



KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Interim Report for the Period Ended 31 March 2018

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KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	Group		Bank	
		31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
ASSETS					
Cash and short-term funds	A3	458,778	429,511	487,108	458,339
Deposits and placements with banks and other financial institutions	A4	139,113	213,521	139,113	213,505
Gold depository		98,039	102,824	98,039	102,824
Securities available-for-sale	A5	-	2,277,017	-	2,250,288
Securities held-to-maturity	A5	-	5,064	-	5,064
Financial assets at FVTPL	A6	21,084	-	6,173	-
Equity instruments at FVOCI	A7	36,118	-	36,118	-
Debt instruments at FVOCI	A7	2,655,837	-	2,644,548	-
Financing, advances and other receivables	A8	5,402,661	5,603,257	5,402,661	5,603,257
Other assets	A9	140,317	65,828	140,133	65,692
Hedging financial instruments	A10	3,794	1,714	3,794	1,714
Statutory deposits with Bank Negara Malaysia		192,320	213,600	192,320	213,600
Musarakah capital investment	A11	-	18	-	18
Investment in subsidiaries		-	-	10,200	13,732
Property and equipment		27,300	22,281	27,052	22,020
Intangible assets		10,242	10,601	10,055	10,379
Deferred tax assets		194,810	196,775	194,810	196,775
		9,380,413	9,142,011	9,392,125	9,157,207
LIABILITIES					
Deposits from customers	A12	4,295,740	4,699,178	4,216,127	4,416,919
Investment accounts of customers	A14	5,976	8,218	5,976	8,218
Deposits and placements of banks and other financial institutions	A13	2,918,679	2,262,903	3,032,775	2,584,891
Hedging financial instruments	A10	7,887	14,981	7,887	14,981
Subordinated Murabahah Tawarruq	A16	388,412	409,716	388,412	409,716
Other liabilities	A15	112,214	96,524	112,090	96,022
		7,728,907	7,491,520	7,763,265	7,530,747
SHAREHOLDER'S EQUITY					
Share capital	A17	1,425,272	1,425,272	1,425,272	1,425,272
Reserves		226,234	225,219	203,588	201,188
		1,651,506	1,650,491	1,628,860	1,626,460
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY					
		9,380,413	9,142,011	9,392,125	9,157,207
COMMITMENTS AND CONTINGENCIES					
	A22	2,096,773	1,692,582	2,096,773	1,692,582
CAPITAL ADEQUACY					
Common Equity Tier I / Tier I Capital Ratio	A23	23.919%	22.500%	23.464%	21.716%
Total Capital Ratio	A23	31.444%	29.927%	31.013%	29.162%
NET ASSETS PER SHARE (RM)					
		1.16	1.16	1.14	1.14

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	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating revenue		110,043	127,429	110,043	127,429
Income derived from investment of depositors' funds and others	A18	86,358	100,560	86,358	100,560
Income derived from investment of investment account funds	A21	66	70	66	70
Income derived from investment of shareholder's equity	A18	23,619	26,799	23,619	26,799
Total gross income		110,043	127,429	110,043	127,429
Impairment write-back on others		-	-	-	-
Impairment loss on securities	A19	-	(9,365)	-	(9,365)
Impairment write-back on financing	A19	-	22,429	-	22,429
Credit loss writeback on financial assets	A19	2,330	-	2,330	-
Total distributable income		112,373	140,494	112,373	140,494
Income attributable to the depositors	A20	(53,865)	(63,471)	(53,865)	(63,471)
Profit distributed to investment account holders	A21	(39)	(42)	(39)	(42)
Total net income		58,469	76,981	58,469	76,981
Personnel expenses		(27,142)	(20,663)	(27,142)	(20,663)
Other overheads and expenditures		(18,736)	(21,962)	(18,736)	(21,962)
Finance cost		(8,013)	(6,978)	(8,013)	(6,978)
Profit before zakat and taxation		4,578	27,378	4,578	27,378
Taxation		(1,016)	(8,876)	(1,016)	(8,876)
Net profit for the period		3,562	18,503	3,562	18,503
Attributable to:					
Equity holders of the Bank		3,562	18,503	3,562	18,503
Earnings per share attributable to equity holders of the Bank - Basic/Diluted (sen)		0.25	1.30	0.25	1.30

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**

<u>Group</u>	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net profit for the period	3,562	18,503	3,562	18,503
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Securities held at FVOCI:				
- Net unrealised gain on securities held at FVOCI	(6,443)	6,098	(6,443)	6,098
- Net realised loss on securities held at FVOCI reclassified to the income statement	(124)	(4)	(124)	(4)
Exchange differences on translation of foreign operations:				
Net loss taken to equity	(1,562)	(576)	(1,562)	(576)
Income tax relating to components of other comprehensive loss	(1,104)	(317)	(1,104)	(317)
Other comprehensive (loss)/income for the period, net of tax	(9,234)	5,201	(9,234)	5,201
Total comprehensive (loss)/income for the period	(5,672)	23,703	(5,672)	23,703
Total comprehensive (loss)/income for the period attributable to equity holders of the Bank	(5,672)	23,703	(5,672)	23,703

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	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Bank					
Operating revenue		109,816	124,842	109,816	124,842
Income derived from investment of depositors' funds and others	A18	86,278	100,621	86,278	100,621
Income derived from investment of investment account funds	A21	66	70	66	70
Income derived from investment of shareholder's equity	A18	23,472	24,151	23,472	24,151
Total gross income		109,816	124,842	109,816	124,842
Impairment loss on others		-	(712)	-	(712)
Impairment loss on securities	A19	-	(9,365)	-	(9,365)
Impairment write-back on financing	A19	-	22,429	-	22,429
Credit loss writeback on financial assets	A19	2,340	-	2,340	-
Total distributable income		112,156	137,194	112,156	137,194
Income attributable to the depositors	A20	(54,308)	(63,652)	(54,308)	(63,652)
Profit distributed to investment account holders	A21	(39)	(42)	(39)	(42)
Total net income		57,810	73,501	57,810	73,501
Personnel expenses		(26,980)	(19,791)	(26,980)	(19,791)
Other overheads and expenditures		(18,606)	(21,428)	(18,606)	(21,428)
Finance cost		(8,013)	(6,978)	(8,013)	(6,978)
Profit before zakat and taxation		4,212	25,304	4,212	25,304
Taxation		(1,011)	(8,871)	(1,011)	(8,871)
Net profit for the period		3,201	16,433	3,201	16,433

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

Bank

Net profit for the period

Other comprehensive income/(loss):

Securities held at FVOCI:

- Net unrealised gain on securities held at FVOCI

- Net realised loss on securities

held at FVOCI reclassified to the income statement

Income tax relating to components of other comprehensive loss

Other comprehensive (loss)/income for the period, net of tax

Total comprehensive income for the period

1st Quarter ended 31-Mar		Three-months ended 31-Mar	
2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
3,201	16,433	3,201	16,433
427	6,030	427	6,030
(124)	(4)	(124)	(4)
(1,104)	(317)	(1,104)	(317)
(801)	5,709	(801)	5,709
2,400	22,142	2,400	22,142

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 CHANGES IN EQUITY

	Non-distributable			Distributable	Total Equity RM'000	
	Share Capital RM'000	Statutory Reserve RM'000	Translation Reserve RM'000	FVOCI Reserve RM'000		Retained Earnings RM'000
Group						
At 1 Jan 2018						
- As previously stated	1,425,272	162,216	3,178	(6,825)	66,650	1,650,491
- Effect of MFRS 9 adoption	-	-	-	-	(137)	(137)
As at 1 Jan 2018, as restated	1,425,272	162,216	3,178	(6,825)	66,513	1,650,354
Total comprehensive income	-	-	(1,562)	(847)	3,562	1,152
At 31 Mar 2018	1,425,272	162,216	1,616	(7,672)	70,075	1,651,506
At 1 Jan 2017						
Total comprehensive income	-	-	(3,912)	2,429	5,196	3,713
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
At 31 Dec 2017	1,425,272	162,216	3,178	(6,825)	66,650	1,650,491
Bank						
At 1 Jan 2018						
Total comprehensive income	-	-	-	(801)	3,201	2,400
At 31 Mar 2018	1,425,272	162,216	-	(7,449)	48,821	1,628,860
At 1 Jan 2017						
Total comprehensive income	-	-	-	2,352	7,661	10,013
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
At 31 Dec 2017	1,425,272	162,216	-	(6,648)	45,620	1,626,460

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 2018 RM'000	31-Mar 2017 RM'000	31-Mar 2018 RM'000	31-Mar 2017 RM'000
Profit before zakat and taxation	4,578	27,378	4,212	25,304
Adjustments for non-cash items	(26,283)	(1,162)	(26,315)	(493)
Operating profit before changes in working capital	(21,705)	26,216	(22,104)	24,812
<u>Changes in the working capital</u>				
Net changes in operating assets	215,853	26,258	219,441	26,259
Net changes in operating liabilities	267,595	(906,936)	266,041	(899,100)
Zakat and taxation refund/(paid)	-	(25)	-	-
Net cash generated from operating activities	483,448	(880,702)	485,482	(872,842)
Net purchases of assets	(434,105)	(136,178)	(434,614)	(136,120)
Net cash used in investing activities	(434,105)	(136,178)	(434,614)	(136,120)
Net change in cash and cash equivalents	27,638	(990,664)	28,764	(984,151)
Cash and cash equivalents at beginning of the period	429,575	2,341,840	458,403	2,341,840
Exchange differences on translation of opening balances	1,616	6,514	-	-
Cash and cash equivalents at end of the period	458,829	1,357,689	487,167	1,357,689

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 and the Bank recorded a profit for the year of RM3.6 million and RM3.2 million respectively for the year ended 31 March 2018.

A2 OUTLOOK FOR 2018

The Malaysian economy is projecting strong growth of between 5.5% and 6.0% in 2018 (2017: 5.9%). Economic growth will be underpinned by resilient domestic demand. Household spending will remain the key source of growth, benefiting from higher income following favourable labour market conditions. The Private sector continues to spearhead growth, while the Public sector remains committed towards a fiscal consolidation path. The external sector is expected to remain strong supported by sustained demand from major trading partners. Inflation will remain between 2.0% and 3.0% while it is expected the economy continues to operate under full employment.

A3 Cash and short term funds

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Cash and short-term funds	458,829	429,575	487,166	458,403
Less : ECL allowance	(51)	(64)	(58)	(64)
	458,778	429,511	487,108	458,339

A3.1 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	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual RM'000	Individual RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	458,829	-	-	458,829	429,575
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	458,829	-	-	458,829	429,575

Bank	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual RM'000	Individual RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	487,166	-	-	487,166	458,403
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	487,166	-	-	487,166	458,403

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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

A3.1 Impairment allowance for cash and short term funds (Cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

2018 Group	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	429,575	-	-	429,575
New assets originated or purchased	458,829	-	-	458,829
Assets derecognised or repaid (excluding write offs)	(429,575)	-	-	(429,575)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	458,829	-	-	458,829

2018 Group	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	64	-	-	64
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(13)	-	-	(13)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	51	-	-	51
Net carrying amount (after ECL)	458,778	-	-	458,778

2018 Bank	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	458,403	-	-	458,403
New assets originated or purchased	487,166	-	-	487,166
Assets derecognised or repaid (excluding write offs)	(458,403)	-	-	(458,403)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	487,166	-	-	487,166

2018 Bank	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	64	-	-	64
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(7)	-	-	(7)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	58	-	-	58
Net carrying amount (after ECL)	487,108	-	-	487,108

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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 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Licensed Islamic banks	-	148,000	-	148,000
Bank Negara Malaysia ^	5,976	8,218	5,976	8,218
Other financial institutions	133,597	58,588	133,598	58,588
Less : ECL Allowance	(460)	(1,285)	(460)	(1,301)
	139,113	213,521	139,113	213,505

^ The placement with Bank Negara Malaysia are funded by investment accounts of customers as disclosed in Note A14.

A4.1 Impairment allowance for due from banks

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	2018				2017
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	139,573	-	-	139,573	213,521
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	139,573	-	-	139,573	213,521

Bank	2018				2017
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	139,573	-	-	139,573	213,505
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	139,573	-	-	139,573	213,505

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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**

A4.1 Impairment allowance for due from banks (Cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

2018 Group	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	213,521	-	-	213,521
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(73,948)	-	-	(73,948)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	139,573	-	-	139,573

2018 Group	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	1,285	-	-	1,285
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(825)	-	-	(825)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	460	-	-	460
Net carrying amount (after ECL)	139,113	-	-	139,113

2018 Bank	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	213,505	-	-	213,505
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(73,932)	-	-	(73,932)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	139,573	-	-	139,573

2018 Bank	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	1,301	-	-	1,301
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(842)	-	-	(842)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	460	-	-	460
Net carrying amount (after ECL)	139,113	-	-	139,113

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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 Securities

i) Securities Available-For-Sale

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
At fair value				
Unquoted securities				
- Islamic private debt securities/sukuks	-	344,701	-	332,714
- Government guaranteed sukuk	-	1,879,396	-	1,879,396
	-	2,224,097	-	2,212,110
At cost				
Unquoted shares in Malaysia	-	36,100	-	36,100
Property funds	-	14,758	-	-
Collective Investment Scheme	-	7,321	-	7,320
	-	58,179	-	43,420
Less : ECL allowance	-	2,282,276	-	2,255,530
	-	(5,259)	-	(5,242)
	-	2,277,017	-	2,250,288

ii) Securities Held-To-Maturity

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
At amortised cost				
Unquoted Islamic private debt securities/sukuk	-	5,064	-	5,064

A6 Financial assets at FVTPL

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
At fair value				
Collective Investment Scheme	6,173	-	6,173	-
Property funds	14,911	-	-	-
	21,084	-	6,173	-

A7 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.

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Group				
Internal rating grade :				
Performing	2,663,925	-	-	2,663,925
Past due but not impaired	-	-	-	-
Individually impaired	-	-	15,390	15,390
Total	2,663,925	-	15,390	2,679,315

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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**

A7 Debt instruments measured at FVOCI (Cont'd.)

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Bank				
Internal rating grade :				
Performing	2,652,484	-	-	2,652,484
Past due but not impaired	-	-	-	-
Individually impaired	-	-	15,390	15,390
Total	2,652,484	-	15,390	2,667,874

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Group				
Fair value as at 1 January 2018	2,207,973	-	16,124	2,224,097
New assets originated or purchased	455,953	-	-	455,953
Assets derecognised or matured (excluding write-offs)	-	-	-	-
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(734)	(734)
At 31 March 2018	2,663,925	-	15,390	2,679,315

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Group				
ECLs as at 1 January 2018	5,259	-	16,124	21,383
New assets originated or purchased	2,829	-	-	2,829
Assets derecognised or matured (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(734)	(734)
At 31 March 2018	8,088	-	15,390	23,478

Net carrying amount (after ECL)	2,655,837	-	-	2,655,837
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A7 Debt instruments measured at FVOCI (Cont'd.)

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Bank				
Fair value as at 1 January	2,195,986	-	16,124	2,212,110
New assets originated or purchased	-	-	-	-
Assets derecognised or matured	-	-	-	-
Change in fair value	456,498	-	-	456,498
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(734)	(734)
At 31 March 2018	2,652,484	-	15,390	2,667,874

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Bank				
ECLs as at 1 January 2018	5,242	-	16,124	21,366
New assets originated or purchased	-	-	-	-
Assets derecognised or matured	-	-	-	-
Transfers to Stage 1	2,694	-	-	2,694
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(734)	(734)
At 31 March 2018	7,936	-	15,390	23,326

Net carrying amount (after ECL)	2,644,548	-	-	2,644,548
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A7 Equity instruments measured at FVOCI

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

31-Mar-18	Stage 1 Individual RM'000	Stage 2 Individual RM'000	Stage 3 RM'000	Total RM'000
Group				
Internal rating grade :				
Performing	36,118	-	-	36,118
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	36,118	-	-	36,118

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A8 Financing, Advances and Other Receivables

i) At amortised cost

Term financing	
- House financing	
- Personal financing	
- Leasing financing	
- Syndicated financing	
- Cashline financing	
- Hire purchase receivables	
- Other term financing	
Staff financing	
Less: Impairment allowances on financing	
- Stage 1 Financing	
- Stage 2 Financing	
- Stage 1 Undrawn	
- Stage 1 Trade facilities	
- Stage 2 Trade facilities	
- Stage 3 Financing	
Net financing, advances and other receivables	

Group and Bank	
31 Mar 2018	31 Dec 2017
RM'000	RM'000
1,007,044	946,670
1,184,814	1,172,038
14,632	17,319
277,794	276,530
11,402	11,865
710,136	679,081
2,559,183	2,865,532
15,730	13,707
5,780,734	5,982,742
(107,436)	(108,995)
(7,531)	(5,831)
(933)	(1,333)
(841)	(318)
(37)	(50)
(261,294)	(262,958)
5,402,661	5,603,257

ii) By contract

Ijarah Muntahia Bittamlik (lease ended with ownership)	
Murabahah (cost-plus)	
Mudharabah (profit sharing)	
Qard (benevolent financing)	
Musyarakah (profit and loss sharing)	
Istisna'	

Group and Bank	
31 Mar 2018	31 Dec 2017
RM'000	RM'000
2,231,833	2,160,107
3,440,855	3,711,313
58,337	61,024
750	931
47,707	48,098
1,251	1,269
5,780,734	5,982,742

iii) By type of customer

Domestic business enterprises	
- Small medium enterprises	
- Others	
Individuals	
Domestic non-bank financial institutions	

Group and Bank	
31 Mar 2018	31 Dec 2017
RM'000	RM'000
536,818	554,265
2,302,699	2,592,970
2,937,737	2,831,795
3,479	3,712
5,780,734	5,982,742

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A8 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 2018 RM'000	31 Dec 2017 RM'000
2,329,317	2,609,787
117,975	122,852
312,549	216,249
3,020,893	3,033,854
5,780,734	5,982,742

(v) By geographical distribution

Malaysia
Middle East
Other countries

Group and Bank	
31 Mar 2018 RM'000	31 Dec 2017 RM'000
5,770,428	5,972,156
4,542	4,647
5,764	5,939
5,780,734	5,982,742

(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 2018 RM'000	31 Dec 2017 RM'000
8,893	7,712
710,136	679,081
277,794	276,530
955,378	1,299,375
1,004,082	943,794
2,824,451	2,776,250
5,780,734	5,982,742

(vii) By economic purpose

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 2018 RM'000	31 Dec 2017 RM'000
2,787	4,878
713,430	682,572
1,035,361	974,066
411,363	782,258
39,850	45,217
1,656,105	1,582,570
209,360	207,679
1,210,179	1,196,969
502,299	506,533
5,780,734	5,982,742

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A8 Financing, Advances and Other Receivables (cont'd.)

viii) By sector

Construction	647,633
Electricity, gas and water	121,886
Finance, insurance and business services	113,793
Household	2,937,737
Manufacturing	494,745
Agriculture, hunting, forestry & fishing	200,725
Real Estate	570,206
Transports, storage and communication	168,762
Wholesale & retail trade and restaurants & hotels	478,245
Others	46,893

Group and Bank	
31 Mar 2018	31 Dec 2017
RM'000	RM'000
647,633	647,838
121,886	124,148
113,793	129,875
2,937,737	2,831,795
494,745	512,982
200,725	203,680
570,206	911,310
168,762	181,565
478,245	388,456
46,893	51,093
5,780,734	5,982,742

(ix) Financing by types and Shariah contract

	Group and Bank						
	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 Mar 2018							
House financing	983,693	87	-	22,012	-	1,251	1,007,044
Personal financing	-	1,184,241	-	-	573	-	1,184,814
Leasing financing	-	-	14,632	-	-	-	14,632
Syndicated financing	56,129	221,665	-	-	-	-	277,794
Cashline financing	-	11,402	-	-	-	-	11,402
Hire purchase receivables	710,136	-	-	-	-	-	710,136
Other term financing	470,555	2,019,422	43,705	25,500	-	-	2,559,183
Staff financing	11,319	4,038	-	195	177	-	15,730
Total	2,231,833	3,440,855	58,337	47,707	750	1,251	5,780,734

	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
31 Dec 2017							
House financing	922,913	88	-	22,400	-	1,269	946,670
Personal financing	-	1,171,530	-	-	508	-	1,172,038
Leasing financing	-	-	17,319	-	-	-	17,319
Syndicated financing	55,370	221,160	-	-	-	-	276,530
Cashline financing	-	11,865	-	-	-	-	11,865
Hire purchase receivables	679,081	-	-	-	-	-	679,081
Other term financing	492,501	2,303,826	43,705	25,500	-	-	2,865,532
Staff financing	10,242	2,844	-	198	423	-	13,707
Total	2,160,107	3,711,313	61,024	48,098	931	1,269	5,982,742

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A8 Financing, Advances and Other Receivables (cont'd.)

x) Purpose and Source of Qard financing

As at 1 January	931	1,043
Source of Qard fund:	114	1,347
- Depositors' Fund	93	1,104
- Shareholders' Fund	21	243
Uses of Qard fund:	(295)	(1,459)
- Financing for asset purchase	(240)	(1,197)
- Staff Benevolent	(55)	(262)
Closing balance	750	931

Group and Bank	
31 Mar 2018 RM'000	31 Dec 2017 RM'000
931	1,043
114	1,347
93	1,104
21	243
(295)	(1,459)
(240)	(1,197)
(55)	(262)
750	931

xi) Movements in impaired financing, advances and other receivables

At 1 Jan	418,478	478,060
Impaired during the period/year	(5,650)	(59,582)
- Impaired during the period/year	16,295	127,884
- Reclassified to performing during the year	(9,022)	(3,440)
- Amount recovered	(12,923)	(175,736)
- Amount written off	-	(8,290)
Closing balance	412,828	418,478

Group and Bank	
31 Mar 2018 RM'000	31 Dec 2017 RM'000
418,478	478,060
(5,650)	(59,582)
16,295	127,884
(9,022)	(3,440)
(12,923)	(175,736)
-	(8,290)
412,828	418,478
2.75%	2.70%

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

xii) Movements in impairment allowance on financing, advances and other receivables

Stage 1 and 2 impairment

At 1 Jan	122,221	139,421
Allowance charged during the year	(5,442)	(17,200)
Closing balance	116,779	122,221

Group and Bank	
31 Mar 2018 RM'000	31 Dec 2017 RM'000
122,221	139,421
(5,442)	(17,200)
116,779	122,221
2.12%	2.14%

As % of total gross financing, advances and other receivables less individual impairment

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A8 Financing, Advances and Other Receivables (cont'd.)

xii) Movements in impairment allowance on financing, advances and other receivables (cont'd.)

	Group and Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Stage 3 impairment		
At 1 Jan	263,873	229,687
Allowance reversed during the year	(2,579)	42,475
- Allowance made	8,902	110,693
- Allowance written-back	(11,480)	(68,218)
Amount written off	-	(8,290)
Closing balance	261,294	263,873

xiii) Impaired financing by sector

	Group and Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Electricity, gas and water	79	79
Finance, insurance and business services	168	168
Household	56,533	61,971
Manufacturing	155,971	158,820
Real Estate	191,434	193,020
Wholesale & retail trade and restaurants & hotels	8,643	4,420
	412,828	418,478

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A8.1 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	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual	Individual			
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	5,170,911	196,995	-	5,367,906	5,564,707
High grade	-	-	-	-	-
Individually impaired	-	-	412,828	412,828	418,478
Total	5,170,911	196,995	412,828	5,780,734	5,983,186

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to financing and advances to customers is, as follows :

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount as at 1 January 2018	5,388,440	176,268	418,478	5,983,186
New assets originated or purchased	-	20,727	-	20,727
Assets derecognised or repaid (excluding write offs)	(217,529)	-	(5,650)	(223,179)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	5,170,911	196,995	412,828	5,780,734

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2018 under IFRS 9	108,995	5,831	262,958	377,784
New assets originated or purchased	-	1,699	-	1,699
Assets derecognised or repaid (excluding write offs)	(1,559)	-	(1,664)	(3,223)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	107,436	7,531	261,294	376,260
Net carrying amount (after ECL)	5,063,475	189,465	151,534	5,404,474

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A9 Other Assets

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Deposits and prepayments	13,334	8,845	13,149	8,711
Amount due from subsidiaries	-	-	4	4
Amount due from other related parties	120,752	53,936	120,752	53,936
Fee receivable	159	795	159	795
Sundry debtors	6,072	2,252	6,069	2,246
	140,317	65,828	140,133	65,692

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

A10 Hedging Financial Instruments

Group and Bank

At 31 Mar 2018

Forward foreign exchange related contracts
- in connection with fair value hedges
- other derivatives without a hedging relationship
Ijarah rental swap related contracts
- other derivatives without a hedging relationship
Total

Notional Amount RM'000	Fair Value	
	Assets RM'000	Liabilities RM'000
1,092,791	2,815	7,846
482,476	-	4,550
610,315	2,815	3,296
105,268	979	41
105,268	979	41
1,198,060	3,794	7,887

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 swap arrangements involving interbank borrowing and forward foreign exchange contract. The changes in the fair value of the forward foreign exchange contract and interbank borrowings are recognised in the income statements. The measurement of the hedged item results in a gain of RM6,110,423 recorded in unrealised gain/loss on revaluation of foreign exchange.

At 31 Dec 2017

Forward foreign exchange related contracts
- in connection with fair value hedges
- other derivatives without a hedging relationship
Ijarah rental swap related contracts
- other derivatives without a hedging relationship
Total

Notional Amount RM'000	Fair Value	
	Assets RM'000	Liabilities RM'000
646,620	120	14,938
622,899	-	14,833
23,721	120	105
124,610	1,594	43
124,610	1,594	43
771,230	1,714	14,981

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A11 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.

A12 Deposits from Customers

(i) By type of deposit

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Qard				
- Demand deposits	430,232	473,933	351,053	394,620
- Gold deposits	97,849	102,061	97,849	102,061
Wakalah	434	202,946	-	-
Murabahah				
- Term placement	3,679,753	3,833,900	3,679,753	3,833,900
- Savings deposits	87,472	86,338	87,472	86,338
	4,295,740	4,699,178	4,216,127	4,416,919

(ii) By type of customer

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Business enterprises	1,431,232	1,807,400	1,302,486	1,477,483
Individuals	377,448	335,578	377,448	335,578
Subsidiaries	-	-	49,133	47,659
Government and statutory bodies	2,019,679	2,063,351	2,019,679	2,063,351
Other enterprises	467,381	492,849	467,381	492,849
	4,295,740	4,699,178	4,216,127	4,416,919

(iii) By contractual maturity

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Due within six months	3,721,423	3,928,810	3,641,811	3,646,550
More than six months to one year	489,643	656,716	489,643	656,716
More than one year to three years	84,673	113,652	84,673	113,653
	4,295,740	4,699,178	4,216,127	4,416,919

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A13 Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Murabahah				
Licensed Islamic banks	550,000	50,000	550,000	50,000
Other financial institutions	2,368,679	2,212,903	2,482,775	2,534,891
	2,918,679	2,262,903	3,032,775	2,584,891

A14 INVESTMENT ACCOUNTS

	Group and Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000
As at 1 January	8,218	8,563
Net placement during the year	(2,281)	(524)
Income from investment	66	300
Profit distributed to mudarib	(27)	(121)
As at 31 December	5,976	8,218
Investment asset: Wadiah placement with BNM	5,976	8,218

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	1.91

	Group and Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Business enterprises	1,204	1,193
Individuals	4,273	6,477
Other enterprises	499	548
	5,976	8,218

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A15 Other Liabilities

	Group		Bank	
	31 Mar 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Sundry creditors	78,920	49,071	78,832	48,954
Accrued restoration cost	5,600	5,707	5,600	5,600
Undistributed charity funds (ii)	2,444	2,760	2,444	2,760
Other provisions and accruals	25,249	38,986	25,213	38,708
	112,214	96,524	112,090	96,022

(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:

Sources of charity funds:
Undistributed charity funds as at 1 January
Penalty (reversal)/charges on late payment
Total sources of funds during the year

Uses of charity funds:
Compensation of late payment charges
Contribution to non profit organisations
Aid to needy family
Total uses of funds during the year

Closing balance

Group and Bank	
31 Mar 2018 RM'000	31 Dec 2017 RM'000
2,760	7,377
(309)	5,672
2,451	13,050
-	(10,000)
-	(195)
(7)	(95)
(7)	(10,290)
2,444	2,760

A16 Subordinated Murabahah Tawarruq

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD100,527,083 or equivalent RM388,411,518 (Dec 2017: USD101,214,583 or equivalent RM409,716,633) is unsecured effective from 31 May 2007 which extended until 23 September 2018 and forms part of the Bank's Tier-2 capital.

A17 Share Capital

	Number of ordinary shares at RM1.00 each		Amount	
	31 Mar 2018 Units'000	31 Dec 2017 Units'000	31 Mar 2018 RM'000	31 Dec 2017 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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A18 Income derived from investment of other deposits

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group				
Finance income from financing, advances and other receivables	65,015	73,246	65,015	73,246
Finance income from impaired financing	328	296	328	296
Income from securities				
- Available-for-sale	-	8,355	-	8,355
- Held-to-maturity	-	647	-	647
- Financial assets at FVTPL	9	-	9	-
- Financial assets at FVOCI	19,059	-	19,059	-
Money at call and deposits with financial institutions	1,994	12,984	1,994	12,984
	86,405	95,528	86,405	95,528
Amortisation of premium less accretion of discounts	(1,131)	(1,135)	(1,131)	(1,135)
Total finance income and hibah	85,275	94,393	85,275	94,393
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	3	-	3
- Financial assets at FVTPL	9	-	9	-
- Financial assets at FVOCI	(79)	-	(79)	-
Foreign exchange gain				
- Realised	719	5,424	719	5,424
Gain on Ijarah rental swap obligation	434	740	434	740
	86,358	100,560	86,358	100,560

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A18 Income derived from investment of other deposits (Cont'd.)

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Bank				
Finance income from financing, advances and other receivables	65,049	73,388	65,049	73,388
Finance income from impaired financing	328	296	328	296
Income from securities				
- Available-for-sale	-	8,318	-	8,318
- Held-to-maturity	-	649	-	649
- Financial assets at FVTPL	9	-	9	-
- Financial assets at FVOCI	19,024	-	19,024	-
Money at call and deposits with financial institutions	2,008	13,046	2,008	13,046
	86,418	95,697	86,418	95,697
Amortisation of premium less accretion of discounts	(1,131)	(1,137)	(1,131)	(1,137)
Total finance income and hibah	85,287	94,560	85,287	94,560
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	3	-	3
- Financial assets at FVTPL	9	-	9	-
- Financial assets at FVOCI	(79)	-	(79)	-
Foreign exchange gain				
- Realised	627	5,317	627	5,317
Gain on Ijarah rental swap obligation	434	741	434	741
	86,278	100,621	86,278	100,621

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A18 Income derived from Investment of Shareholder's Equity

Group	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance income from financing, advances and other receivables	14,939	13,939	14,939	13,939
Finance income from impaired financing	75	56	75	56
Income from securities:				
- Available-for-sale	-	1,592	-	1,592
- Held-to-maturity	-	123	-	123
- Financial assets at FVTPL	2	-	2	-
- Financial assets at FVOCI	4,378	-	4,378	-
Money at call and deposits with financial institutions	458	2,464	458	2,464
Amortisation of premium less accretion of discounts	19,852	18,174	19,852	18,174
Total finance income and hibah	(260)	(216)	(260)	(216)
	19,593	17,958	19,593	17,958
Fee income				
- Commission	2,287	647	2,287	647
- Fund management fee	-	364	-	364
- Other fee income	2,121	1,267	2,121	1,267
- Compensation of late payment charges	-	4,000	-	4,000
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	1	-	1
- Financial assets at FVTPL	2	-	2	-
- Financial assets at FVOCI	(18)	-	(18)	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(603)	(943)	(603)	(943)
Foreign exchange (loss)/gain				
- Realised	(35,467)	1,061	(35,467)	1,061
- Unrealised	35,505	121	35,505	121
Gain on Ijarah rental swap obligation	100	141	100	141
Other income	99	2,145	99	2,145
Management fee	-	39	-	39
	23,619	26,799	23,619	26,799

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A18 Income derived from Investment of Shareholder's Equity (cont'd.)

	1st Quarter ended 31-Mar		Three-months ended 31-Mar	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Bank				
Finance income from financing, advances and other receivables	14,905	13,796	14,905	13,796
Finance income from impaired financing	75	56	75	56
Income from securities:				
- Available-for-sale	-	1,566	-	1,566
- Held-to-maturity	-	122	-	122
- Financial assets at FVTPL	2	-	2	-
- Financial assets at FVOCI	4,358	-	4,358	-
Money at call and deposits with financial institutions	460	2,445	460	2,445
	19,801	17,984	19,801	17,984
Amortisation of premium less accretion of discounts	(259)	(214)	(259)	(214)
Total finance income and hibah	19,541	17,771	19,541	17,771
Fee income				
- Commission	2,293	661	2,293	661
- Other fee income	2,115	5,267	2,115	5,267
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	1	-	1
- Financial assets at FVTPL	2	-	2	-
- Financial assets at FVOCI	(18)	-	(18)	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(603)	(943)	(603)	(943)
Foreign exchange (loss)/gain				
- Realised	(35,488)	1,029	(35,488)	1,029
- Unrealised	35,500	104	35,500	104
Gain on Ijarah rental swap obligation	99	139	99	139
Management fee	30	123	30	123
	23,472	24,151	23,472	24,151

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A19 Credit Loss Expenses

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

	Stage 1: Individual	Stage 1: Collective	Stage 2: Individual	Stage 2: Collective	Stage 3: Individual	Stage 3: Collective	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Due from banks	(413)	-	-	-	-	-	(413)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-	-	-	-
Financing and advances to customers	-	(1,118)	-	-	4,618	-	3,500
Debt instruments measured at FVOCI	(1,037)	-	-	-	-	-	(1,037)
Debt instruments measured at amortised cost	-	-	-	-	-	-	-
Financial guarantees	-	-	-	-	-	-	-
Financing commitments	280	-	-	-	-	-	280
Letters of credit	-	-	-	-	-	-	-
Total Impairment loss	(1,170)	(1,118)	-	-	4,618	-	2,330

The table below shows the impairment (charges)/writeback recorded in the income statement under MFRS 139 during 2017:

	Specific	Collective (individually not significant exposures)	Collective (Incurred but not yet identified)	Total
2017	RM'000	RM'000	RM'000	RM'000
Group				
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	22,429	-	-	22,429
Credit loss expense on financial investments—available-for-sale				
Debt securities	(9,365)	-	-	(9,365)
Equities	-	-	-	-
Total on balance sheet items	-	-	-	-
Off balance sheet items	-	-	-	-
Total	13,064	-	-	13,064

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A19 Credit Loss Expenses (Cont'd.)

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 1 Collective	Stage 2 Collective	Stage 3	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank							
Due from banks	(413)	-	-	-	-	-	(413)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-	-	-	-
Financing and advances to customers	-	(1,118)	-	-	-	4,618	3,500
Debt instruments measured at FVOCI	(1,027)	-	-	-	-	-	(1,027)
Debt instruments measured at amortised cost	-	-	-	-	-	-	-
Financial guarantees	-	-	-	-	-	-	-
Financing commitments	280	-	-	-	-	-	280
Letters of credit	-	-	-	-	-	-	-
Total Impairment loss	(1,160)	(1,118)	-	-	-	4,618	2,340

The table below shows the impairment (charges)/writeback recorded in the income statement under MFRS 139 during 2017:

	Specific	Collective (individually not significant exposures)	Collective (Incurred but not yet identified)	Total
2017	RM'000	RM'000	RM'000	RM'000
Bank				
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	22,429	-	-	22,429
Credit loss expense on financial investments—available-for-sale				
Debt securities	(9,365)	-	-	(9,365)
Equities	-	-	-	-
Total on balance sheet items	-	-	-	-
Off balance sheet items	-	-	-	-
Total	13,064	-	-	13,064

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A20 Income Attributable to the Depositors

Group

Deposits from customers

- Murabahah
- Wakalah

Deposits and placements of banks and
other financial institutions

- Murabahah and Wakalah

Others

Bank

Deposits from customers

- Murabahah

Deposits and placements of banks and
other financial institutions

- Murabahah and Wakalah

Others

1st Quarter ended 31-Mar		Three-months ended 31-Mar	
2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
32,387	28,267	32,387	28,267
509	1	509	1
20,525	34,444	20,525	34,444
444	759	444	759
53,865	63,471	53,865	63,471
32,388	28,267	32,387	28,267
21,477	34,625	21,476.63	34,625
444	759	444	759
54,308	63,652	54,308	63,652

A21 Profit Distributed to Investment Account Holders

Group & Bank

Income derived from investment of investment account funds

Profit distributed to mudarib

1st Quarter ended 31-Mar		Three-months ended 31-Mar	
2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
66	70	66	70
(27)	(28)	(27)	(28)
39	42	39	42

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A22 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 2018			As at 31 Dec 2017		
	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	2,087	2,087	1,487	2,287	2,287	2,287
Transaction related contingencies	166,958	83,479	71,191	100,027	50,014	40,901
Trade related contingencies	28,733	5,747	5,747	19,113	3,823	3,823
Irrevocable commitments to extend credit						
- maturity less than one year	189,855	37,971	37,369	495,869	99,174	98,573
- maturity more than one year	549,564	274,782	264,592	319,868	159,934	147,321
Foreign exchange related contracts *						
- less than one year	1,054,307	18,588	3,826	630,808	9,582	2,053
Profit rate related contracts (ljarah rental swap obligation) *						
- five years and above	105,268	997	763	124,610	1,810	1,525
	2,096,773	423,650	384,977	1,692,582	326,624	296,483

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

A22.1 Contingent liabilities, commitments

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	
	2018 RM'000	2017 RM'000
Financial guarantees	169,045	102,314
Letters of credit	28,733	19,113
Other undrawn commitments	739,419	815,737
Total commitment	937,197	937,165
Less : ECL (charge)/writeback	(1,812)	(1,701)
	935,385	935,463

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A22.1 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	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual	Individual	Individual	Individual	Individual
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	165,834	3,211	-	169,045	102,314
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	165,834	3,211	-	169,045	102,314

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

Group and Bank	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
Outstanding exposure as at 1 January 2018	99,103	3,211	-	102,314
New exposures	66,730	-	-	66,730
Exposure derecognised or matured/lapsed (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	165,834	3,211	-	169,045

Group and Bank	Stage 1	Stage 2	Stage 3	Total ECL allowance
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
ECLs as at 1 January 2018	294	50	-	344
New exposures	522	-	-	522
Exposures derecognised or matured (excluding write-offs)	-	(12)	-	(12)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	815	37	-	853
Net carrying amount (after ECL)	165,018	3,174	-	168,192

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A22.1 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	2018				2017
	Stage 1:	Stage 2:	Stage 3	Total	Total
	Individual	Individual			
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	28,733	-	-	28,733	19,113
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	28,733	-	-	28,733	19,113

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:

Group and Bank	Stage 1	Stage 2:	Stage 3	Total
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
Outstanding exposure as at 1 January 2018	19,113	-	-	19,113
New exposures	9,620	-	-	9,620
Exposure derecognised or matured/lapsed (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	28,733	-	-	28,733

Group and Bank	Stage 1	Stage 2:	Stage 3	Total ECL allowance
	Individual	Individual		
	RM'000	RM'000	RM'000	RM'000
ECLs as at 1 January 2018	24	-	-	24
New exposures	2	-	-	2
Exposures derecognised or matured (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	26	-	-	26
Net carrying amount (after ECL)	28,707	-	-	28,707

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A22.1 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	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	Individual	Individual			
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	734,087	5,333	-	739,419	815,737
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	734,087	5,333	-	739,419	815,737

An analysis of changes in the gross carrying amount and the corresponding ECLs in relation to other undrawn commitments is, as follows:

Group and Bank	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Outstanding exposure as at 1 January 2018	813,707	2,030	-	815,737
New exposures	-	3,303	-	3,303
Exposure derecognised or matured/lapsed (excluding write offs)	(79,621)	-	-	(79,621)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	734,087	5,333	-	739,419

Group and Bank	Stage 1 Individual	Stage 2 Individual	Stage 3	Total ECL allowance
	RM'000	RM'000	RM'000	RM'000
ECLs as at 1 January 2018	1,333	-	-	1,333
New exposures	-	-	-	-
Exposures derecognised or matured (excluding write-offs)	(400)	-	-	(400)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 March 2018	933	-	-	933
Net carrying amount (after ECL)	733,153	5,333	-	738,486

No provisions arising from financial guarantees, letters of credit and other undrawn commitments under MFRS139 and MFRS137 as at 31 December 2017.

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A23 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 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Common Equity Tier I/ Tier I Capital Ratio				
Credit risk	25.859%	24.208%	25.325%	23.324%
Credit, market, operational and large exposure risks	23.919%	22.500%	23.464%	21.716%
Total Capital Ratio				
Credit risk	33.994%	32.199%	33.472%	31.320%
Credit, market, operational and large exposure risks	31.444%	29.927%	31.013%	29.162%

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A23 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 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 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	162,215	162,216	162,215	162,216
Other reserves	60,458	63,003	38,172	38,972
	1,647,945	1,650,491	1,625,659	1,626,460
Less: Deferred tax assets (net)	(196,775)	(196,775)	(196,775)	(196,775)
Less: Investment in subsidiaries	-	-	(10,200)	(30,200)
Total CET I / Tier I capital	1,451,170	1,453,716	1,418,684	1,399,485
<u>Tier II capital</u>				
Subordinated Murabahah Tawarruq	386,375	404,800	386,375	404,800
Collective impairment on financing	70,148	75,065	70,025	75,003
Total Tier II capital	456,523	479,865	456,400	479,803
Total capital	1,907,693	1,933,581	1,875,084	1,879,288

(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 2018 RM'000	31 Dec 2017 RM'000	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	5,611,839	6,005,122	5,602,015	6,000,188
Total Market RWA	29,462	23,226	29,462	23,226
Total Operational RWA	408,517	415,610	397,577	403,857
Large Exposure Risk RWA for Equity Holdings	17,108	17,108	17,108	17,108
Total Risk-Weighted Assets	6,066,925	6,461,066	6,046,162	6,444,380
Computation of Capital Ratios				
Core Capital	1,451,170	1,453,716	1,418,684	1,399,485
Capital Base	1,907,693	1,933,581	1,875,084	1,879,288
CET I / Tier I Capital Ratio	23.919%	22.500%	23.464%	21.716%
Total Capital Ratio	31.444%	29.927%	31.013%	29.162%

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A24 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Group	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
31 Mar 2018			
Financial assets			
Securities held at FVTPL	21,084	-	21,084
Debt instruments measured at FVOCI	2,655,837	-	2,655,837
Equity instruments at FVOCI	36,118	-	36,118
Financing, advances and other receivables	1,722,124	4,055,932	5,778,056
Hedging financial instruments	3,794	-	3,794
Total	4,438,957	4,055,932	8,494,889
Financial liability			
Deposits from customers	4,289,103	-	4,289,103
Hedging financial instruments	7,887	-	7,887
Subordinated Murabahah Tawarruq	-	386,240	386,240
	4,296,990	386,240	4,683,230
31 Dec 2017			
Financial assets			
Securities available-for-sale	2,224,097	-	2,224,097
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,742,052	4,078,290	7,820,342
Financial liability			
Deposits from customers	4,694,762	-	4,694,762
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	4,709,743	404,676	5,114,419

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A24 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 2018			
Financial assets			
Financial assets at FVTPL	6,173	-	6,173
Debt instruments measured at FVOCI	2,644,548	-	2,644,548
Equity instruments at FVOCI	36,118	-	36,118
Financing, advances and other receivables	1,722,124	4,055,932	5,778,056
Hedging financial instruments	3,794	-	3,794
Total	4,406,584	4,055,932	8,462,516
Financial liability			
Deposits from customers	4,208,966	-	4,208,966
Hedging financial instruments	7,887	-	7,887
Subordinated Murabahah Tawarruq	-	386,240	386,240
	4,216,853	386,240	4,603,093
31 Dec 2017			
Financial assets			
Securities available-for-sale	2,212,110	-	2,212,110
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,730,065	4,078,290	7,808,355
Financial liability			
Deposits from customers	4,412,237	-	4,412,237
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	4,427,218	404,676	4,831,894

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	5.0% - 6.0%

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A24 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 2018		31 Dec 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
Securities held-to-maturity		-	-	5,064	5,006
Financing, advances and other receivables		5,402,661	5,778,056	5,596,649	5,589,525
		5,402,661	5,778,056	5,601,713	5,594,531
Financial Liabilities					
Deposits from customers		4,295,740	4,289,103	4,699,178	4,694,762
Subordinated Murabahah Tawarruq		388,412	386,240	409,716	404,676
		4,684,151	4,675,343	5,108,894	5,099,438
		Bank			
		31 Mar 2018		31 Dec 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
Securities held-to-maturity		-	-	5,064	5,006
Financing, advances and other receivables		5,402,661	5,778,056	5,596,649	5,589,525
		5,402,661	5,778,056	5,601,713	5,594,531
Financial Liabilities					
Deposits from customers		4,216,127	4,208,966	4,416,919	4,412,237
Subordinated Murabahah Tawarruq		388,412	386,240	409,716	404,676
		4,604,539	4,595,206	4,826,635	4,816,913

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A24 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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A24 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 financing, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

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

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

(h) Subordinated Murabahah Tawaruq

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

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A25 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.

Group 31 Mar 2018	Non-trading book							Effective profit rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000		Total RM'000
ASSETS									
Cash and short-term funds	376,344	-	-	-	-	82,434	-	458,778	3.09
Deposits and placements with banks and other financial institutions	-	35,286	103,827	-	-	-	-	139,113	1.15
Securities - FVTPL	-	19,295	15,193	1,178,947	1,450,260	21,084	-	2,691,955	4.20
Securities - FVOCI	1,324,806	1,864,261	59,968	571,398	1,582,228	28,260	-	5,402,661	5.43
Financing, advances and receivables	-	-	-	-	-	666,822	-	666,822	-
Other assets	1,701,150	1,918,842	178,989	1,750,345	3,032,488	799,600	-	9,380,413	-
TOTAL ASSETS									
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,212,053	1,286,087	1,195,818	73,701	-	528,081	-	4,295,740	3.20
Deposits and placements of banks and other financial institutions	1,623,324	900,160	395,195	-	-	-	-	2,918,679	3.39
Subordinated Murabahah Tawarruq	388,412	-	-	-	-	-	-	388,412	8.25
Other liabilities	-	-	-	-	-	126,077	-	126,077	-
Total Liabilities	3,223,788	2,186,248	1,591,013	73,701	-	654,158	-	7,728,907	-
Shareholder's equity	3,223,788	2,186,248	1,591,013	73,701	-	1,651,506	-	1,651,506	-
Total Liabilities and Shareholder's Equity	(1,509,631)	(272,922)	(1,412,024)	1,676,644	3,032,488	(1,514,555)	-	-	-
On-balance sheet profit sensitivity gap	(1,509,631)	(272,922)	(1,412,024)	1,676,644	3,032,488	(1,514,555)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	-	-	-	-	-	-	-	-	-

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A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 31 Dec 2017	Non-trading book							Effective profit rate %	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000		Total RM'000
ASSETS									
Cash and short-term funds	373,357	-	-	-	-	56,154	-	429,511	2.67
Deposits and placements with banks and other financial institutions	-	37,390	176,538	-	-	-	-	213,927	1.66
Securities available-for-sale	-	40,608	34,088	1,027,093	1,122,308	53,152	-	2,277,249	3.97
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,801,932	1,960,488	5,778	496,242	1,338,180	-	-	5,602,619	5.21
Musyarakah capital investment	-	-	-	-	-	18	-	18	-
Other assets	-	-	-	-	-	613,623	-	613,623	-
TOTAL ASSETS	2,169,318	2,031,146	216,403	1,528,400	2,460,493	736,252	-	9,142,011	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,607,213	651,081	1,808,360	51,731	-	580,793	-	4,699,178	3.02
Deposits and placements of banks and other financial institutions	954,341	775,014	533,548	-	-	8,218	-	2,271,122	3.56
Subordinated Murabahah Tawarruq	-	409,717	-	-	-	-	-	409,717	8.25
Other liabilities	-	-	-	-	-	111,504	-	111,504	-
Total Liabilities	2,561,554	1,835,812	2,341,908	51,731	-	700,515	-	7,491,520	
Shareholder's equity	-	-	-	-	-	1,650,491	-	1,650,491	-
Total Liabilities and Shareholder's Equity	2,561,554	1,835,812	2,341,908	51,731	-	2,351,006	-	9,142,011	
On-balance sheet profit sensitivity gap	(392,236)	195,334	(2,125,505)	1,476,668	2,460,493	(1,614,754)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(392,236)	195,334	(2,125,505)	1,476,668	2,460,493	(1,614,754)	-	-	-

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A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31 Mar 2018	Non-trading book								Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	
ASSETS									
Cash and short-term funds	404,816	-	-	-	-	82,293	-	487,109	2.89
Deposits and placements with banks and other financial institutions	-	35,286	103,827	-	-	-	-	139,113	1.15
Securities - FVTPL	-	19,295	15,193	1,167,506	1,450,260	6,173	-	6,173	4.23
Securities - FVOCI	1,324,809	1,864,261	59,968	571,398	1,582,225	28,412	-	2,680,666	5.43
Financing, advances and receivables	-	-	-	-	-	-	-	5,402,661	-
Musyarakah capital investment	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	676,403	-	676,403	-
TOTAL ASSETS	1,729,625	1,918,842	178,989	1,738,904	3,032,485	793,280	-	9,392,125	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,211,619	1,286,087	1,195,818	73,701	-	448,902	-	4,216,127	3.47
Deposits and placements of banks and other financial institutions	1,720,029	917,551	395,195	-	-	-	-	3,032,775	3.33
Subordinated Murabahah Tawarruq	388,412	-	-	-	-	-	-	388,412	6.25
Other liabilities	-	-	-	-	-	125,952	-	125,952	-
Total Liabilities	3,320,060	2,203,638	1,591,013	73,701	-	574,854	-	7,763,265	
Shareholder's equity	-	-	-	-	-	1,628,860	-	1,628,860	-
Total Liabilities and Shareholder's Equity	3,320,060	2,203,638	1,591,013	73,701	-	2,203,713	-	9,392,125	
On-balance sheet profit sensitivity gap	(1,577,431)	(290,312)	(1,412,024)	1,665,203	3,032,485	(1,417,921)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(1,577,431)	(290,312)	(1,412,024)	1,665,203	3,032,485	(1,417,921)	-	-	

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A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31 Dec 2017	Non-trading book								Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	
ASSETS									
Cash and short-term funds	402,184	-	-	-	-	56,154	-	458,339	2.50
Deposits and placements with banks and other financial institutions	-	37,373	176,538	-	-	-	-	213,910	1.32
Securities available-for-sale	-	40,608	34,088	1,015,107	1,122,308	38,410	-	2,250,520	4.00
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,801,992	1,960,488	5,778	496,242	1,338,180	-	-	5,602,619	5.21
Musyarakah capital investment	-	-	-	-	-	18	-	18	-
Other assets	-	-	-	-	-	626,737	-	626,737	-
TOTAL ASSETS	2,198,146	2,031,146	216,403	1,516,413	2,460,488	734,612	-	9,157,207	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,404,267	651,081	1,808,360	51,731	-	501,479	-	4,416,919	3.21
Deposits and placements of banks and other financial institutions	1,258,109	793,234	533,548	-	-	-	-	2,584,891	3.11
Subordinated Murabahah Tawarruq	-	409,717	-	-	-	-	-	409,717	8.25
Other liabilities	-	-	-	-	-	119,221	-	119,221	-
Total Liabilities	2,662,376	1,854,031	2,341,908	51,731	-	620,700	-	7,530,747	
Shareholder's equity	-	-	-	-	-	1,626,460	-	1,626,460	-
Total Liabilities and Shareholder's Equity	2,662,376	1,854,031	2,341,908	51,731	-	2,247,160	-	9,157,207	
On-balance sheet profit sensitivity gap	(464,230)	177,115	(2,125,505)	1,464,682	2,460,488	(1,512,548)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(464,230)	177,115	(2,125,505)	1,464,682	2,460,488	(1,512,548)	-	-	

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Part B - Explanatory Notes Pursuant to Financial Reporting Standard ("MFRS 134") 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 2018 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"), Bank Negara Malaysia's Guidelines on Financial Reporting for Islamic Banking Institutions and Shariah principles. At the beginning of the current financial year, the Group and the Bank adopted new and revised MFRSs which are mandatory for financial periods beginning on or after 1 January 2018.

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 Group and the Bank since the year ended 31 December 2017.

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 interim financial statements of the Group and the Bank for the year ended 31 March 2018 were prepared in accordance with MFRS. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2017 except as discussed below:

B2.1. MFRS 9 Financial Instruments

The Group and the Bank has adopted MFRS 9 as issued by the MASB in November 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of MFRS 9 in previous periods.

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group and the Bank has also elected to apply the hedge accounting requirements of MFRS 9 on adoption of MFRS 9.

Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of MFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) are described in more detail in Note B2.4.

B2.1.1 Classification of financial assets and financial liabilities

MFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). MFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing MFRS 139 categories of held-to-maturity, financing and receivables and available-for-sale. Under MFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.1 Classification of financial assets and financial liabilities (Cont'd.)

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities. However, although under MFRS 139 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under MFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The measurement category and the carrying amount of financial assets and liabilities in accordance with MFRS 139 and MFRS 9 at 1 January 2018 are compared as follows:

Group	MFRS 139		MFRS 9	
	Measurement category	Carrying Amount RM000	Measurement category	Carrying Amount RM000
Cash and balances with banks and financial institutions		429,575		429,575
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,806
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,596,649
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVTPL (Mandatory)	-
Investment securities: Debt	FVOCI (Available for sale)	2,224,097	FVOCI	5,064
Investment securities: Equity	FVOCI (Available for sale)	7,321	FVOCI	2,224,097
Investment securities: Equity	FVOCI (Available for sale)	14,758	FVTPL (Mandatory)	7,321
Investment securities: Equity	FVOCI (Available for sale)	36,118	FVTPL (Mandatory)	14,758
Derivative assets	FVTPL	1,714	FVOCI	36,118
Other assets		611,909	FVTPL (Mandatory)	1,714
Total Financial Assets		9,142,011		9,142,011
Due to Banks and Financial institutions	Amortised cost	4,699,178	Amortised cost	4,699,178
Deposits from customers	Amortised cost	2,271,122	Amortised cost	2,271,122
Other Financial Liabilities	Amortised cost	521,221	Amortised cost	521,221
Total Financial Liabilities		7,491,520		7,491,520

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.1 Classification of financial assets and financial liabilities (Cont'd.)

Bank	MFRS 139		MFRS 9	
	Measurement category	Carrying Amount RM000	Measurement category	Carrying Amount RM000
Cash and balances with banks and financial institutions		458,403		458,403
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,806
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,596,649
Investment securities: Debt	FVTPL (designated)	-	FVTPL (Mandatory)	-
Investment securities: Debt	FVTPL (designated)	-	FVTPL (designated)	-
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVOCI	5,064
Investment securities: Debt	FVOCI (Available for sale)	2,212,110	FVOCI	2,212,110
Investment securities: Equity	FVOCI (Available for sale)	7,321	FVTPL (Mandatory)	7,321
Investment securities: Equity	FVOCI (Available for sale)	36,118	FVOCI	36,118
Derivative assets	FVTPL	1,714	FVTPL (Mandatory)	1,714
Other assets		625,021		625,021
Total Financial Assets		9,157,207		9,157,207
Due to Banks and Financial institutions	Amortised cost	4,416,919	Amortised cost	4,416,919
Deposits from customers	Amortised cost	2,593,109	Amortised cost	2,593,109
Other Financial Liabilities	Amortised cost	520,719	Amortised cost	520,719
Total Financial Liabilities		7,530,747		7,530,747

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.2. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with MFRS 139 to their new measurement categories upon transition to MFRS 9 on 1 January 2018:

Group	RM'000	MFRS139		Re-classification	Remeasurement		MFRS9		
		REF	Amount		Category	ECL	Other	Amount	Category
Financial Assets									
Cash and Bank Balances			429,511		-	-		429,511	
Deposits and Placement due from designated Financial Institutions			213,521		-	-		213,521	
Financial Investments - AFS									
To: Debt Instruments at FVOCI	A		2,224,097	AFS	2,224,097	-		-	
To: Equity Instruments at FVOCI	B		36,118	AFS	36,118	-		-	
To: Equity Instruments at FVOCI	C		14,758	AFS	14,758	-		-	
To: Equity Instruments at FVTPL	C		7,321	AFS	7,321	-		-	
Debt Instruments at FVOCI									
From: Financial Investments - AFS	A		-		2,224,097	-		2,224,097	FVOCI
Debt Instruments at FVOCI									
From: Financial Investments - AFS	B		-		36,118	-		36,118	FVOCI
Financial Investments - FVOCI									
To: Equity Instruments at FVTPL	C		-		7,321	-		7,321	FVTPL
To: Equity Instruments at FVTPL	C		-		14,758	-		14,758	FVTPL
Financial Investments - HTM									
To: Debt Instruments at Amortised Cos	D		5,064	HTM	5,064	-		-	
Financial Investments - F&R									
To: Debt Instruments at Amortised Cos	E		5,596,649	F&R	(5,596,649)	-		-	
Debt Instruments at FVOCI									
From: Financial Investments - HTM	D		-		5,064	-		5,064	FVOCI
From: Financial Investments - F&R	E		-		5,596,649	-		5,596,649	AC
Non Financial Assets									
			613,623		-	-		613,623	
Total Assets			9,140,661		-	-		9,140,661	

* F&R = Financing, Advances and Receivable

* AC = Amortised Cost

* FVOCI = Fair Values Through Other Comprehensive Income

* FVTPL = Fair Values Through Profit & Loss

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.2. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

Bank		MFRS139		Remeasurement			MFRS9	
RM'000	REF	Amount	Category	Re-classification	ECL	Other	Amount	Category
Financial Assets								
Cash and Bank Balances		458,403		-	-	-	458,403	
Deposits and Placement due from designated Financial Institutions		214,806		-	-	-	214,806	
Financial Investments - AFS								
To: Debt Instruments at FVOCI	A	2,212,110	AFS	(2,212,110)	-	-	-	
To: Equity Instruments at FVOCI	B	36,118	AFS	(36,118)	-	-	-	
To: Equity Instruments at FVTPL	C	7,321	AFS	(7,321)	-	-	-	
Debt Instruments at FVOCI								
From: Financial Investments - AFS	A	-		2,212,110	-	-	2,212,110	FVOCI
Debt Instruments at FVOCI								
From: Financial Investments - AFS	B	-		36,118	-	-	36,118	FVOCI
Financial Investments - FVOCI								
To: Equity Instruments at FVTPL	C	-		7,321	-	-	7,321	FVTPL
Financial Investments - HTM								
To: Debt Instruments at Amortised Cos	D	5,064	HTM	(5,064)	-	-	-	
Financial Investments - F&R								
To: Debt Instruments at Amortised Cos	E	5,596,649	F&R	(5,596,649)	-	-	-	
Debt Instruments at FVOCI								
From: Financial Investments - HTM	D	-		5,064	-	-	5,064	AC
From: Financial Investments - F&R	E	-		5,596,649	-	-	5,596,649	AC
Non Financial Assets								
		626,735		-	-	-	626,735	
Total Assets		9,157,207		-	-	-	9,157,207	

* F&R = Financing, Advances and Receivable

* AC = Amortised Cost

* FVOCI = Fair Values Through Other Comprehensive Income

* FVTPL = Fair Values Through Profit & Loss

A: Designation of debt instruments at FVOCI

As of 1 January 2018, the Bank has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Bank concluded that, apart from a small portion, as described in Section D below, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

B: Designation of equity instruments at FVOCI

The Bank has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVOCI.

C: Debt instruments previously classified as available for sale but which fail the SPPI test

The Bank holds a portfolio of debt instruments that failed to meet the 'solely payments of principal and interest' (SPPI) requirement for amortised cost classification under MFRS 9. These instruments contain provisions that, in certain circumstances, can allow the issuer to defer interest payments, but which do not accrue additional interest. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to RM7.3mil, were classified as FVTPL from the date of initial application.

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.2. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

D & E : Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under MFRS 9, as their previous categories under MFRS 139 were 'retired', with no changes to their measurement basis:

- (i) Those previously classified as available for sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

As of 1 January 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

The following table analyses the impact, net of tax, of transition to MFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Group	Bank
	RM'000	RM'000
Fair value reserve		
Closing balance under MFRS 139 (31 December 2017)	(6,825)	(6,648)
Reclassification of debt securities from available-for-sale to amortised cost	-	-
Reclassification of investment securities (debt and equity) from available-for-sale to FVPL	-	-
Recognition of expected credit losses under MFRS 9 for debt financial assets at FVOCI	-	-
Deferred tax in relation to the above	-	-
Opening balance under MFRS 9 (1 January 2018)	(6,825)	(6,648)
Retained earnings		
Closing balance under MFRS 139 (31 December 2017)	228,866	207,836
Reclassification adjustments in relation to adopting MFRS 9	-	-
Impact of recognising credit risk for financial liabilities designated at FVPL in Own credit reserve	-	-
Re-measurement impact of reclassifying financial assets held at amortised cost to FVPL	-	-
Re-measurement impact of the reclassification of financial liabilities at FVPL reclassified to amortised cost	-	-
Investment securities (debt and equity) from available-for-sale to FVPL	-	-
Recognition of MFRS 9 ECLs including those measured at FVOCI (see below)	137	-
Deferred tax in relation to the above	-	-
Opening balance under MFRS 9 (1 January 2018)	229,003	207,836
Total change in equity due to adopting MFRS 9	222,178	201,188

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.2. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9 (Cont'd.)

The following table reconciles the prior period's closing impairment allowance measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

Group	Financing loss provision under MFRS 139/MFRS 137 at 31 December 2017	Remeasurement/ Reclassification	ECLs under MFRS 9 at 1 January 2018
RM'000			
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/financial assets at amortised cost under MFRS 9	371,952	6,470	378,422
Deposit and placement with FI	-	943	943
Available-for-sale debt investment securities per MFRS139/Debt instruments at FVOCI under MFRS 9	16,124	5,026.81	21,151
Available-for-sale equity investment securities per MFRS139/debt financial assets at FVTPL under MFRS 9	12,983	(12,983)	-
Financial guarantees	-	343	343
Letters of credit for customers	-	24	24
Other commitments	-	1,333	1,333
	401,059	1,158	402,217

Bank	Financing loss provision under MFRS 139/MFRS 137 at 31 December 2017	Remeasurement/ Reclassification	ECLs under MFRS 9 at 1 January 2018
RM'000			
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/financial assets at amortised cost under MFRS 9	386,093	(7,671)	378,422
Deposit and placement with FI	-	943	943
Available-for-sale debt investment securities per MFRS139/Debt instruments at FVOCI under MFRS 9	16,124	5,026.81	21,151
Available-for-sale equity investment securities per MFRS139/debt financial assets at FVTPL under MFRS 9	12,845	(12,845)	-
Financial guarantees	-	343	343
Letters of credit for customers	-	24	24
Other commitments	-	1,333	1,333
	415,062	(12,844)	402,217

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B2 Significant Accounting Policies (Cont'd.)

B2.1. MFRS 9 Financial Instruments (Cont'd.)

B2.1.3. Reconciliation of impairment allowance balance from MFRS 139 to MFRS 9

Prior to 1 January 2018, under MFRS 139, collective assessment is performed on financing, advances and other receivable which are not individually significant based on the incurred loss approach. Financing, advances and other receivable which are individually assessed and where there is no objective evidence of impairment are also included in the group of financing, advances and other receivable for collective assessment. These financing, advances and other receivable are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of the historical loss experience for such assets and discounted to present value. Collective assessment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of financing, advances and other receivable.

The collective assessment for impairment are estimated on the basis of reference to peers' historical loss experience data which publicly available in the Basel II-Pillar 3 disclosure. The historical loss experience described by Probability of Default (PD) and Loss Given Default (LGD) published by peers were mapped to the Bank's portfolio with reference to equivalent external mapping defined by the Bank and peers.

B2.2. Accounting policies affected by adoption of MFRS 9

The following accounting policies have been significantly impacted by MFRS 9 for the Bank. In particular, the MFRS 139 accounting policies applied in the prior period and MFRS 13 policies relating to the measurement of fair value in both periods are presented in the Bank's consolidated financial statements.

B2.2.1. Financial Assets and Financial Liabilities

i) Recognition and initial measurement

The Bank initially recognises all regular way purchases and sales of financial assets on the trade date, i.e. that 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 or financial liability 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

Financial assets - Policies applicable from 1 January 2018

The Bank has applied MFRS 9 and classifies its financial assets in the following measurement categories:

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

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

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

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

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

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

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

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B2 Significant Accounting Policies (Cont'd.)

B2.2. Accounting policies affected by adoption of MFRS 9 (Cont'd.)

B2.2.1. Financial Assets and Financial Liabilities (Cont'd.)

ii) Classification (Cont'd.)

Business model assessment

The Bank makes 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 interest revenue, maintaining a particular interest 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 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 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.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' 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 interest, the Bank considers 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit 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 interest rates

Reclassifications

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

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B2 Significant Accounting Policies (Cont'd.)

B2.2. Accounting policies affected by adoption of MFRS 9 (Cont'd.)

B2.2.1. Financial Assets and Financial Liabilities (Cont'd.)

ii) Classification (Cont'd.)

Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortised cost. Hedging financial instruments are classified at fair value through profit and loss.

iii) Derecognition

Financial assets

From 1 January 2018 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 interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

iv) Modifications of financial assets and financial liabilities

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 Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

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.

v) Impairment

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

- 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 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'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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B2 Significant Accounting Policies (Cont'd.)

B2.2. Accounting policies affected by adoption of MFRS 9 (Cont'd.)

B2.2.1. Financial Assets and Financial Liabilities (Cont'd.)

v) Impairment (Cont'd.)

Measurement of ECL

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

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

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized 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 interest 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

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B2 Significant Accounting Policies (Cont'd.)

B2.2. Accounting policies affected by adoption of MFRS 9 (Cont'd.)

B2.2.1. Financial Assets and Financial Liabilities (Cont'd.)

v) Impairment (Cont'd.)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

B2.2.2. Derivatives and Hedging Activities

MFRS 9 introduced a new hedge accounting model to simplify hedge accounting outcomes and provide a better linkage between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Some of the key improvements in the standard impacting the Bank include:

1. Hedge effectiveness – MFRS 9 standard requires that the hedge effectiveness assessment be forward-looking and does not prescribe defined effectiveness parameters. Under MFRS 139, an entity had to test effectiveness both retrospectively and prospectively subject to 80 to 125 percent effectiveness requirement.
2. Hedge discontinuation - MFRS 9 standard provides that discontinuation of hedge accounting will only happen under specified circumstances. Under MFRS 139, the Bank may revoke the hedging relationship if it seems fit.

B2.3. Financial Assets

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

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

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B2 Significant Accounting Policies (Cont'd.)

B2.3. Financial Assets (Cont'd.)

(i) Financing, advances and other receivables

Policies applicable from 1 January 2018 and 2017 comparatives

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

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

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

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

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

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

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

Policies applicable for 2017 comparatives

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

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B2 Significant Accounting Policies (Cont'd.)

B2.3. Financial Assets (Cont'd.)

(ii) Investments

Policies applicable from 1 January 2018

The 'investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

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

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

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B2 Significant Accounting Policies (Cont'd.)

B2.4. Financial Liabilities

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

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

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

B2.5. Derivatives and Hedging Activities

(i) Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which 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.

(ii) 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 Bank receiving fund in USD 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.

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B2 Significant Accounting Policies (Cont'd.)

B2.6. Financial Guarantees and Financing Commitments

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

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

For other financing commitments:

- from 1 January 2018: the Bank recognises loss allowance
- before 1 January 2018: the Bank recognises a provision in accordance with MFRS 137 if the contract was considered to be onerous.

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

B2.7. Interest Income and Expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest 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 interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

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 interest 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. (or impairment allowance before 1 January 2018).

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

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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B2 Significant Accounting Policies (Cont'd.)

B2.7. Interest Income and Expense (Cont'd.)

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest 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.

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

B2.8. Standards issued but are not yet effective

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
Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 11 Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)	1 January 2019
Amendments to MFRS 9 Financial Instruments (Prepayment Features with Negative Compensation)	1 January 2019
Amendments to MFRS 119 Employee Benefits (Plan Amendment, Curtailment or Settlement)	1 January 2019
Amendments to MFRS 128 Investment in Associates and Joint Ventures (Long-term Interests in Associates and Joint Ventures)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021

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B2 Significant Accounting Policies (Cont'd.)

B2.9. Significant Accounting Estimates and Judgements

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

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and 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) Classification of investment securities

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

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and 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.

(iii) Business models and SPPI as significant judgments

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

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B3 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 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 2018.

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 2018.

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 2018.

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 2018.

B8 Dividends Paid

There were no dividends paid during the three-months ended 31 March 2018.

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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 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	24,675	30,183	11,703	43,482		110,043
Revenue from other segments	41,570	199	705	18,840	(61,313)	-
Total Revenue	66,245	30,382	12,408	62,322	(61,313)	110,043
Segment results	1,769	13,542	2,597	12,148		30,056
Unallocated expenses						(25,477)
Profit from operations						4,578
Taxation						(1,016)
Net profit for the year						3,562
Other information						
Segment assets	3,409,041	1,972,910	600,280	3,033,907	(201,770)	8,814,368
Unallocated corporate assets						566,045
Total assets						9,380,413
Segment liabilities	5,487,662	2,196,539	483,685	6,965,947	(191,570)	14,942,262
Unallocated corporate liabilities						(7,213,356)
Total liabilities						7,728,907
Other segment items						
Purchase of property and equipment				3,844		3,844
Purchase of intangible assets				497		497
Depreciation of property and equipment				-		-
Amortisation of intangible assets				-		-
Other non-cash expense other than depreciation	494	7,976	(1,990)	(4,150)	-	2,330

(ii) **By Geographical Locations**

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
31 Mar 2018			
Malaysia	110,043	4,578	9,380,413
	110,043	4,578	9,380,413

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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 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)	-
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
Zakat						(8,876)
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

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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 2017.

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 2017.

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 2017 other than those as disclosed in note A22.

B14 Capital Commitments

The capital commitments not provided for in the interim financial statements as at 31 March 2018 are as follows:

Capital expenditure

Authorised and contracted for:

- renovation
- purchase of IT hardware
- purchase of IT software

Authorised and not contracted for:

- purchase of IT hardware & software

Group	Bank
RM'000	RM'000
870	870
6,399	6,399
9,310	9,310
16,579	16,579
32,083	32,083
32,083	32,083


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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