

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Interim Report for the Period Ended 31 March 2017

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

Note	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
ASSETS				
	1,357,689	2,341,840	1,357,689	2,341,840
Cash and short-term funds				
Deposits and placements with banks and other financial institutions	A3	238,995	171,073	267,152
Investment accounts due from designated financial institutions	A11	11,119	8,563	11,119
Hedging financial instruments	A7	4,361	5,956	4,361
Securities available-for-sale	A4	1,224,187	1,092,402	1,191,203
Securities held-to-maturity	A4	60,448	61,251	60,448
Financing, advances and other receivables	A5	6,416,639	6,494,270	6,416,639
Other assets	A6	193,711	190,369	193,232
Statutory deposits with Bank Negara Malaysia		201,100	201,000	201,100
Musarakah capital investment	A8	5,898	5,898	5,898
Investment in subsidiaries		-	-	14,357
Property and equipment		12,041	13,633	11,599
Intangible assets		10,120	10,719	9,901
Deferred tax assets		189,196	198,329	189,197
		9,925,504	10,795,303	9,933,895
				10,804,493
LIABILITIES				
Deposits from customers	A9	4,399,142	4,329,342	4,325,380
Investment accounts of customers	A11	11,119	8,563	11,119
Deposits and placements of banks and other financial institutions	A10	3,319,032	4,261,411	3,433,669
Hedging financial instruments	A7	348	1,163	348
Subordinated Murabahah Tawarruq	A13	447,671	451,070	447,672
Other liabilities	A12	77,711	96,977	77,118
		8,255,023	9,148,525	8,295,306
				9,188,046
SHAREHOLDER'S EQUITY				
Share capital	A14	1,425,272	1,425,272	1,425,272
Reserves		245,209	221,506	213,317
		1,670,481	1,646,778	1,638,589
				1,616,447
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY				
		9,925,504	10,795,303	9,933,895
				10,804,493
COMMITMENTS AND CONTINGENCIES				
	A20	563,548	895,885	563,548
				895,885
CAPITAL ADEQUACY				
Common Equity Tier I/ Tier I Capital Ratio	A21	20.726%	20.275%	19.963%
Total Capital Ratio	A21	28.202%	27.722%	27.468%
				19.505%
				26.979%
NET ASSETS PER SHARE (RM)				
		1.17	1.16	1.15
				1.13

These condensed consolidated statements of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

<u>Group</u>	Note	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Continuing operations					
Operating revenue		127,429	129,633	127,429	129,633
Income derived from investment of depositors' funds and others	A15	100,560	109,002	100,560	109,002
Income derived from investment of investment account funds	A19	70	56	70	56
Income derived from investment of shareholder's equity	A16	26,799	20,575	26,799	20,575
Total gross income		127,429	129,633	127,429	129,633
Impairment write-back on others		-	45	-	45
Impairment write-back/(loss) on securities		(9,365)	-	(9,365)	-
Impairment (charge)/write-back on financing	A17	22,429	13,316	22,429	13,316
Total distributable income		140,494	142,994	140,494	142,994
Income attributable to the depositors	A18	(63,471)	(77,284)	(63,471)	(77,284)
Profit distributed to investment account holders	A19	(42)	(34)	(42)	(34)
Total net income		76,981	65,676	76,981	65,676
Personnel expenses		(20,663)	(20,822)	(20,663)	(20,822)
Other overheads and expenditures		(21,962)	(20,391)	(21,962)	(20,391)
Finance cost		(6,978)	(3,294)	(6,978)	(3,294)
Profit before zakat and taxation		27,378	21,169	27,378	21,169
Taxation		(8,876)	(7,246)	(8,876)	(7,246)
Net profit for the period		18,503	13,923	18,503	13,923
Attributable to:					
Equity holders of the Bank		18,503	13,923	18,503	13,923
Earnings per share attributable to equity holders of the Bank					
- Basic/Diluted (sen)		1.30	0.98	1.30	0.98

These condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
Net profit for the period	18,503	13,923	18,503	13,923
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities available-for-sale:				
- Net unrealised gain/(loss) on securities available-for-sale	6,098	14,112	6,098	14,112
- Net realised (loss)/gain on securities available-for-sale reclassified to the income statement	(4)	(2)	(4)	(2)
Exchange differences on translation of foreign operations:				
Net income/(loss) taken to equity	(576)	(3,651)	(576)	(3,651)
Income tax relating to components of other comprehensive (loss)/income	(317)	(713)	(317)	(713)
Other comprehensive income/(loss) for the period, net of tax	5,201	9,746	5,201	9,746
Total comprehensive income for the period	23,703	23,669	23,703	23,669
Total comprehensive income for the period attributable to equity holders of the Bank	23,703	23,669	23,703	23,669

These condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED INCOME STATEMENTS

	Note	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank					
Continuing operations					
Operating revenue		124,842	127,935	124,842	127,935
Income derived from investment of depositors' funds and others	A15	100,621	108,918	100,621	108,918
Income derived from investment of investment account funds	A19	70	56	70	56
Income derived from investment of shareholder's equity	A16	24,151	18,961	24,151	18,961
Total gross income		124,842	127,935	124,842	127,935
Impairment write-back on others		(712)	45	(712)	45
Impairment write-back/(loss) on securities		(9,365)	-	(9,365)	(0)
Impairment write-back on financing	A17	22,429	13,316	22,429	13,316
Total distributable income		137,194	141,296	137,194	141,296
Income attributable to the depositors	A18	(63,652)	(77,444)	(63,652)	(77,444)
Profit distributed to investment account holders	A19	(42)	(34)	(42)	(34)
Total net income		73,501	63,818	73,501	63,818
Personnel expenses		(19,791)	(20,088)	(19,791)	(20,088)
Other overheads and expenditures		(21,428)	(19,746)	(21,428)	(19,746)
Finance cost		(6,978)	(3,294)	(6,978)	(3,294)
Profit before zakat and taxation		25,304	20,690	25,304	20,690
Taxation		(8,871)	(7,241)	(8,871)	(7,241)
Net profit for the period		16,433	13,449	16,433	13,449

These condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank				
Net profit for the period	16,433	13,449	16,433	13,449
Other comprehensive income/(loss):				
Securities available-for-sale:				
- Net unrealised gain/(loss) on securities available-for-sale	6,030	17,229	6,030	13,635
- Net realised (loss)/gain on securities available-for-sale reclassified to the income statement	(4)	-	(4)	-
Income tax relating to components of other comprehensive (loss)/income	(317)	(713)	(317)	(713)
Other comprehensive income/(loss) for the period, net of tax	5,709	12,922	5,709	12,922
Total comprehensive income for the period	22,142	26,371	22,142	26,371

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INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Non-distributable			Distributable	Total Equity RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Translation Reserve RM'000	Available- for-sale Reserve RM'000		Retained Earnings RM'000
Group						
At 1 Jan 2017	1,425,272	158,385	7,090	(9,254)	65,285	1,646,778
Total comprehensive (loss)/income	-	-	(576)	5,777	18,503	23,703
At 31 Mar 2017	1,425,272	158,385	6,514	(3,477)	83,788	1,670,481
At 1 Jan 2016	1,425,272	158,385	4,702	(14,450)	93,562	1,667,471
Total comprehensive (loss)/income	-	-	(3,651)	13,397	13,923	23,669
At 31 Mar 2016	1,425,272	158,385	1,051	(1,053)	107,485	1,691,140
Bank						
At 1 Jan 2017	1,425,272	158,385	-	(9,000)	41,790	1,616,447
Total comprehensive income	-	-	-	5,709	16,433	22,142
At 31 Mar 2017	1,425,272	158,385	-	(3,291)	58,223	1,638,589
At 1 Jan 2016	1,425,272	158,385	-	(13,918)	71,500	1,641,239
Total comprehensive (loss)/income	-	-	-	12,922	13,449	26,371
At 31 Mar 2016	1,425,272	158,385	-	(996)	84,949	1,667,610

These condensed consolidated statements of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	Group		Bank	
	31-Mar 2017 RM'000	31-Mar 2016 RM'000	31-Mar 2017 RM'000	31-Mar 2016 RM'000
Profit before zakat and taxation	27,378	21,169	25,304	20,690
Adjustments for non-cash items	(1,162)	(3,827)	(493)	(3,930)
Operating profit before changes in working capital	26,216	17,342	24,812	16,760
<u>Changes in the working capital</u>				
Net changes in operating assets	26,258	222,680	26,259	224,105
Net changes in operating liabilities	(906,936)	(611,762)	(899,100)	(585,335)
Zakat and taxation refund/(paid)	(25)	(20)	-	-
Net cash generated from operating activities	(880,702)	(389,102)	(872,842)	(361,230)
Net purchases of assets	(136,178)	18,835	(136,120)	(7,404)
Net cash used in investing activities	(136,178)	18,835	(136,120)	(7,404)
Net change in cash and cash equivalents	(990,664)	(352,925)	(984,151)	(351,874)
Cash and cash equivalents at beginning of the period	2,341,840	1,558,023	2,341,840	1,558,023
Exchange differences on translation of opening balances	6,514	1,051	-	-
Cash and cash equivalents at end of the period	1,357,689	1,206,149	1,357,689	1,206,149

These condensed consolidated statements of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

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**Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for
Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia**

A1 Performance Review

The Group recorded profit before zakat and taxation of RM27.4 million and the Bank recorded profit before zakat and taxation of RM25.3 million for the period ended 31 Mar 2017.

A2 OUTLOOK FOR 2017

The Malaysian economy is expected to expand between 4.3% to 4.8% in 2017 (2016: 4.2%), underpinned by domestic demand, especially private sector expenditure. Malaysia's accommodative monetary and fiscal policies in 2017 will help to support private consumption, which will remain the key driver of GDP growth throughout the year. Although the headline inflation to range between 3.0% to 4.0% in 2017, underlying inflation is expected to increase only slightly. On the supply side, services will continue to account for the largest share of GDP and Malaysia's global pre-eminence in the provision of Islamic finance will support the growth of the financial services sector. The upside risks to growth may come from the positive spillovers from expansionary policies by major economies. However, several downside risks remain such as slower global growth, volatility in capital flows and exchange rates as well as weaker consumer and business sentiments but Malaysia's strong fundamentals will provide resilience in confronting these risks. Overall, we continue to expect BNM to keep the overnight policy rate (OPR) steady throughout 2017 and the current monetary policy stance is appropriate to support the economic activity.

A3 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Other financial institutions	238,995	171,073	267,152	199,165
	238,995	171,073	267,152	199,165

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A4 Securities

i) Securities Available-For-Sale

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
<u>At fair value</u>				
Unquoted securities				
- Islamic private debt securities/sukuks	411,722	444,691	398,552	431,467
- Government guaranteed sukuk	739,499	573,686	739,499	573,686
Mutual Fund	-	-	-	-
	1,151,220	1,018,377	1,138,051	1,005,153
<u>At cost</u>				
Unquoted shares in Malaysia	36,100	36,100	36,100	36,100
Property funds	19,815	19,640	-	-
Collective Investment Scheme	17,052	18,285	17,052	18,285
	72,967	74,025	53,152	54,385
	1,224,187	1,092,402	1,191,203	1,059,538

ii) Securities Held-To-Maturity

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
<u>At amortised cost</u>				
Unquoted Islamic private debt securities/sukuk	60,448	61,251	60,448	61,251

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables

i) At amortised cost

Term financing	
- House financing	795,482
- Personal financing	1,193,481
- Leasing financing	42,952
- Syndicated financing	277,611
- Cashline financing	6,092
- Hire purchase receivables	577,106
- Other term financing	3,862,526
Staff financing	9,962
	6,765,212
Less: Impairment allowances on financing	
- Collective assessment	(139,421)
- Individual assessment	(209,152)
Net financing, advances and other receivables	6,416,639

Group and Bank	
31 Mar 2017	31 Dec 2016
RM'000	RM'000
795,482	762,988
1,193,481	1,212,692
42,952	50,117
277,611	331,139
6,092	6,053
577,106	541,130
3,862,526	3,947,680
9,962	11,578
6,765,212	6,863,378
(139,421)	(139,421)
(209,152)	(229,687)
6,416,639	6,494,270

ii) By contract

Ijarah Muntahia Bittamlik (lease ended with ownership)	2,108,037
Murabahah (cost-plus)	4,349,036
Mudharabah (profit sharing)	68,953
Qard (benevolent financing)	787
Musarakah (profit and loss sharing)	237,079
Istisna'	1,320
	6,765,212

Group and Bank	
31 Mar 2017	31 Dec 2016
RM'000	RM'000
2,108,037	2,053,752
4,349,036	4,499,057
68,953	71,378
787	1,043
237,079	236,813
1,320	1,335
6,765,212	6,863,378

iii) By type of customer

Domestic business enterprises	4,115,815
Individuals	2,580,861
Foreign entities	14,100
Domestic non-bank financial institutions	54,436
	6,765,212

Group and Bank	
31 Mar 2017	31 Dec 2016
RM'000	RM'000
4,115,815	4,210,604
2,580,861	2,533,727
14,100	14,299
54,436	104,748
6,765,212	6,863,378

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

(iv) By residual contractual maturity

Maturity within one year
More than one year to three years
More than three years to five years
More than five years

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
3,726,770	3,879,579
249,482	225,908
137,789	139,689
2,651,171	2,618,202
6,765,212	6,863,378

(v) By geographical distribution

Malaysia
Middle East
Other countries

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
6,748,479	6,846,625
5,077	5,170
11,656	11,583
6,765,212	6,863,378

(vi) By profit rate sensitivity

Fixed rate
- House financing
- Hire purchase receivables
- Syndicated financing
- Term financing
Variable rate
- House financing
- Term financing

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
15,021	7,550
577,106	541,130
277,611	331,139
1,651,427	1,593,095
785,145	760,197
3,458,902	3,630,267
6,765,212	6,863,378

(vii) By economic purpose

Merger and acquisition
Purchase of securities
Purchase of transport vehicles
Purchase of landed properties
- residential
- non-residential
Purchase of fixed assets
Working capital
Construction
Personal use
Other purposes

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
-	-
212,093	219,242
580,588	544,890
828,614	798,690
940,545	949,149
78,572	86,632
1,775,902	1,852,617
451,283	467,263
1,210,605	1,230,718
687,010	714,177
6,765,212	6,863,378

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

viii) By sector

Construction
Electricity, gas and water
Finance, insurance and business services
Household
Manufacturing
Agriculture, hunting, forestry & fishing
Real Estate
Transports, storage and communication
Wholesale & retail trade and restaurants & hotels
Others

Group and Bank	
31 Mar 2017	31 Dec 2016
RM'000	RM'000
621,080	616,724
154,152	157,686
262,747	321,489
2,580,861	2,533,727
772,299	794,955
337,299	336,615
1,279,294	1,317,458
225,499	238,021
466,511	477,180
65,470	69,523
6,765,212	6,863,378

(ix) Financing by types and Shariah contract

	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
31 Mar 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	767,268	92	-	26,802	-	1,320	795,482
Personal financing	-	1,193,002	-	-	479	-	1,193,481
Leasing financing	-	17,705	25,247	-	-	-	42,952
Syndicated financing	63,764	213,847	-	-	-	-	277,611
Cashline financing	-	6,092	-	-	-	-	6,092
Hire purchase receivables	569,997	-	-	7,109	-	-	577,106
Other term financing	698,301	2,917,558	43,705	202,962	0	-	3,862,526
Staff financing	8,707	740	-	207	307	-	9,962
	2,108,037	4,349,035	68,953	237,078	787	1,320	6,765,212

	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
31 Dec 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	735,129	93	-	26,432	-	1,335	762,988
Personal financing	-	1,212,205	-	-	487	-	1,212,692
Leasing financing	-	22,443	27,673	-	-	-	50,117
Syndicated financing	62,901	268,239	-	-	-	-	331,139
Cashline financing	-	6,053	-	-	-	-	6,053
Hire purchase receivables	533,921	-	-	7,209	-	-	541,130
Other term financing	711,504	2,989,509	43,705	202,962	0	-	3,947,680
Staff financing	10,297	515	-	210	556	-	11,578
	2,053,751	4,499,056	71,379	236,811	1,043	1,335	6,863,378

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Part A - Explanatory Notes Pursuant to Guidelines on Financial Reporting for Licensed Islamic Bank (BNM/GP8-i) Issued by Bank Negara Malaysia

A5 Financing, Advances and Other Receivables (cont'd.)

x) Purpose and Source of Qard financing

As at 1 January	1,043	1,147
Source of Qard fund:	51	1,104
- Depositors' Fund	43	915
- Shareholders' Fund	8	189
Uses of Qard fund:	(308)	(1,208)
- Financing for asset purchase	(258)	(1,001)
- Staff Benevolent	(50)	(207)
Closing balance	787	1,043

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
1,043	1,147
51	1,104
43	915
8	189
(308)	(1,208)
(258)	(1,001)
(50)	(207)
787	1,043

xi) Movements in impaired financing, advances and other receivables

At 1 Jan	478,060	550,898
Impaired during the period/year	(20,899)	(72,838)
- Impaired during the period/year	10,829	223,973
- Reclassified to performing during the year	(1,315)	(7,316)
- Amount recovered	(30,413)	(149,115)
- Amount written off	-	(140,380)
Closing balance	457,161	478,060
Less : Individual impairment	(209,152)	(229,687)
Net impaired financing, advances and other receivables	248,009	248,373

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
478,060	550,898
(20,899)	(72,838)
10,829	223,973
(1,315)	(7,316)
(30,413)	(149,115)
-	(140,380)
457,161	478,060
(209,152)	(229,687)
248,009	248,373
3.78%	3.74%

Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment

xii) Movements in impairment and allowance on financing

Collective impairment

At 1 Jan	139,421	92,212
Allowance charged during the year	-	47,208
Closing balance	139,421	139,421
As % of total gross financing, advances and other receivables less individual impairment	2.13%	2.10%

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
139,421	92,212
-	47,208
139,421	139,421
2.13%	2.10%

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A5 Financing, Advances and Other Receivables (cont'd.)

xii) Movements in impairment and allowance on financing (cont'd.)

Individual impairment

At 1 Jan

Allowance reversed during the year

- Allowance made

- Allowance written-back

Amount written off

Closing balance

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
229,687	320,664
(20,535)	49,403
7,157	151,157
(27,692)	(101,754)
-	(140,380)
209,152	229,687

xiii) Impaired financing by sector

Agriculture, hunting, forestry and fishing

Construction

Electricity, gas and water

Finance, insurance and business services

Household

Manufacturing

Mining and quarrying

Real Estate

Transport, storage and communication

Wholesale & retail trade and restaurants & hotels

Group and Bank	
31 Mar 2017 RM'000	31 Dec 2016 RM'000
	-
79	79
7,402	9,337
53,371	46,392
186,692	191,926
197,331	217,688
7,109	7,209
5,177	5,429
457,161	478,060

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A6 Other Assets

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Deposits and prepayments	12,622	8,222	12,312	7,991
Amount due from subsidiaries	(0)	-	4	4
Amount due from other related parties	51,561	51,561	51,561	51,561
Fee receivable	371	742	371	742
Sundry debtors	2,894	2,895	2,721	2,728
Commodity assets	-	-	-	-
Tax recoverable	-	-	-	-
Gold depository	126,263	126,949	126,263	126,949
	193,711	190,369	193,232	189,975

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

A7 Hedging Financial Instruments

	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
Group and Bank			
At 31 Mar 2017			
Forward foreign exchange related contracts	56,677	358	302
Ijarah rental swap related contracts	181,691	4,003	46
Total	238,368	4,361	348
At 31 Dec 2016			
Forward foreign exchange related contracts	85,225	994	1,113
Ijarah rental swap related contracts	199,152	4,962	50
Total	284,377	5,956	1,163

A8 Musyarakah Capital Investment

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

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A9 Deposits from Customers

(i) By type of deposit

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Non Mudharabah				
- Demand deposits	541,145	686,580	467,875	652,831
- Gold deposits	125,344	127,209	125,345	127,210
- Wakalah deposits	492	498	-	-
- Savings deposits	59,661	52,844	59,661	52,844
Murabahah	3,672,500	3,462,211	3,672,499	3,462,210
	4,399,142	4,329,342	4,325,380	4,295,095

(ii) By type of customer

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Business enterprises	1,940,269	1,760,948	1,771,050	1,602,031
Individuals	362,014	385,418	362,014	385,418
Subsidiaries	-	-	95,457	124,670
Government and statutory bodies	1,549,507	1,249,020	1,549,507	1,249,020
Other enterprises	547,352	933,956	547,352	933,956
	4,399,142	4,329,342	4,325,380	4,295,095

(iii) By contractual maturity

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Due within six months	4,098,552	4,014,438	4,024,790	3,980,191
More than six months to one year	296,038	312,324	296,038	312,324
More than one year to three years	4,552	2,580	4,552	2,580
	4,399,142	4,329,342	4,325,380	4,295,095

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A10 Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	692,182	452,014	692,182	452,014
Licensed investment banks	100,000	-	100,000	-
Other financial institutions	2,526,850	3,809,397	2,641,487	3,884,000
	3,319,032	4,261,411	3,433,669	4,336,014

A11 INVESTMENT ACCOUNTS

	Group and Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
As at 1 January	8,563	7,490
Net placement during the year	2,514	919
Income from investment	70	258
Profit distributed to mudarib	(28)	(104)
As at 31 December	11,119	8,563
Investment asset: Wadiah placement with BNM	11,119	8,563

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder	
	Average profit sharing ratio	Average rate of return
	(%)	(%)
Unrestricted investment accounts:		
Less than 3 months	60	1.80

	Group and Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Business enterprises	2,338	2,789
Individuals	7,925	4,529
Other enterprises	856	1,245
	11,119	8,563

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A12 Other Liabilities

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Sundry creditors	41,918	53,041	41,827	53,006
Accrued restoration cost (ii)	5,857	5,857	5,750	5,750
Undistributed charity funds	6,591	7,377	6,591	7,377
Other provisions and accruals	23,345	30,701	22,950	30,008
	77,711	96,977	77,118	96,141

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

(ii) Sources and uses of charity funds:

	Group and Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	7,377	5,587
Penalty charges / (Reversal) on late payment	3,217	1,946
Total sources of funds during the year	10,594	7,533
Uses of charity funds:		
Contribution to Baitulmal	-	-
Compensation of late payment charges	(4,000)	-
Contribution to non profit organisations	-	(108)
Aid to needy family	(3)	(48)
Total uses of funds during the year	(4,003)	(156)
Closing balance	6,591	7,377

A13 Subordinated Murabahah Tawarruq

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD101,191,667 or equivalent RM447,671,933 (2016: USD100,550,495 or equivalent RM451,069,519) is unsecured effective from 31 May 2007 which extended until 23 September 2018 and forms part of the Bank's Tier-2 capital. The Murabahah profit is determined with reference to London Interbank Offer Rate ("LIBOR").

A14 Share Capital

	Number of ordinary shares at RM1.00 each		Amount	
	31 Mar 2017 Units'000	31 Dec 2016 Units'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Authorised:				
At 1 January/At closing balance	3,000,000	3,000,000	3,000,000	3,000,000
Issued and fully paid:				
At 1 January	1,425,272	1,425,272	1,425,272	1,425,272
At 1 January/At closing balance	1,425,272	1,425,272	1,425,272	1,425,272

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A15 Income derived from Investment of Depositors' Funds and Others

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
Finance income from financing, advances and other receivables	73,246	82,984	73,246	82,984
Finance income from impaired financing	296	218	296	218
Securities				
- Held-for-trading	-	4	-	4
- Available-for-sale	8,355	7,519	8,355	7,519
- Held-to-maturity	647	659	647	659
Money at call and deposits with financial institutions	12,984	14,958	12,984	14,958
	95,528	106,342	95,528	106,342
Amortisation of premium less accretion of discounts	(1,135)	(1,166)	(1,135)	(1,166)
Total finance income and hibah	94,393	105,176	94,393	105,176
Gain arising from sale of securities				
- Held-for-trading	3	327	3	327
- Available-for-sale	-	-	-	-
Foreign exchange gain				
- Realised	5,424	2,590	5,424	2,590
Gain/(loss) on Ijarah rental swap obligation	740	909	740	909
	100,560	109,002	100,560	109,002
Bank				
Finance income from financing, advances and other receivables	73,388	83,061	73,388	83,061
Finance income from impaired financing	296	219	296	219
Securities				
- Held-for-trading	-	4	-	4
- Available-for-sale	8,318	7,314	8,318	7,314
- Held-to-maturity	649	660	649	660
Money at call and deposits with financial institutions	13,046	15,013	13,046	15,013
	95,697	106,271	95,697	106,271
Amortisation of premium less accretion of discounts	(1,137)	(1,166)	(1,137)	(1,166)
Total finance income and hibah	94,560	105,105	94,560	105,105
Gain arising from sale of securities				
- Held-for-trading	3	327	3	327
Foreign exchange gain				
- Realised	5,317	2,576	5,317	2,576
Gain/(loss) on Ijarah rental swap obligation	741	910	741	910
	100,621	108,918	100,621	108,918

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A16 Income derived from Investment of Shareholder's Equity

Group	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Finance income from financing, advances and other receivables	13,939	15,111	13,939	15,111
Finance income from impaired financing	56	40	56	40
Securities				
- Held-for-trading	-	1	-	1
- Available-for-sale	1,592	1,371	1,592	1,371
- Held-to-maturity	123	120	123	120
Money at call and deposits with financial institutions	2,464	2,706	2,464	2,706
	18,174	19,349	18,174	19,349
Amortisation of premium less accretion of discounts	(216)	(212)	(216)	(212)
Total finance income and hibah	17,958	19,137	17,958	19,137
Fee income				
- Commission	647	371	647	371
- Fund management fee	364	995	364	995
- Other fee income	1,267	833	1,267	833
- Compensation of late payment charges	4,000	-	4,000	-
Gain arising from sale of securities				
- Held-for-trading	1	62	1	62
- Available-for-sale	-	-	-	-
Unrealised (loss)/gain on revaluation of securities held-for-trading and Ijarah rental swap (net)	(943)	(1,778)	(943)	(1,778)
Foreign exchange gain/(loss)				
- Realised	1,061	502	1,061	502
- Unrealised	121	(447)	121	(447)
Gain/(loss) on Ijarah rental swap obligation	141	166	141	166
Other income	2,145	676	2,145	676
Management fee	39	58	39	58
	26,799	20,575	26,799	20,575

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A16 Income derived from Investment of Shareholder's Equity (cont'd.)

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank				
Finance income from financing, advances and other receivables	13,796	15,034	13,796	15,034
Finance income from impaired financing	56	40	56	40
Securities				
- Held-for-trading	-	1	-	1
- Available-for-sale	1,566	1,326	1,566	1,326
- Held-to-maturity	122	119	122	119
Money at call and deposits with financial institutions	2,445	2,699	2,445	2,699
	17,984	19,219	17,984	19,219
Amortisation of premium less accretion of discounts	(214)	(211)	(214)	(211)
Total finance income and hibah	17,771	19,008	17,771	19,008
Fee income				
- Commission	661	472	661	472
- Other fee income	5,267	832	5,267	832
Gain arising from sale of securities				
- Held-for-trading	1	62	1	62
Unrealised (loss)/gain on revaluation of securities held-for-trading and Ijarah rental swap (net)	(943)	(1,778)	(943)	(1,778)
Foreign exchange gain/(loss)				
- Realised	1,029	496	1,029	496
- Unrealised	104	(438)	104	(438)
Gain/(loss) on Ijarah rental swap obligation	139	165	139	165
Management fee	123	142	123	142
	24,151	18,961	24,151	18,961

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A17 Impairment and Allowance on Financing, Advances and Other Receivables

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
Impairment and allowance on financing				
- Collective impairment (net)	-	500	-	500
- Individual write-back (net)	(20,535)	(10,113)	(20,535)	(10,113)
<i>Allowance charge during the period</i>	7,157	5,911	7,157	5,911
<i>Allowance written-back during the period</i>	(27,692)	(16,024)	(27,692)	(16,024)
- Bad debt recovered on financing	(1,895)	(3,703)	(1,895)	(3,703)
	(22,429)	(13,316)	(22,429)	(13,316)
Bank				
Impairment and allowance on financing				
- Collective impairment (net)	-	500	-	500
- Individual write-back (net)	(20,535)	(10,113)	(20,535)	(10,113)
<i>Allowance charge during the period</i>	7,157	5,911	7,157	5,911
<i>Allowance written-back during the period</i>	(27,692)	(16,024)	(27,692)	(16,024)
- Bad debt recovered on financing	(1,895)	(3,703)	(1,895)	(3,703)
	(22,429)	(13,316)	(22,429)	(13,316)

A18 Income Attributable to the Depositors

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Group				
Deposits from customers				
- Murabahah	28,267	28,179	28,267	28,179
- Wakalah	1	5	1	5
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	34,444	48,635	34,444	48,635
Others	759	465	759	465
	63,471	77,284	63,471	77,284
Bank				
Deposits from customers				
- Murabahah	28,267	28,179	28,267	28,179
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	34,625	48,800	34,625	48,800
Others	759	465	759	465
	63,652	77,444	63,652	77,444

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A19 Profit Distributed to Investment Account Holders

Group & Bank

Income derived from investment of investment account funds
Less : Profit distributed to mudarib

1st Quarter ended 31-Mar		Three-months ended 31-Mar	
2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
70	56	70	56
28	22	28	22
42	34	42	34

A20 Commitments and Contingencies

(a)

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

	As at 31 Mar 2017			As at 31 Dec 2016		
	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	6,887	6,887	4,887	6,987	6,987	6,887
Transaction related contingencies	102,328	51,164	42,503	117,263	58,632	50,555
Trade related contingencies	24,323	4,865	4,823	9,374	1,875	1,875
Irrevocable commitments to extend credit						
- maturity less than one year	78,808	15,762	15,135	299,227	59,845	65,442
- maturity more than one year	112,834	56,417	44,529	178,657	89,329	76,982
Foreign exchange related contracts *						
- less than one year	56,677	822	528	85,225	2,048	1,557
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	181,691	5,705	4,641	199,152	6,823	5,775
	563,548	141,622	117,046	895,885	225,539	209,073

*

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

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A21 Capital Adequacy

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

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

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

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

	Group		Bank	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Common Equity Tier I/ Tier I Capital Ratio				
Credit risk	22.227%	21.724%	21.370%	20.863%
Credit, market, operational and large exposure risks	20.726%	20.275%	19.963%	19.505%
Total Capital Ratio				
Credit risk	30.245%	29.702%	29.403%	28.857%
Credit, market, operational and large exposure risks	28.202%	27.722%	27.468%	26.979%

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A21 Capital Adequacy (Cont' d.)

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

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
<u>CET I / Tier I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	158,385	158,385	158,385	158,385
Other reserves	67,610	63,121	38,499	32,790
	1,651,267	1,646,778	1,622,156	1,616,447
Less: Deferred tax assets (net)	(198,329)	(198,329)	(198,329)	(198,329)
Less: Investment in subsidiaries	-	-	(30,200)	(30,200)
Total CET I / Tier I capital	1,452,938	1,448,449	1,393,627	1,387,918
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	442,400	448,625	442,400	448,625
Collective impairment on financing	81,709	83,345	81,519	83,157
Total Tier II capital	524,109	531,970	523,919	531,782
Total capital	1,977,047	1,980,419	1,917,546	1,919,700

(c) The Common Equity Tier I / Tier I Capital Ratio and Total Capital Ratio of the Group and the Bank are as follows:

	Group		Bank	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	6,536,754	6,667,598	6,521,532	6,652,557
Total Market RWA	18,605	16,750	18,605	16,750
Total Operational RWA	434,789	439,447	420,868	426,170
Large Exposure Risk RWA for Equity Holdings	20,048	20,048	20,048	20,048
Total Risk-Weighted Assets	7,010,195	7,143,843	6,981,053	7,115,525
Computation of Capital Ratios				
Core Capital	1,452,938	1,448,449	1,393,627	1,387,918
Capital Base	1,977,047	1,980,419	1,917,546	1,919,700
CET I / Tier I Capital Ratio	20.726%	20.275%	19.963%	19.505%
Total Capital Ratio	28.202%	27.722%	27.468%	26.979%

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Group			
31 Mar 2017			
Financial assets			
Securities available-for-sale	1,151,220	-	1,151,220
Securities held-to-maturity	60,547	-	60,547
Financing, advances and other receivables	1,294,762	5,119,140	6,413,902
Hedging financial instruments	4,361	-	4,361
Total	2,510,890	5,119,140	7,630,030
Financial liability			
Deposits from customers	4,399,100	-	4,399,100
Hedging financial instruments	348	-	348
Subordinated Murabahah Tawarruq	-	442,281	442,281
	4,399,448	442,281	4,841,729
31 Dec 2016			
Financial assets			
Securities available-for-sale	1,018,377	-	1,018,377
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
Total	2,311,214	5,265,769	7,576,983
Financial liability			
Deposits from customers	4,329,342	-	4,329,342
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
	4,330,505	448,509	4,779,014

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Bank			
31 Mar 2017			
Financial assets			
Securities available-for-sale	1,138,051	-	1,138,051
Securities held-to-maturity	60,547	-	60,547
Financing, advances and other receivables	1,294,762	5,119,140	6,413,902
Hedging financial instruments	4,361	-	4,361
Total	2,497,721	5,119,140	7,616,861
Financial liability			
Deposits from customers	4,325,336	-	4,325,336
Hedging financial instruments	348	-	348
Subordinated Murabahah Tawarruq	-	442,281	442,281
	4,325,684	442,281	4,767,965
31 Dec 2016			
Financial assets			
Securities available-for-sale	1,005,153	-	1,005,153
Securities held-to-maturity	60,334	-	60,334
Financing, advances and other receivables	1,226,547	5,265,769	6,492,316
Hedging financial instruments	5,956	-	5,956
Total	2,297,990	5,265,769	7,563,759
Financial liability			
Deposits from customers	4,295,095	-	4,295,095
Hedging financial instruments	1,163	-	1,163
Subordinated Murabahah Tawarruq	-	448,509	448,509
	4,296,258	448,509	4,744,767

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
	DCF method	Profit rate	5.5% - 6.0%

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

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

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

	Group			
	31 Mar 2017		31 Dec 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	60,448	60,547	61,251	60,334
Financing, advances and other receivables	6,416,639	6,413,902	6,494,270	6,492,316
	6,477,087	6,474,449	6,555,521	6,552,650
Financial Liabilities				
Deposits from customers	4,399,142	4,399,100	4,329,342	4,329,342
Subordinated Murabahah Tawarruq	447,671	442,281	451,070	448,509
	4,846,813	4,841,381	4,780,412	4,777,851

	Bank			
	31 Mar 2017		31 Dec 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	60,448	60,547	61,251	60,334
Financing, advances and other receivables	6,416,639	6,413,902	6,494,270	6,492,316
	6,477,087	6,474,449	6,555,521	6,552,650
Financial Liabilities				
Deposits from customers	4,325,380	4,325,336	4,295,095	4,295,094
Subordinated Murabahah Tawarruq	447,672	442,281	451,070	448,509
	4,773,052	4,767,617	4,746,165	4,743,603

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

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

(a) Cash and Short-Term Funds

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

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

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

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

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

(d) Securities Held-To-Maturity

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

(e) Hedging Financial Instruments

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

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A22 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

(f) Financing, Advances and Other Receivables

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

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

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

(h) Subordinated Murabahah Tawaruq

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

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A23 FINANCIAL RISK MANAGEMENT

(d) RATE OF RETURN RISK

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

	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
31 Mar 2017									
ASSETS									
Cash and short-term funds	1,197,713	-	-	-	-	159,976	-	1,357,689	3.02
Deposits and placements with banks and other financial institutions	-	31,931	207,064	-	-	-	-	238,995	1.43
Securities available-for-sale	10,176	22,153	30,315	546,205	542,372	72,967	-	1,224,188	3.80
Securities held-to-maturity	-	-	55,432	5,016	-	-	-	60,448	5.21
Financing, advances and receivables	1,848,350	2,559,890	4,044	669,320	1,335,035	-	-	6,416,639	5.08
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	621,647	-	621,647	
TOTAL ASSETS	3,056,239	2,613,974	296,855	1,220,541	1,877,407	860,488	-	9,925,504	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,664,540	1,319,971	747,639	502	-	666,490	-	4,399,142	2.98
Deposits and placements of banks and other financial institutions	1,435,148	1,268,240	615,644	-	-	-	-	3,319,032	3.56
Subordinated Murabahah Tawarruq	-	447,672	-	-	-	-	-	447,671	8.25
Other liabilities	-	-	-	-	-	89,178	-	89,178	
Total Liabilities	3,099,688	3,035,883	1,363,283	502	-	755,668	-	8,255,023	
Shareholder's equity	-	-	-	-	-	1,670,481	-	1,670,481	
Total Liabilities and Shareholder's Equity	3,099,688	3,035,883	1,363,283	502	-	2,426,148	-	9,925,504	
On-balance sheet profit sensitivity gap	(43,449)	(421,909)	(1,066,428)	1,220,039	1,877,407	(1,565,660)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(43,449)	(421,909)	(1,066,428)	1,220,039	1,877,407	(1,565,660)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book					Non-profit sensitive	Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years				
31 Dec 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	2,214,388	-	-	-	-	127,452	-	2,341,840	2.96
Deposits and placements with banks and other financial institutions	-	-	171,073	-	-	-	-	171,073	1.49
Securities available-for-sale	-	-	84,989	549,931	373,844	83,638	-	1,092,402	3.65
Securities held-to-maturity	-	-	56,187	5,064	-	-	-	61,251	5.21
Financing, advances and receivables	2,110,744	2,461,144	7,399	604,488	1,310,495	-	-	6,494,270	5.21
Musyarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	628,569	-	628,569	
TOTAL ASSETS	4,325,132	2,461,144	319,648	1,159,483	1,684,339	845,557	-	10,795,303	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,417,501	450,664	805,801	5	-	655,370	-	4,329,341	2.88
Deposits and placements of banks and other financial institutions	3,108,080	800,853	352,478	-	-	-	-	4,269,974	3.52
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	-	451,070	3.63
Other liabilities	-	-	-	-	-	106,703	-	98,140	
Total Liabilities	5,525,581	1,702,587	1,158,279	5	-	762,073	-	9,148,525	
Shareholder's equity	-	-	-	-	-	1,646,778	-	1,646,778	
Total Liabilities and Shareholder's Equity	5,525,581	1,702,587	1,158,279	5	-	2,408,851	-	10,795,303	
On-balance sheet profit sensitivity gap	(1,191,878)	758,558	(838,632)	1,159,478	1,684,340	(1,571,866)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,191,878)	758,558	(838,632)	1,159,478	1,684,340	(1,571,866)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
31 Mar 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
ASSETS									
Cash and short-term funds	1,197,713	-	-	-	-	159,976	-	1,357,689	3.02
Deposits and placements with banks and other financial institutions	-	60,088	207,064	-	-	-	-	267,152	1.34
Securities available-for-sale	10,176	22,153	30,315	533,036	542,371	53,152	-	1,191,203	3.88
Securities held-to-maturity	-	-	55,432	5,016	-	-	-	60,448	5.21
Financing, advances and receivables	1,848,358	2,559,890	4,044	669,320	1,335,027	-	-	6,416,639	5.08
Musarakah capital investment	-	-	-	-	-	5,898	-	5,898	
Other assets	-	-	-	-	-	634,866	-	634,866	
TOTAL ASSETS	3,056,247	2,642,131	296,855	1,207,372	1,877,398	853,892	-	9,933,895	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,664,048	1,319,971	747,639	502	-	593,220	-	4,325,380	3.03
Deposits and placements of banks and other financial institutions	1,549,785	1,268,240	615,644	-	-	-	-	3,433,669	3.47
Subordinated Murabahah Tawarruq	-	447,672	-	-	-	-	-	447,672	8.25
Other liabilities	-	-	-	-	-	88,585	-	88,585	
Total Liabilities	3,213,833	3,035,883	1,363,283	502	-	681,805	-	8,295,306	
Shareholder's equity	-	-	-	-	-	1,638,589	-	1,638,589	
Total Liabilities and Shareholder's Equity	3,213,833	3,035,883	1,363,283	502	-	2,320,394	-	9,933,895	
On-balance sheet profit sensitivity gap	(157,586)	(393,752)	(1,066,428)	1,206,870	1,877,398	(1,466,502)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(157,586)	(393,752)	(1,066,428)	1,206,870	1,877,398	(1,466,502)	-	-	

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A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
31 Dec 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
ASSETS									
Cash and short-term funds	2,214,388	-	-	-	-	127,452	2,341,840	2.96	
Deposits and placements with banks and other financial institutions	-	28,092	171,073	-	-	-	199,165	1.36	
Securities available-for-sale	-	-	84,990	549,931	373,844	50,773	1,059,538	3.76	
Securities held-to-maturity	-	-	56,186	5,065	-	-	61,251	5.21	
Financing, advances and receivables	2,110,752	2,461,144	7,400	604,487	1,310,487	-	6,494,270	5.21	
Musyarakah capital investment	-	-	-	-	-	5,898	5,898		
Other assets	-	-	-	-	-	642,531	642,531		
TOTAL ASSETS	4,325,140	2,489,236	319,649	1,159,483	1,684,331	826,654	10,804,493		
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	2,258,584	450,664	805,801	5	-	780,041	4,295,095	2.90	
Deposits and placements of banks and other financial institutions	3,182,682	800,853	352,478	-	-	-	4,344,576	3.46	
Subordinated Murabahah Tawarruq	-	451,070	-	-	-	-	451,070	3.63	
Other liabilities	-	-	-	-	-	105,868	97,305		
Total Liabilities	5,441,266	1,702,587	1,158,279	5	-	885,909	9,188,046		
Shareholder's equity	-	-	-	-	-	1,616,447	1,616,447	-	
Total Liabilities and Shareholder's Equity	5,441,266	1,702,587	1,158,279	5	-	2,502,356	10,804,493		
On-balance sheet profit sensitivity gap	(1,107,563)	786,649	(838,632)	1,159,478	1,684,331	(1,684,263)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	4,333,703	2,489,236	319,647	1,159,483	1,684,331	818,093	10,804,493		

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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
("MFRS 134") Issued by Malaysian Accounting Standards Board**

B3 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2016 was not qualified.

B4 Seasonal or Cyclical Factors Affecting Operations

The operations of the Group and the Bank were not materially affected by any seasonal or cyclical factors in the three-months ended 31 March 2017.

B5 Unusual Items Due to their Nature, Size or Incidence

There were no items of unusual nature, size or incidence affecting the assets, liabilities, equity, net income or cash flows of the Group and the Bank during the three months ended 31 March 2017.

B6 Changes in Estimates

There were no changes in the estimates of amounts reported in prior financial years that have a material effect to the three-months ended 31 March 2017.

B7 Debt and Equity Securities

There were no issuances, cancellation, repurchases, resales or repayments of debt and equity securities during the three-months ended 31 March 2017.

B8 Dividends Paid

There were no dividends paid during the three-months ended 31 March 2017.

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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
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B9 Segment Information on Operating Revenue, Profit Before Zakat & Taxation and Total Assets

(i) **Primary Segment - By Business Segment**

Group	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
31 Mar 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	33,905	37,289	13,574	42,661		127,429
Revenue from other segments	57,809	240	1,345	13,221	(72,615)	0
Total Revenue	91,714	37,529	14,919	55,882	(72,615)	127,429
Segment results	(332)	7,593	30,528	10,720		48,508
Unallocated expenses						(21,130)
Profit from operations						27,378
Taxation						(8,876)
Net profit for the year						18,503
Other information						
Segment assets	2,963,506	3,223,198	787,718	2,737,692	(252,613)	9,459,501
Unallocated corporate assets						466,003
Total assets						9,925,504
Segment liabilities	6,006,992	4,961,503	1,139,505	8,800,767	(238,288)	20,670,479
Unallocated corporate liabilities						(12,415,456)
Total liabilities						8,255,023
Other segment items						
Purchase of property and equipment				390		390
Purchase of intangible assets				173		173
Depreciation of property and equipment				1,984		1,984
Amortisation of intangible assets				772		772
Other non-cash expense other than depreciation	(9,365)	2,783	24,880	(5,234)	-	13,064

(ii) **By Geographical Locations**

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
31 Mar 2017			
Malaysia	127,429	27,378	9,925,504
Outside Malaysia	-	-	-
	127,429	27,378	9,925,504

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B9 Segment Information on Operating Revenue, Profit Before Zakat & Taxation and Total Assets (cont'd.)

(i) Primary Segment - By Business Segment

Group	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Others	Elimination	Total
31 Mar 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	29,839	44,597	18,005	37,192		129,633
Revenue from other segments	65,033	412	1,596	13,990	(81,031)	-
Total Revenue	94,872	45,009	19,601	51,182	(81,031)	129,633
Segment results	(3,340)	7,028	22,894	15,437		42,019
Unallocated expenses						(20,850)
Profit from operations						21,169
Zakat						(7,246)
Taxation						(7,246)
Net profit for the year						13,923
Other information						
Segment assets	2,648,189	3,526,528	1,027,081	2,585,220	(228,075)	9,558,943
Unallocated corporate assets						530,750
Total assets						10,089,693
Segment liabilities	6,091,338	197,803	315,519	1,557,624	(209,428)	7,952,856
Unallocated corporate liabilities						445,697
Total liabilities						8,398,553
Other segment items						
Purchase of property and equipment				2,140		2,140
Purchase of intangible assets				81		81
Depreciation of property and equipment				2,331		2,331
Amortisation of intangible assets				685		685
Other non-cash expense other than depreciation	-	-	16,175	(2,814)	-	13,361

(ii) By Geographical Locations

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
31 Mar 2016			
Malaysia	129,633	21,169	10,089,693
Outside Malaysia	-	-	-
	129,633	21,169	10,089,693

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**Part B - Explanatory Notes Pursuant to Malaysian Financial Reporting Standard
 ("MFRS 134") Issued by Malaysian Accounting Standards Board**

B10 Valuation of Property and Equipment

There was no change in the valuation of property and equipment that were brought forward from the previous audited financial statements for the year ended 31 December 2016.

B11 Subsequent Events

There were no material events subsequent to the end of the current interim period that requires disclosure or adjustments to the unaudited condensed interim financial statements.

B12 Changes In Composition Of The Group

There were no significant changes in the composition of the Group since the last audited financial statements as at 31 December 2016.

B13 Changes In Contingent Liabilities and Contingent Assets

There were no significant changes in the contingent liabilities and contingent assets since the last annual statements of financial position as at 31 December 2016 other than those as disclosed in note A20.

B14 Capital Commitments

The capital commitments not provided for in the interim financial statements as at 31 March 2017 are as follows:

Capital expenditure

Authorised and contracted for:

- renovation
- purchase of IT hardware & software
- purchase of equipment

Authorised and not contracted for:

- purchase of IT hardware & software
- purchase of equipment

Group	Bank
RM'000	RM'000
110	110
7,135	7,135
-	-
7,245	7,245
-	-
-	-
-	-

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

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Issued by Malaysian Accounting Standards Board

B1 Basis of Preparation of the Financial Statements

The unaudited condensed interim financial statements for the three months ended 31 March 2017 of the Group and the Bank have been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB"), BNM's Guidelines on Financial Reporting for Islamic Banking Institutions ("BNM/GP8-i") and Shariah principles.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2016.

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

B2 Significant Accounting Policies

The significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2016, and modified for the adoption of the following accounting standards applicable for financial periods beginning on or after 1 January 2017 (whichever relevant):

MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)

MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

MFRS 12 Annual Improvements to MFRS Standards 2014–2016 Cycle (Amendments to MFRS 12)

The following FRSs and IC Interpretations have been issued by the MASB but are not yet effective, and have yet to be adopted by the Group and the Bank:

FRSs, Amendments to FRSs and Interpretations	Effective for financial period beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 1 Annual Improvements to MFRS Standards 2014–2016 Cycle (Amendments to MFRS 1)	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
MFRS 128 Annual Improvements to MFRS Standards 2014–2016 Cycle (Amendments to MFRS 128)	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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Certification of Financial Statements

I, Mohd Hazran Abd Hadi, being the officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, hereby certify that the financial statements are to the best of my knowledge and belief, correct and prepared in accordance to the Company's accounting and other records and are in conformity with the approved accounting standards in Malaysia.



Mohd Hazran Abd Hadi
Chief Financial Officer

I, David Power, being the Chief Executive Officer of Kuwait Finance House (Malaysia) Berhad, hereby certify that the financial statements are to the best of my knowledge and belief, correct and prepared in accordance to requirements stipulated in Bank Negara Malaysia Capital Adequacy Framework for Islamic Bank (CAFIB) - Disclosures Requirements (Pillar 3) guidelines.



David Power
Chief Executive Officer