-	4,151	2,684	-	-	-	-	6,835	-
Other assets	-	-	-	-	-	339,593	-	339,593	-
TOTAL ASSETS	1,377,383	584,907	455,987	971,136	3,630,793	644,302	-	7,664,508	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

Bank 2023	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,059,219	1,048,850	850,628	294,183	-	120,701	-	3,373,581	3.28
Deposits and placements of banks and other financial institutions	1,070,489	1,007,607	351,049	-	-	-	-	2,429,145	3.82
Investment accounts of customers	2,493	-	-	-	-	-	-	2,493	-
Hedging financial instrument liabilities	-	481	210	-	-	-	-	691	-
Other liabilities	-	-	-	-	-	89,779	-	89,779	-
Total Liabilities	2,132,201	2,056,938	1,201,887	294,183	-	210,480	-	5,895,689	
Shareholder's equity	-	-	-	-	-	1,768,819	-	1,768,819	
Total Liabilities and Shareholder's equity	2,132,201	2,056,938	1,201,887	294,183	-	1,979,299	-	7,664,508	
On-balance sheet profit sensitivity gap	(754,818)	(1,472,031)	(745,900)	676,953	3,630,793	(1,334,997)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(754,818)	(1,472,031)	(745,900)	676,953	3,630,793	(1,334,997)	-	-	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book								
Bank 2022	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**>1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	2,004	-	-	-	-	143,069	-	145,073	-
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	-	3,696	2.78
Securities FVOCI	-	187,853	198,682	764,054	1,939,596	-	-	3,090,185	4.30
Financing, advances and receivables	1,386,102	583,611	5,731	310,281	1,047,841	125,653	-	3,459,219	5.12
Hedging financial instrument assets	-	2,442	4,958	-	-	-	-	7,400	-
Other assets	-	-	-	-	-	449,682	-	449,682	-
TOTAL ASSETS	1,391,802	773,906	209,371	1,074,335	2,987,437	718,404	-	7,155,255	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

Bank 2022	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,169,684	1,166,829	768,550	305,127	-	111,624	-	3,521,814	2.82
Deposits and placements of banks and other financial institutions	1,366,149	314,179	106,572	-	-	-	-	1,786,900	3.23
Investment accounts of customers	3,734	-	-	-	-	-	-	3,734	-
Hedging financial instrument liabilities	985	93	1,363	-	-	-	-	2,441	-
Other liabilities	-	-	-	-	-	155,837	-	155,837	-
Total Liabilities	2,540,552	1,481,101	876,485	305,127	-	267,461	-	5,470,726	
Shareholder's equity	-	-	-	-	-	1,684,529	-	1,684,529	
Total Liabilities and Shareholder's equity	2,540,552	1,481,101	876,485	305,127	-	1,951,990	-	7,155,255	
On-balance sheet profit sensitivity gap	(1,148,750)	(707,195)	(667,114)	769,208	2,987,437	(1,233,586)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,148,750)	(707,195)	(667,114)	769,208	2,987,437	(1,233,586)	-	-	

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

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

Rate of Return in the Banking Book (Cont'd.)

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

Profit Rate Risk Sensitivity Analysis

	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
2023	RM'000	RM'000	RM'000	RM'000
Group and Bank				
MYR - Ringgit Malaysia	(22,731)	22,731	(286,491)	286,491
USD - United States Dollars	(871)	871	339	(339)
Other Currencies	(64)	64	71	(71)
Total	(23,666)	23,666	(286,081)	286,081
2022				
Group and Bank				
MYR - Ringgit Malaysia	(17,433)	17,433	(223,443)	223,443
USD - United States Dollars	(849)	849	357	(357)
Other Currencies	(120)	120	118	(118)
Total	(18,402)	18,402	(222,968)	222,968

Note:
The earnings and economic values were computed based on the standardised approach adopted by BNM.

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the Assets & Liabilities Management Committee ("ALCO") seeks to proactively change the profit rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK

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

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

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

Group **2023**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
ASSETS							
Cash and short-term funds	43,244	1,814	119,371	10,199	2,430	3,634	180,692
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	-	2,471
Securities FVOCI	3,828,608	-	-	-	-	-	3,828,608
Financing, advances and receivables	3,306,309	-	-	-	-	-	3,306,309
Other assets	223,734	-	-	-	-	122,694	346,428
Total Assets	7,404,366	1,814	119,371	10,199	2,430	126,328	7,664,508

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Group 2023 (Cont'd.)	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	2,923,288	294,003	30,786	4,630	99	120,771	3,373,577
Deposits and placements of banks and other financial institutions	2,127,521	214,837	86,787	-	-	-	2,429,145
Investment accounts of customers	2,493	-	-	-	-	-	2,493
Other liabilities	89,144	-	409	-	-	924	90,477
Total Liabilities	5,142,446	508,840	117,982	4,630	99	121,695	5,895,692
Shareholder's equity	1,768,816	-	-	-	-	-	1,768,816
Total Liabilities and Shareholder's equity	6,911,262	508,840	117,982	4,630	99	121,695	7,664,508
On-balance sheet open position	493,104	(507,026)	1,389	5,569	2,331	4,633	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	493,104	(507,026)	1,389	5,569	2,331	4,633	-

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Group 2022	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	10,061	2,437	115,634	10,874	3,640	2,427	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	3,696
Securities FVOCI	3,090,185	-	-	-	-	-	3,090,185
Financing, advances and receivables	3,459,219	-	-	-	-	-	3,459,219
Other assets	344,729	-	-	-	-	112,353	457,082
Total Assets	6,907,890	2,437	115,634	10,874	3,640	114,780	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,086,278	210,057	103,385	6,732	3,547	111,811	3,521,810
Deposits and placements of banks and other financial institutions	1,639,804	137,421	9,675	-	-	-	1,786,900
Investment accounts of customers	3,734	-	-	-	-	-	3,734
Other liabilities	157,746	140	394	5	-	-	158,285
Total Liabilities	4,887,562	347,618	113,454	6,737	3,547	111,811	5,470,729
Shareholder's equity	1,684,526	-	-	-	-	-	1,684,526
Total Liabilities and Shareholder's equity	6,572,088	347,618	113,454	6,737	3,547	111,811	7,155,255
On-balance sheet open position	335,802	(345,181)	2,180	4,137	93	2,969	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	335,802	(345,181)	2,180	4,137	93	2,969	-

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Bank **2023**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
ASSETS							
Cash and short-term funds	43,244	1,814	119,371	10,199	2,430	3,634	180,692
Deposits and placements with banks and other financial institutions	2,471	-	-	-	-	-	2,471
Securities FVOCI	3,828,608	-	-	-	-	-	3,828,608
Financing, advances and receivables	3,306,309	-	-	-	-	-	3,306,309
Other assets	223,734	-	-	-	-	122,694	346,428
Total Assets	7,404,366	1,814	119,371	10,199	2,430	126,328	7,664,508
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	2,923,292	294,003	30,786	4,630	99	120,771	3,373,581
Deposits and placements of banks and other financial institutions	2,127,521	214,837	86,787	-	-	-	2,429,145
Investment accounts of customers	2,493	-	-	-	-	-	2,493
Other liabilities	89,137	-	409	-	-	924	90,470
Total Liabilities	5,142,443	508,840	117,982	4,630	99	121,695	5,895,689
Shareholder's equity	1,768,819	-	-	-	-	-	1,768,819
Total Liabilities and Shareholder's equity	6,911,262	508,840	117,982	4,630	99	121,695	7,664,508
On-balance sheet open position	493,104	(507,026)	1,389	5,569	2,331	4,633	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	493,104	(507,026)	1,389	5,569	2,331	4,633	-

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below analyses the net foreign exchange positions of the Group and the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, and US Dollar. (Cont'd.)

Bank **2022**	**MYR** **RM'000**	**SGD** **RM'000**	**USD** **RM'000**	**EUR** **RM'000**	**KWD** **RM'000**	**Others** **RM'000**	**Total** **RM'000**
ASSETS							
Cash and short-term funds	10,061	2,437	115,634	10,874	3,640	2,427	145,073
Deposits and placements with banks and other financial institutions	3,696	-	-	-	-	-	3,696
Debt instruments at FVOCI	3,090,185	-	-	-	-	-	3,090,185
Financing, advances and receivables	3,459,219	-	-	-	-	-	3,459,219
Other assets	344,729	-	-	-	-	112,353	457,082
Total Assets	6,907,890	2,437	115,634	10,874	3,640	114,780	7,155,255
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	3,086,282	210,057	103,385	6,732	3,547	111,811	3,521,814
Deposits and placements of banks and other financial institutions	1,639,804	137,421	9,675	-	-	-	1,786,900
Investment accounts of customers	3,734	-	-	-	-	-	3,734
Other liabilities	157,739	140	394	5	-	-	158,278
Total Liabilities	4,887,559	347,618	113,454	6,737	3,547	111,811	5,470,726
Shareholder's equity	1,684,529	-	-	-	-	-	1,684,529
Total Liabilities and Shareholder's equity	6,572,088	347,618	113,454	6,737	3,547	111,811	7,155,255
On-balance sheet open position	335,802	(345,181)	2,180	4,137	93	2,969	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	335,802	(345,181)	2,180	4,137	93	2,969	-

45 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below indicates the currencies to which the Group and the Bank had significant exposure as at 31 December 2023. 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.

	2023		2022	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
Group and Bank				
Singapore Dollar (SGD)	1	(5,070)	1	(3,452)
US Dollar (USD)	1	14	1	22
Euro (EUR)	1	56	1	41
Kuwait Dinar (KWD)	1	23	1	1

46 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

There was no Shariah non-compliance incident reported in 2022. In 2023, there was 1 incident reported.

For all deposit products based on Murabahah and Tawarruq concepts, commodity trading will be performed on daily basis, including weekend, based on the total available balance. Review by Internal Audit Division in March 2023 found that commodity trading was not done during weekend for one deposit product i.e. KFH Libshara Account-i since it was introduced in February 2017.

Despite the omission of the product from the commodity trading during weekend, there was no financial impact to the customers as the monthly profit paid after the end of the month was based on the system calculation.

The incident was deliberated by the Bank's Shariah Committee (SC) in April 2023 SC and it was declared as Shariah non-compliant (SNC). In order to prevent recurrence, actions had been taken to ensure the product is included in the total available balance for commodity trading during weekend.