



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## Interim Report for the Period Ended 30 June 2018

Interim Condensed Statements of Financial Position	1
Interim Condensed Consolidated Income Statements	2
Interim Condensed Consolidated Statements of Comprehensive Income	3
Interim Condensed Income Statements	4
Interim Condensed Statements of Comprehensive Income	5
Interim Condensed Statements of Changes in Equity	6
Interim Condensed Statements of Cash Flows	7
Selected Explanatory Notes to the Condensed Financial Statements	8 - 125
Certification of Financial Statements	126

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

	Note	Group		Bank	
		30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b>ASSETS</b>					
Cash and short-term funds	A3	206,636	429,511	206,636	458,323
Deposits and placements with banks and other financial institutions	A4	108,993	213,521	109,332	213,521
Gold depository		94,778	102,824	94,778	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	7,038	-	7,038	-
Equity instruments at FVOCI	A7	36,118	-	36,118	-
Debt instruments at FVOCI	A7	2,669,324	-	2,657,465	-
Financing, advances and other receivables	A8	5,544,082	5,603,257	5,544,082	5,603,257
Other assets	A9	138,092	65,828	137,903	65,692
Hedging financial instruments	A10	12,031	1,714	12,031	1,714
Statutory deposits with Bank Negara Malaysia		205,770	213,600	205,770	213,600
Musyarakah capital investment	A11	-	18	-	18
Investment in subsidiaries		-	-	10,200	13,732
Property and equipment		20,029	22,281	19,746	22,020
Intangible assets		21,191	10,601	21,020	10,379
Deferred tax assets		188,896	196,775	188,896	196,775
		<b>9,252,979</b>	<b>9,142,011</b>	<b>9,251,016</b>	<b>9,157,207</b>
<b>LIABILITIES</b>					
Deposits from customers	A12	4,354,167	4,699,178	4,193,349	4,416,919
Investment accounts of customers	A14	6,099	8,218	6,099	8,218
Deposits and placements of banks and other financial institutions	A13	2,705,802	2,262,903	2,889,968	2,584,891
Hedging financial instruments	A10	8,345	14,981	8,345	14,981
Subordinated Murabahah Tawarruq	A16	405,508	409,716	405,508	409,716
Other liabilities	A15	103,654	96,524	103,326	96,022
		<b>7,583,575</b>	<b>7,491,520</b>	<b>7,606,595</b>	<b>7,530,747</b>
<b>SHAREHOLDER'S EQUITY</b>					
Share capital	A17	1,425,272	1,425,272	1,425,272	1,425,272
Reserves		244,132	225,219	219,149	201,188
		<b>1,669,404</b>	<b>1,650,491</b>	<b>1,644,421</b>	<b>1,626,460</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>9,252,979</b>	<b>9,142,011</b>	<b>9,251,016</b>	<b>9,157,207</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	A22	<b>2,402,626</b>	<b>1,692,582</b>	<b>2,402,626</b>	<b>1,692,582</b>
<b>CAPITAL ADEQUACY</b>					
Common Equity Tier I/ Tier I Capital Ratio	A23	23.393%	22.500%	22.882%	21.716%
Total Capital Ratio	A23	31.110%	29.927%	30.612%	29.162%
<b>NET ASSETS PER SHARE (RM)</b>		<b>1.17</b>	<b>1.16</b>	<b>1.15</b>	<b>1.14</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

<u>Group</u>	Note	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating revenue		<b>116,314</b>	117,798	<b>226,357</b>	245,228
Income derived from investment of depositors' funds and others	A18	<b>90,794</b>	94,502	<b>177,152</b>	195,063
Income derived from investment of investment account funds	A21	<b>52</b>	82	<b>118</b>	152
Income derived from investment of shareholder's equity	A18	<b>25,468</b>	23,214	<b>49,087</b>	50,013
Total gross income		<b>116,314</b>	117,798	<b>226,357</b>	245,228
Impairment loss on securities	A19	-	-	-	(9,365)
Impairment write-back on financing	A19	-	6,570	-	29,000
Credit loss writeback on financial assets	A19	<b>34,647</b>	-	<b>36,978</b>	-
Total distributable income		<b>150,961</b>	124,368	<b>263,335</b>	264,863
Income attributable to the depositors	A20	<b>(56,255)</b>	(62,508)	<b>(110,120)</b>	(125,979)
Profit distributed to investment account holders	A21	<b>(31)</b>	(49)	<b>(70)</b>	(91)
Total net income		<b>94,675</b>	61,811	<b>153,145</b>	138,793
Personnel expenses		<b>(27,853)</b>	(21,799)	<b>(54,995)</b>	(42,462)
Other overheads and expenditures		<b>(20,280)</b>	(20,684)	<b>(39,017)</b>	(42,646)
Finance cost		<b>(8,265)</b>	(8,988)	<b>(16,277)</b>	(15,965)
Profit before zakat and taxation		<b>38,277</b>	10,341	<b>42,854</b>	37,720
Taxation		<b>(8,868)</b>	(1,549)	<b>(9,884)</b>	(10,424)
Net profit for the period		<b>29,409</b>	8,792	<b>32,971</b>	27,296
Attributable to:					
Equity holders of the Bank		<b>29,409</b>	8,792	<b>32,971</b>	27,296
Earnings per share attributable to equity holders of the Bank - Basic/Diluted (sen)		<b>2.06</b>	0.62	<b>2.31</b>	1.92

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME**

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Group</b>				
Net profit for the period	29,409	8,792	32,971	27,296
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	(9,211)	3,504	(15,655)	9,602
- Net realised loss on securities held at FVOCI reclassified to the income statement	(66)	(30)	(190)	(35)
Exchange differences on translation of foreign operations:				
Net loss taken to equity	1,501	(1,158)	(62)	(1,734)
Income tax relating to components of other comprehensive loss	3,091	(339)	1,987	(656)
Other comprehensive (loss)/income for the period, net of tax	(4,685)	1,976	(13,919)	7,177
Total comprehensive (loss)/income for the period	<b>24,723</b>	10,768	<b>19,051</b>	34,473
Total comprehensive (loss)/income for the period attributable to equity holders of the Bank	<b>24,723</b>	10,768	<b>19,051</b>	34,473

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**INTERIM CONDENSED INCOME STATEMENTS**

<u>Bank</u>	Note	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Operating revenue		<b>115,811</b>	115,700	<b>225,627</b>	240,543
Income derived from investment of depositors' funds and others	A18	<b>90,621</b>	94,611	<b>176,899</b>	195,232
Income derived from investment of investment account funds	A21	<b>52</b>	82	<b>118</b>	152
Income derived from investment of shareholder's equity	A18	<b>25,138</b>	21,007	<b>48,611</b>	45,159
Total gross income		<b>115,811</b>	115,701	<b>225,627</b>	240,543
Impairment loss on others		-	(450)	-	(1,162)
Impairment loss on securities	A19	-	-	-	(9,365)
Impairment write-back on financing	A19	-	6,570	-	29,000
Credit loss writeback on financial assets	A19	<b>34,498</b>	-	<b>36,838</b>	-
Total distributable income		<b>150,309</b>	121,821	<b>262,465</b>	259,015
Income attributable to the depositors	A20	<b>(56,845)</b>	(62,752)	<b>(111,153)</b>	(126,403)
Profit distributed to investment account holders	A21	<b>(31)</b>	(49)	<b>(70)</b>	(91)
Total net income		<b>93,432</b>	59,019	<b>151,242</b>	132,522
Personnel expenses		<b>(27,682)</b>	(21,276)	<b>(54,661)</b>	(41,067)
Other overheads and expenditures		<b>(20,087)</b>	(20,229)	<b>(38,693)</b>	(41,657)
Finance cost		<b>(8,265)</b>	(8,988)	<b>(16,277)</b>	(15,965)
Profit before zakat and taxation		<b>37,400</b>	8,527	<b>41,610</b>	33,832
Taxation		<b>(8,863)</b>	(1,544)	<b>(9,874)</b>	(10,414)
Net profit for the period		<b>28,536</b>	6,984	<b>31,737</b>	23,418

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
**(672174-T)**  
**(Incorporated in Malaysia)**

**INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Bank</b>				
Net profit for the period	28,536	6,984	31,737	23,418
Other comprehensive income/(loss):				
Securities held at FVOCI:				
- Net unrealised gain on securities held at FVOCI	(16,000)	3,134	(15,573)	9,164
- Net realised loss on securities held at FVOCI reclassified to the income statement	(66)	(31)	(190)	(35)
Income tax relating to components of other comprehensive loss	3,091	-	1,987	(317)
Other comprehensive (loss)/income for the period, net of tax	(12,975)	3,103	(13,776)	8,812
Total comprehensive income for the period	15,561	10,087	17,961	32,230

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## 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
<b>Group</b>						
<b>At 1 Jan 2018</b>						
- 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	-	-	(62)	(13,858)	32,970	19,050
<b>At 30 Jun 2018</b>	<b>1,425,272</b>	<b>162,216</b>	<b>3,117</b>	<b>(20,683)</b>	<b>99,483</b>	<b>1,669,404</b>
<b>At 1 Jan 2017</b>	1,425,272	158,385	7,090	(9,254)	65,285	1,646,778
Total comprehensive income	-	-	(3,912)	2,429	5,196	3,713
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
<b>At 31 Dec 2017</b>	<b>1,425,272</b>	<b>162,216</b>	<b>3,178</b>	<b>(6,825)</b>	<b>66,650</b>	<b>1,650,491</b>
<b>Bank</b>						
<b>At 1 Jan 2018</b>	1,425,272	162,216	-	(6,648)	45,620	1,626,460
Total comprehensive income	-	-	-	(13,776)	31,737	17,961
<b>At 30 Jun 2018</b>	<b>1,425,272</b>	<b>162,216</b>	<b>-</b>	<b>(20,424)</b>	<b>77,356</b>	<b>1,644,421</b>
<b>At 1 Jan 2017</b>	1,425,272	158,385	-	(9,000)	41,790	1,616,447
Total comprehensive income	-	-	-	2,352	7,661	10,013
Transfer to statutory reserve	-	3,831	-	-	(3,831)	-
<b>At 31 Dec 2017</b>	<b>1,425,272</b>	<b>162,216</b>	<b>-</b>	<b>(6,648)</b>	<b>45,620</b>	<b>1,626,460</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	Group		Bank	
	30-Jun 2018 RM'000	30-Jun 2017 RM'000	30-Jun 2018 RM'000	30-Jun 2017 RM'000
Profit before zakat and taxation	42,854	37,720	41,610	33,832
Adjustments for non-cash items	(42,185)	6,291	(44,062)	7,372
Operating profit before changes in working capital	669	44,011	(2,451)	41,204
<u>Changes in the working capital</u>				
Net changes in operating assets	121,826	(72,467)	127,408	(73,674)
Net changes in operating liabilities	107,055	(482,685)	94,011	(474,241)
Zakat and taxation refund/(paid)	-	(30)	-	-
Net cash generated from operating activities	228,880	(555,182)	221,419	(547,915)
Net purchases of assets	(455,605)	(959,386)	(470,734)	(958,491)
Net cash used in investing activities	(455,605)	(959,386)	(470,734)	(958,491)
Net change in cash and cash equivalents	(226,055)	(1,470,557)	(251,766)	(1,465,201)
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	3,117	5,356	-	-
Cash and cash equivalents at end of the period	206,636	876,638	206,636	876,638

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



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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 RM33.0 million and RM31.7 million respectively for the year ended 30 June 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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Cash and short-term funds	206,636	429,575	206,636	458,403
Less : ECL allowance	-	(64)	-	(80)
	<b>206,636</b>	<b>429,511</b>	<b>206,636</b>	<b>458,323</b>

**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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	206,636	-	-	206,636	429,575
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	206,636	-	-	206,636	429,575

Bank	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	206,636	-	-	206,636	458,403
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	206,636	-	-	206,636	458,403

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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:

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross carrying amount as at 1 January 2018	429,575	-	-	429,575
New assets originated or purchased	125,901	-	-	125,901
Assets derecognised or repaid (excluding write offs)	(348,840)	-	-	(348,840)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	206,636	-	-	206,636

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
ECL allowance as at 1 January 2018	64	-	-	64
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(64)	-	-	(64)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	-	-	-	-
Net carrying amount (after ECL)	206,636	-	-	206,636

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Bank</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross carrying amount as at 1 January 2018	458,403	-	-	458,403
New assets originated or purchased	125,901	-	-	125,901
Assets derecognised or repaid (excluding write offs)	(377,668)	-	-	(377,668)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	206,636	-	-	206,636

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Bank</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
ECL allowance as at 1 January 2018	80	-	-	80
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(80)	-	-	(80)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	-	-	-	-
Net carrying amount (after ECL)	206,636	-	-	206,636

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Licensed Islamic banks	-	148,000	-	148,000
Bank Negara Malaysia ^	6,099	8,218	6,099	8,218
Other financial institutions	104,570	58,588	104,570	58,588
Less : ECL Allowance	(1,676)	(1,285)	(1,337)	(1,285)
	<b>108,993</b>	<b>213,521</b>	<b>109,332</b>	<b>213,521</b>

^ 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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	110,669	-	-	110,669	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	110,669	-	-	110,669	214,806

Bank	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	110,669	-	-	110,669	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	110,669	-	-	110,669	214,806

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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:

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
New assets originated or purchased	6,099	-	-	6,099
Assets derecognised or repaid (excluding write offs)	(110,236)	-	-	(110,236)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	110,669	-	-	110,669

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Group</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
ECL allowance as at 1 January 2018	1,285	-	-	1,285
New assets originated or purchased	6	-	-	6
Assets derecognised or repaid (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	385	-	-	385
At 30 June 2018	1,676	-	-	1,676
Net carrying amount (after ECL)	108,993	-	-	108,993

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Bank</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
New assets originated or purchased	6,099	-	-	6,099
Assets derecognised or repaid (excluding write offs)	(110,236)	-	-	(110,236)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	110,669	-	-	110,669

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Bank</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
ECL allowance as at 1 January 2018	1,285	-	-	1,285
New assets originated or purchased	6	-	-	6
Assets derecognised or repaid (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	46	-	-	46
At 30 June 2018	1,337	-	-	1,337
Net carrying amount (after ECL)	109,332	-	-	109,332

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b><u>At fair value</u></b>				
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
<b><u>At cost</u></b>				
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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b><u>At amortised cost</u></b>				
Unquoted Islamic private debt securities/sukuk	-	5,064	-	5,064

**A6 Financial assets at FVTPL**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b><u>At fair value</u></b>				
Collective Investment Scheme	7,038	-	7,038	-
Property funds	-	-	-	-
	7,038	-	7,038	-

**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.

30 Jun 2018				
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,687,972	-	-	2,687,972
Past due but not impaired	-	-	-	-
Individually impaired	-	-	16,082	16,082
Total	2,687,972	-	16,082	2,704,054

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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.)**

30 Jun 2018				
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,676,101	-	-	2,676,101
Past due but not impaired	-	-	-	-
Individually impaired	-	-	16,082	16,082
Total	2,676,101	-	16,082	2,692,183

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

30 Jun 2018				
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value as at 1 January 2018	2,207,973	-	16,124	2,224,097
New assets originated or purchased	819,000	-	-	819,000
Assets derecognised or matured (excluding write-offs)	(339,001)	-	-	(339,001)
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(42)	(42)
At 30 June 2018	2,687,972	-	16,082	2,704,054

30 Jun 2018				
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECLs as at 1 January 2018	5,259	-	16,124	21,383
New assets originated or purchased	14,318	-	-	14,318
Assets derecognised or matured (excluding write offs)	(930)	-	-	(930)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(42)	(42)
At 30 June 2018	18,647	-	16,082	34,729

Net carrying amount (after ECL)	2,669,324	-	-	2,669,324
---------------------------------	-----------	---	---	-----------

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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.)**

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

30 Jun 2018				
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value as at 1 January	2,195,986	-	16,124	2,212,110
New assets originated or purchased	819,000	-	-	819,000
Assets derecognised or matured	(338,885)	-	-	(338,885)
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(42)	(42)
At 30 June 2018	2,676,101	-	16,082	2,692,183

30 Jun 2018				
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECLs as at 1 January 2018	5,242	-	16,124	21,366
New assets originated or purchased	14,318	-	-	14,318
Assets derecognised or matured	(924)	-	-	(924)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	(42)	(42)
At 30 June 2018	18,636	-	16,082	34,718

Net carrying amount (after ECL)	2,657,465	-	-	2,657,465
---------------------------------	-----------	---	---	-----------

**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.

30 Jun 2018				
Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	36,118	-	-	36,118
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	36,118	-	-	36,118

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A8 Financing, Advances and Other Receivables**

**i) At amortised cost**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Term financing		
- House financing	1,040,045	946,670
- Personal financing	1,190,212	1,172,038
- Leasing financing	13,277	17,319
- Syndicated financing	258,823	276,530
- Cashline financing	12,620	11,865
- Hire purchase receivables	746,268	679,081
- Other term financing	2,602,814	2,865,532
Credit card	92	-
Staff financing	18,546	13,707
	<b>5,882,696</b>	<b>5,982,742</b>
Less: Impairment allowances		
- Stage 1 Financing	(104,606)	(108,080)
- Stage 2 Financing	(8,042)	(5,831)
- Stage 3 Financing	(224,246)	(263,873)
Net financing and advances to customers	<b>5,545,802</b>	<b>5,604,958</b>
Less: Impairment allowances		
- Stage 1 Undrawn	(267)	(1,333)
- Stage 1 Trade facilities	(1,383)	(318)
- Stage 2 Trade facilities	(70)	(50)
Net financing, advances and other receivables	<b>5,544,082</b>	<b>5,603,257</b>

**ii) By contract**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Ijarah Muntahia Bittamlik (lease ended with ownership)	2,239,515	2,160,107
Murabahah (cost-plus)	3,536,628	3,711,313
Mudharabah (profit sharing)	56,982	61,024
Qard (benevolent financing)	1,330	931
Musarakah (profit and loss sharing)	46,915	48,098
Istisna'	1,234	1,269
Ujrah	92	-
	<b>5,882,696</b>	<b>5,982,742</b>

**iii) By type of customer**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Domestic business enterprises		
- Small medium enterprises	526,654	554,265
- Others	2,336,104	2,592,970
Individuals	3,016,698	2,831,795
Domestic non-bank financial institutions	3,240	3,712
	<b>5,882,696</b>	<b>5,982,742</b>



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
2,416,056	2,609,787
112,219	122,852
328,732	216,249
3,025,689	3,033,854
<b>5,882,696</b>	<b>5,982,742</b>

**(v) By geographical distribution**

Malaysia  
Middle East  
Other countries

Group and Bank	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
5,874,970	5,972,156
4,046	4,647
3,680	5,939
<b>5,882,696</b>	<b>5,982,742</b>

**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	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
9,622	7,712
710,136	679,081
277,794	276,530
995,465	1,299,375
1,037,258	943,794
2,852,422	2,776,250
<b>5,882,696</b>	<b>5,982,742</b>

**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	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
697	4,878
750,459	682,572
1,071,862	974,066
393,107	782,258
35,776	45,217
1,777,630	1,582,570
164,244	207,679
1,217,902	1,196,969
471,018	506,533
<b>5,882,696</b>	<b>5,982,742</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

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

**viii) By sector**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Construction	572,322	647,838
Electricity, gas and water	118,318	124,148
Finance, insurance and business services	114,598	129,875
Household	3,016,698	2,831,795
Manufacturing	472,024	512,982
Agriculture, hunting, forestry & fishing	338,967	203,680
Real Estate	557,589	911,310
Transports, storage and communication	155,979	181,565
Wholesale & retail trade and restaurants & hotels	492,560	388,456
Others	43,208	51,093
	<b>5,882,696</b>	<b>5,982,742</b>

**(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'	Ujrah	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 Jun 2018</b>								
House financing	1,017,502	86	-	21,223	-	1,234	-	1,040,045
Personal financing	-	1,189,622	-	-	590	-	-	1,190,212
Leasing financing	-	-	13,277	-	-	-	-	13,277
Syndicated financing	50,543	208,280	-	-	-	-	-	258,823
Cashline financing	-	12,620	-	-	-	-	-	12,620
Hire purchase receivables	746,268	-	-	-	-	-	-	746,268
Other term financing	411,999	2,121,609	43,705	25,500	-	-	-	2,602,814
Staff financing	13,203	4,411	-	192	740	-	-	18,546
Credit card	-	-	-	-	-	-	92	92
<b>Total</b>	<b>2,239,515</b>	<b>3,536,628</b>	<b>56,982</b>	<b>46,915</b>	<b>1,330</b>	<b>1,234</b>	<b>92</b>	<b>5,882,696</b>

	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai' (lease ended with ownership)	Murabahah (cost- plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	<b>31 Dec 2017</b>						
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
<b>Total</b>	<b>2,160,107</b>	<b>3,711,313</b>	<b>61,024</b>	<b>48,098</b>	<b>931</b>	<b>1,269</b>	<b>5,982,742</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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:	820	1,347
- Depositors' Fund	670	1,104
- Shareholders' Fund	150	243
Uses of Qard fund:	(421)	(1,459)
- Financing for asset purchase	(344)	(1,197)
- Staff Benevolent	(77)	(262)
Closing balance	1,330	931

Group and Bank	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
931	1,043
820	1,347
670	1,104
150	243
(421)	(1,459)
(344)	(1,197)
(77)	(262)
1,330	931

**xi) Movements in impaired financing, advances and other receivables**

At 1 Jan	418,478	478,060
Impaired during the period/year	(49,672)	(59,582)
- Impaired during the period/year	35,958	127,884
- Reclassified to performing during the year	(11,190)	(3,440)
- Amount recovered	(66,259)	(175,736)
- Amount written off	(8,180)	(8,290)
Closing balance	368,807	418,478

Group and Bank	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
418,478	478,060
(49,672)	(59,582)
35,958	127,884
(11,190)	(3,440)
(66,259)	(175,736)
(8,180)	(8,290)
368,807	418,478
2.55%	2.70%

Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment (stage 3)

**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	(7,853)	(17,200)
Closing balance	114,368	122,221

Group and Bank	
30 Jun 2018 RM'000	31 Dec 2017 RM'000
122,221	139,421
(7,853)	(17,200)
114,368	122,221
2.02%	2.14%

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

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

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

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b>Stage 3 impairment</b>		
At 1 Jan	263,873	229,687
Allowance reversed during the year		
- Allowance made	(31,447)	42,475
- Allowance written-back	23,810	110,693
	(55,257)	(68,218)
Amount written off	(8,180)	(8,290)
Closing balance	224,246	263,873

**xiii) Impaired financing by sector**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Electricity, gas and water	79	79
Finance, insurance and business services	5,891	168
Household	50,892	61,971
Manufacturing	152,262	158,820
Real Estate	154,286	193,020
Wholesale & retail trade and restaurants & hotels	5,396	4,420
	368,807	418,478

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

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

**xiii) 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
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	5,366,611	147,278	-	5,513,889	5,564,264
High grade	-	-	-	-	-
Individually impaired	-	-	368,807	368,807	418,478
Total	5,366,611	147,278	368,807	5,882,696	5,982,742

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
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount as at 1 January 2018	5,387,996	176,268	418,478	5,982,742
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(21,385)	(28,990)	(49,672)	(100,046)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	5,366,611	147,278	368,807	5,882,696

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2018 under IFRS 9	108,080	5,831	263,873	377,784
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid (excluding write offs)	(3,474)	-	(39,627)	(43,100)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	2,210	-	2,210
At 30 June 2018	104,606	8,042	224,246	336,894
Net carrying amount (after ECL)	5,262,005	139,236	144,560	5,545,802

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A9 Other Assets**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Deposits and prepayments	11,454	8,845	11,265	8,711
Amount due from subsidiaries	-	-	4	4
Amount due from other related parties	120,752	53,936	120,752	53,936
Income receivable	-	-	-	-
Fee receivable	106	795	106	795
Sundry debtors	5,779	2,252	5,776	2,246
	<b>138,092</b>	<b>65,828</b>	<b>137,903</b>	<b>65,692</b>

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

**A10 Hedging Financial Instruments**

	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
<b>Group and Bank</b>			
<b>At 30 Jun 2018</b>			
Forward foreign exchange related contracts	1,256,298	11,522	8,309
- in connection with fair value hedges	638,595	4,639	1,465
- other derivatives without hedge accounting	617,703	6,883	6,844
Ijarah rental swap related contracts	95,491	509	36
- other derivatives without hedge accounting	95,491	509	36
Total	<b>1,351,789</b>	<b>12,031</b>	<b>8,345</b>

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.

	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
<b>At 31 Dec 2017</b>			
Forward foreign exchange related contracts	646,620	120	14,938
- in connection with fair value hedges	622,899	-	14,833
- other derivatives without hedge accounting	23,721	120	105
Ijarah rental swap related contracts	124,610	1,594	43
- other derivatives without hedge accounting	124,610	1,594	43
Total	<b>771,230</b>	<b>1,714</b>	<b>14,981</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Qard				
- Demand deposits	408,480	473,933	318,449	394,620
- Gold deposits	94,280	102,061	94,280	102,061
Wakalah	20,722	202,946	-	-
Murabahah				
- Term placement	3,747,292	3,833,900	3,697,227	3,833,900
- Savings deposits	83,392	86,338	83,392	86,338
	<b>4,354,167</b>	<b>4,699,178</b>	<b>4,193,349</b>	<b>4,416,919</b>

**(ii) By type of customer**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Business enterprises	1,647,524	1,807,400	1,447,626	1,477,483
Individuals	366,040	335,578	366,040	335,578
Subsidiaries	-	-	39,079	47,659
Government and statutory bodies	1,849,843	2,063,351	1,849,843	2,063,351
Other enterprises	490,759	492,849	490,759	492,849
	<b>4,354,167</b>	<b>4,699,178</b>	<b>4,193,349</b>	<b>4,416,919</b>

**(iii) By contractual maturity**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Due within six months	3,727,518	3,928,810	3,566,700	3,646,550
More than six months to one year	546,920	656,716	546,920	656,716
More than one year to three years	79,729	113,652	79,729	113,653
	<b>4,354,167</b>	<b>4,699,178</b>	<b>4,193,349</b>	<b>4,416,919</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A13 Deposits and Placements of Banks and Other Financial Institutions**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Murabahah	700,000	50,000	700,000	50,000
Licensed Islamic banks	2,005,802	2,212,903	2,189,968	2,534,891
Other financial institutions				
	<b>2,705,802</b>	<b>2,262,903</b>	<b>2,889,968</b>	<b>2,584,891</b>

**A14 INVESTMENT ACCOUNTS**

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
As at 1 January	8,218	8,563
Net placement during the year	(2,189)	(524)
Income from investment	118	300
Profit distributed to mudarib	(47)	(121)
As at 31 December	<b>6,099</b>	<b>8,218</b>
Investment asset: Wadiah placement with BNM	<b>6,099</b>	<b>8,218</b>

**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	1.90

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Business enterprises	1,132	1,193
Individuals	4,514	6,477
Other enterprises	453	548
	<b>6,099</b>	<b>8,218</b>



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A15 Other Liabilities**

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Sundry creditors	72,924	49,071	72,892	48,954
Accrued restoration cost	5,600	5,707	5,600	5,600
Undistributed charity funds (ii)	2,724	2,760	2,724	2,760
Other provisions and accruals	22,171	38,986	22,110	38,708
	<b>103,654</b>	<b>96,524</b>	<b>103,326</b>	<b>96,022</b>

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

(ii) Sources and uses of charity funds:

	Group and Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	2,760	7,377
Penalty (reversal)/charges on late payment	140	5,672
Total sources of funds during the year	<b>2,900</b>	<b>13,050</b>
Uses of charity funds:		
Compensation of late payment charges	-	(10,000)
Contribution to non profit organisations	(105)	(195)
Aid to needy family	(71)	(95)
Total uses of funds during the year	<b>(176)</b>	<b>(10,290)</b>
Closing balance	<b>2,724</b>	<b>2,760</b>

**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 USD100,435,417 or equivalent RM405,507,995 (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	
	30 Jun 2018 Units'000	31 Dec 2017 Units'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b>Authorised:</b>				
At 1 January/At closing balance	<b>3,000,000</b>	3,000,000	<b>3,000,000</b>	3,000,000
<b>Issued and fully paid:</b>				
At 1 January	<b>1,425,272</b>	1,425,272	<b>1,425,272</b>	1,425,272
At 1 January/At closing balance	<b>1,425,272</b>	1,425,272	<b>1,425,272</b>	1,425,272

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A18 Income derived from investment of other deposits

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Group</b>				
Finance income from financing, advances and other receivables	66,676	72,788	131,692	146,034
Finance income from impaired financing	(127)	47	201	343
Income from securities				
- Held-for-trading	-	21	-	21
- Available-for-sale	-	13,186	-	21,541
- Held-to-maturity	-	648	-	1,295
- Financial assets at FVTPL	-	-	9	-
- Financial assets at FVOCI	22,769	-	41,828	-
Money at call and deposits with financial institutions	1,771	6,171	3,765	19,155
	<b>91,090</b>	92,861	<b>177,495</b>	188,389
Amortisation of premium less accretion of discounts	(1,137)	(1,143)	(2,268)	(2,278)
Total finance income and hibah	<b>89,952</b>	91,718	<b>175,227</b>	186,111
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	150	-	154
- Available-for-sale	-	301	-	301
- Financial assets at FVTPL	270	-	280	-
- Financial assets at FVOCI	1,948	-	1,868	-
Foreign exchange (loss)/gain				
- Realised	(1,774)	1,668	(1,055)	7,091
Gain on Ijarah rental swap obligation	398	666	832	1,405
	<b>90,794</b>	94,502	<b>177,152</b>	195,063

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

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

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Bank</b>				
Finance income from financing, advances and other receivables	66,708	72,910	131,757	146,298
Finance income from impaired financing	(127)	47	202	343
Income from securities				
- Held-for-trading	-	21	-	21
- Available-for-sale	-	13,158	-	21,476
- Held-to-maturity	-	649	-	1,297
- Financial assets at FVTPL	-	-	9	-
- Financial assets at FVOCI	22,734	-	41,757	-
Money at call and deposits with financial institutions	1,779	6,216	3,787	19,263
	91,094	93,002	177,512	188,699
Amortisation of premium less accretion of discounts	(1,138)	(1,145)	(2,269)	(2,282)
Total finance income and hibah	89,956	91,857	175,243	186,417
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	150	-	154
- Available-for-sale	-	301	-	301
- Financial assets at FVTPL	270	-	280	-
- Financial assets at FVOCI	1,949	-	1,869	-
Foreign exchange gain				
- Realised	(1,953)	1,636	(1,326)	6,952
Gain on Ijarah rental swap obligation	398	667	832	1,408
	90,621	94,611	176,899	195,232

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A18 Income derived from Investment of Shareholder's Equity

<u>Group</u>	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance income from financing, advances and other receivables	15,041	14,758	29,980	28,696
Finance income from impaired financing	(30)	11	46	67
Income from securities:				
- Held-for-trading	-	4	-	4
- Available-for-sale	-	2,668	-	4,260
- Held-to-maturity	-	131	-	255
- Financial assets at FVTPL	-	-	2	-
- Financial assets at FVOCI	5,138	-	9,516	-
Money at call and deposits with financial institutions	398	1,252	856	3,715
	<b>20,547</b>	<b>18,823</b>	<b>40,400</b>	<b>36,997</b>
Amortisation of premium less accretion of discounts	(257)	(232)	(516)	(448)
Total finance income and hibah	<b>20,291</b>	<b>18,591</b>	<b>39,883</b>	<b>36,549</b>
Fee income				
- Commission	887	594	3,174	1,241
- Fund management fee	-	132	-	496
- Other fee income	923	1,814	3,044	3,082
- Compensation of late payment charges	-	1,000	-	5,000
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	31	-	32
- Available-for-sale	-	60	-	60
- Financial assets at FVTPL	62	-	64	-
- Financial assets at FVOCI	438	-	420	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(458)	(906)	(1,061)	(1,849)
Foreign exchange (loss)/gain				
- Realised	12,650	493	(22,817)	1,554
- Unrealised	(9,535)	(660)	25,970	(539)
Gain on Ijarah rental swap obligation	90	135	190	276
Other income	121	1,916	220	4,061
Management fee	-	10	-	49
	<b>25,468</b>	<b>23,214</b>	<b>49,087</b>	<b>50,013</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

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

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Bank</b>				
Finance income from financing, advances and other receivables	15,009	14,636	29,915	28,432
Finance income from impaired financing	(30)	11	46	66
Income from securitites:				
- Held-for-trading	-	4	-	4
- Available-for-sale	-	2,636	-	4,201
- Held-to-maturity	-	130	-	252
- Financial assets at FVTPL	-	-	2	-
- Financial assets at FVOCI	5,117	-	9,474	-
Money at call and deposits with financial institutions	399	1,248	859	3,693
	20,495	18,664	40,295	36,649
Amortisation of premium less accretion of discounts	(256)	(230)	(515)	(444)
Total finance income and hibah	20,239	18,435	39,780	36,206
Fee income				
- Commission	887	594	3,180	1,255
- Other fee income	923	2,814	3,038	8,081
Gain/(loss) arising from sale of securities				
- Held-for-trading	-	31	-	32
- Available-for-sale	-	60	-	60
Gain/(loss) arising from sale of securities				
- Financial assets at FVTPL	61	-	64	-
- Financial assets at FVOCI	437	-	419	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	(458)	(906)	(1,061)	(1,849)
Foreign exchange (loss)/gain				
- Realised	12,610	483	(22,878)	1,512
- Unrealised	(9,681)	(667)	25,819	(564)
Gain on Ijarah rental swap obligation	90	134	189	273
Management fee	30	30	60	153
	25,138	21,007	48,611	45,159

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2018</b>							
<b>Group</b>							
Due from banks	(997)	-	-	-	-	-	(997)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-	-	-	-
Financing and advances to customers	-	(2,518)	-	(6,030)	49,146	-	40,598
Debt instruments measured at FVOCI	(2,865)	-	-	-	-	-	(2,865)
Debt instruments measured at amortised cost	-	-	-	-	-	-	-
Financial guarantees	-	-	-	-	-	-	-
Financing commitments	242	-	-	-	-	-	242
Letters of credit	-	-	-	-	-	-	-
<b>Total Impairment loss</b>	<b>(3,620)</b>	<b>(2,518)</b>	<b>-</b>	<b>(6,030)</b>	<b>49,146</b>	<b>-</b>	<b>36,978</b>

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
	RM'000	RM'000	RM'000	RM'000
<b>2017</b>				
<b>Group</b>				
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	29,000	-	-	29,000
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	-	-	-	-
<b>Total</b>	<b>19,634</b>	<b>-</b>	<b>-</b>	<b>19,634</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
<b>Bank</b>							
Due from banks	(783)	-	-	-	-	-	(783)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-	-	-	-
Financing and advances to customers	-	(2,518)	-	(6,030)	-	49,146	40,598
Debt instruments measured at FVOCI	(3,219)	-	-	-	-	-	(3,219)
Debt instruments measured at amortised cost	-	-	-	-	-	-	-
Financial guarantees	-	-	-	-	-	-	-
Financing commitments	280	-	(38)	-	-	-	242
Letters of credit	-	-	-	-	-	-	-
Total Impairment loss	(3,722)	(2,518)	(38)	(6,030)	-	49,146	36,838

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
<b>Bank</b>				
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	29,000	-	-	29,000
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	19,634	-	-	19,634

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A20 Income Attributable to the Depositors**

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Group</b>				
Deposits from customers				
- Murabahah	34,525	32,664	66,912	60,931
- Wakalah	81	1	589	2
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	21,363	29,113	41,888	63,557
Others	286	730	730	1,489
	<b>56,255</b>	<b>62,508</b>	<b>110,120</b>	<b>125,979</b>
<b>Bank</b>				
Deposits from customers				
- Murabahah	34,294	32,665	66,680	60,931
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	22,266	29,357	43,743	63,983
Others	286	730	730	1,489
	<b>56,845</b>	<b>62,752</b>	<b>111,153</b>	<b>126,403</b>

**A21 Profit Distributed to Investment Account Holders**

	2nd Quarter ended 30-Jun		Half-year ended 30-Jun	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Group &amp; Bank</b>				
Income derived from investment of investment account funds	52	82	118	152
Profit distributed to mudarib	(21)	33	(47)	61
	<b>31</b>	<b>49</b>	<b>70</b>	<b>91</b>



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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 30 Jun 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
<b>Group and Bank</b>						
Direct credit substitutes	2,020	2,020	1,420	2,287	2,287	2,287
Transaction related contingencies	169,994	84,997	73,301	100,027	50,014	40,901
Trade related contingencies	23,294	4,659	4,659	19,113	3,823	3,823
Irrevocable commitments to extend credit						
- maturity less than one year	321,843	64,369	61,698	495,869	99,174	98,573
- maturity more than one year	525,691	262,846	253,839	319,868	159,934	147,321
Foreign exchange related contracts *						
- less than one year	1,264,294	31,895	7,364	630,808	9,582	2,053
Profit rate related contracts (ljarah rental swap obligation) *						
- five years and above	95,491	533	393	124,610	1,810	1,525
	<b>2,402,626</b>	<b>451,318</b>	<b>402,674</b>	<b>1,692,582</b>	<b>326,624</b>	<b>296,483</b>

\* 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	172,014	102,314
Letters of credit	23,294	19,113
Other undrawn commitments	847,534	815,737
Total commitment	1,042,841	937,165
Less : ECL (charge)/writeback	(1,720)	(1,701)
	<b>1,041,121</b>	<b>935,463</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	168,803	3,211	-	172,014	102,314
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	168,803	3,211	-	172,014	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
	RM'000	RM'000	RM'000	RM'000
Outstanding exposure as at 1 January 2018	99,103	3,211	-	102,314
New exposures	77,646	-	-	77,646
Exposure derecognised or matured/lapsed (excluding write offs)	(7,946)	-	-	(7,946)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	168,803	3,211	-	172,014

Group and Bank	Stage 1	Stage 2	Stage 3	Total ECL allowance
	RM'000	RM'000	RM'000	RM'000
ECLs as at 1 January 2018	294	50	-	344
New exposures	1,789	-	-	1,789
Exposures derecognised or matured (excluding write-offs)	(704)	20	-	(684)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	1,379	70	-	1,449
Net carrying amount (after ECL)	167,424	3,142	-	170,565

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
	RM'000	RM'000	RM'000	RM'000	RM'000
Internal rating grade :					
Performing	23,294	-	-	23,294	19,113
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	23,294	-	-	23,294	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
	RM'000	RM'000	RM'000	RM'000
Outstanding exposure as at 1 January 2018	19,113	-	-	19,113
New exposures	19,486	-	-	19,486
Exposure derecognised or matured/lapsed (excluding write offs)	(15,306)	-	-	(15,306)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	23,294	-	-	23,294

Group and Bank	Stage 1	Stage 2	Stage 3	Total ECL allowance
	RM'000	RM'000	RM'000	RM'000
ECLs as at 1 January 2018	24	-	-	24
New exposures	4	-	-	4
Exposures derecognised or matured (excluding write-offs)	(24)	-	-	(24)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	4	-	-	4
Net carrying amount (after ECL)	23,290	-	-	23,290

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	840,306	7,227	-	847,534	815,737
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	840,306	7,227	-	847,534	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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Outstanding exposure as at 1 January 2018	813,707	2,030	-	815,737
New exposures	26,599	5,198	-	31,797
Exposure derecognised or matured/lapsed (excluding write offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 30 June 2018	840,306	7,227	-	847,534

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total ECL allowance RM'000
ECLs as at 1 January 2018	1,333	-	-	1,333
New exposures	-	-	-	-
Exposures derecognised or matured (excluding write-offs)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(1,067)	-	-	(1,067)
At 30 June 2018	267	0	-	267
Net carrying amount (after ECL)	840,039	7,227	-	847,267

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A21 Credit transactions and exposures with connected parties**

As at 30 Jun 2018			
Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
<b>Bank</b>			
Financing, credit facility and leasing (except guarantee)	2	121,141	-
Equities and Islamic Private Debt Securities held	1	36,100	-
Off-balance sheet exposures	1	600	-
157,731	4	157,841	-
Total exposure to connected parties as % capital base		8.4%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures		1.8%	0.0%

As at 31 Dec 2017			
Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
<b>Bank</b>			
Financing, credit facility and leasing (except guarantee)	3	406,325	-
Equities and Islamic Private Debt Securities held	1	36,100	-
Off-balance sheet exposures	1	600	-
443,597	5	443,025	-
Total exposure to connected parties as % capital base		23.6%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures		5.3%	0.0%

\* Included total outstanding and unutilised limit

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
**(672174-T)**  
**(Incorporated in Malaysia)**

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

**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:

	<b>Group</b>		<b>Bank</b>	
	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
<b>Common Equity Tier I/ Tier I Capital Ratio</b>				
Credit risk	<b>25.290%</b>	24.208%	<b>24.696%</b>	23.324%
Credit, market, operational and large exposure risks	<b>23.393%</b>	22.500%	<b>22.882%</b>	21.716%
<b>Total Capital Ratio</b>				
Credit risk	<b>33.633%</b>	32.199%	<b>33.040%</b>	31.320%
Credit, market, operational and large exposure risks	<b>31.110%</b>	29.927%	<b>30.612%</b>	29.162%

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital Adequacy (Cont' d.)

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

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b><u>CET I / Tier I capital</u></b>				
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	48,947	63,003	25,198	38,972
	<b>1,636,434</b>	1,650,491	<b>1,612,685</b>	1,626,460
Less: Deferred tax assets (net)	(196,775)	(196,775)	(196,775)	(196,775)
Less: Investment in subsidiaries	-	-	(10,200)	(30,200)
<b>Total CET I / Tier I capital</b>	<b>1,439,659</b>	1,453,716	<b>1,405,710</b>	1,399,485
<b><u>Tier II capital</u></b>				
Subordinated Murabahah Tawarruq	403,750	404,800	403,750	404,800
Collective impairment on financing	71,157	75,065	71,150	75,003
<b>Total Tier II capital</b>	<b>474,907</b>	479,865	<b>474,900</b>	479,803
<b>Total capital</b>	<b>1,914,566</b>	1,933,581	<b>1,880,610</b>	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	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
<b>Computation of Total Risk-Weighted Assets (RWA)</b>				
Total Credit RWA	5,692,564	6,005,122	5,692,000	6,000,188
Total Market RWA	36,831	23,226	36,831	23,226
Total Operational RWA	407,642	415,610	397,409	403,857
Large Exposure Risk RWA for Equity Holdings	17,108	17,108	17,108	17,108
Total Risk-Weighted Assets	<b>6,154,145</b>	6,461,066	<b>6,143,348</b>	6,444,380
<b>Computation of Capital Ratios</b>				
Core Capital	1,439,659	1,453,716	1,405,710	1,399,485
Capital Base	1,914,566	1,933,581	1,880,610	1,879,288
<b>CET I / Tier I Capital Ratio</b>	<b>23.393%</b>	22.500%	<b>22.882%</b>	21.716%
<b>Total Capital Ratio</b>	<b>31.110%</b>	29.927%	<b>30.612%</b>	29.162%

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A23 Capital Adequacy (Cont'd)**

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

Group	Gross Exposures	Net Exposures **	Risk Weighted Assets	Total Risk Weighted Assets After Effects of PSIA	Capital Requirement
As at 30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	1,359,171	1,359,171	42,736	42,736	3,419
Banks, Development Financial Institutions & MDBs	196,163	196,163	66,446	66,446	5,316
Corporates	4,121,002	4,121,002	2,634,884	2,634,884	210,791
Regulatory Retail	2,101,235	2,101,235	1,573,532	1,573,532	125,883
Residential Mortgages	842,233	842,233	468,572	468,572	37,486
Higher Risk Assets <sup>1</sup>	56,433	56,433	84,649	84,649	6,772
Other Assets	285,904	285,904	179,308	179,308	14,345
Defaulted Exposures <sup>2</sup>	204,280	204,280	239,762	239,762	19,181
	<b>9,166,420</b>	<b>9,166,420</b>	<b>5,289,891</b>	<b>5,289,891</b>	<b>423,191</b>
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	32,428	32,428	7,756	7,756	621
Off balance sheet exposures other than OTC hedging financial instruments	418,890	418,890	394,917	394,917	31,593
	<b>451,318</b>	<b>451,318</b>	<b>402,673</b>	<b>402,673</b>	<b>32,214</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,617,738</b>	<b>9,617,738</b>	<b>5,692,564</b>	<b>5,692,564</b>	<b>455,405</b>
<b>(ii) Large Exposures Risk Requirement</b>	<b>36,118</b>	<b>36,118</b>	<b>17,108</b>	<b>17,108</b>	<b>1,369</b>
	<b>Long Position</b>	<b>Short Position</b>			
<b>(iii) Market Risk</b>					
Benchmark Rate Risk	95,843	95,405	438	250	20
Foreign Currency Risk <sup>4</sup>	9,318	36,084	(26,766)	36,588	2,927
			<b>(26,328)</b>	<b>36,838</b>	<b>2,947</b>
<b>(iv) Operational Risk</b>			<b>407,642</b>	<b>407,642</b>	<b>32,611</b>
<b>(v) Total RWA and Capital Requirements</b>		<b>9,627,528</b>	<b>6,154,151</b>	<b>6,154,151</b>	<b>492,332</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital Adequacy (Cont'd)

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

Group	Gross Exposures	Net Exposures **	Risk Weighted Assets	Total Risk Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>As at 31 Dec 2017</b>					
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	1,662,909	1,662,909	44,090	44,090	3,527
Banks, Development Financial Institutions & MDBs	493,412	493,412	160,953	160,953	12,876
Corporates	3,572,005	3,572,005	3,137,676	3,137,676	251,014
Regulatory Retail	2,009,719	2,009,719	1,504,584	1,504,584	120,367
Residential Mortgages	737,234	737,234	416,125	416,125	33,290
Higher Risk Assets <sup>1</sup>	60,757	60,757	91,136	91,136	7,291
Other Assets	289,872	289,872	135,653	135,653	10,852
Defaulted Exposures <sup>2</sup>	239,835	239,835	292,176	292,176	23,375
	<b>9,065,743</b>	<b>9,065,743</b>	<b>5,782,393</b>	<b>5,782,393</b>	<b>462,592</b>
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	11,392	11,392	3,577	3,577	286
Off balance sheet exposures other than OTC hedging financial instruments	241,416	241,416	219,152	219,152	17,532
	<b>252,808</b>	<b>252,808</b>	<b>222,729</b>	<b>222,729</b>	<b>17,818</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,318,551</b>	<b>9,318,551</b>	<b>6,005,122</b>	<b>6,005,122</b>	<b>480,410</b>
<b>(ii) Large Exposures Risk Requirement</b>	<b>36,118</b>	<b>36,118</b>	<b>17,108</b>	<b>17,108</b>	<b>1,369</b>
	<b>Long Position</b>	<b>Short Position</b>			
<b>(iii) Market Risk</b>					
Benchmark Rate Risk	111,583	110,084	1,499	1,709	137
Foreign Currency Risk <sup>4</sup>	1,450	21,191	(19,741)	21,517	1,721
			<b>(18,242)</b>	<b>23,226</b>	<b>1,858</b>
<b>(iv) Operational Risk</b>				<b>415,610</b>	<b>33,249</b>
<b>(v) Total RWA and Capital Requirements</b>				<b>6,461,066</b>	<b>516,886</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital adequacy (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk Weighted Assets	Total Risk Weighted Assets After Effects of PSIA	Capital Requirement
As at 30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>					
<b>(a) On-Balance Sheet Exposures</b>					
Sovereigns/Central Banks	1,347,300	1,347,300	42,736	42,736	3,419
Banks, Development Financial Institutions & MDBs	196,502	196,502	66,514	66,514	5,321
Corporates	4,121,009	4,121,009	2,634,892	2,634,892	210,791
Regulatory Retail	2,101,235	2,101,235	1,573,532	1,573,532	125,883
Residential Mortgages	842,233	842,233	468,572	468,572	37,486
Higher Risk Assets <sup>1</sup>	56,433	56,433	84,649	84,649	6,772
Other Assets	285,265	285,265	178,669	178,669	14,294
Defaulted Exposures <sup>2</sup>	204,280	204,280	239,762	239,762	19,181
	9,154,257	9,154,257	5,289,327	5,289,327	423,146
<b>(b) Off-Balance Sheet Exposures*</b>					
OTC Hedging Financial Instruments <sup>3</sup>	32,428	32,428	7,756	7,756	620.51
Off balance sheet exposures other than OTC hedging financial instruments	418,890	418,890	394,917	394,917	31,593.34
	451,318	451,318	402,673	402,673	32,214
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,605,575</b>	<b>9,605,575</b>	<b>5,692,000</b>	<b>5,692,000</b>	<b>455,360</b>
<b>(ii) Large Exposures Risk Requirement</b>	<b>36,118</b>	<b>36,118</b>	<b>17,108</b>	<b>17,108</b>	<b>1,369</b>
	<b>Long Position</b>	<b>Short Position</b>			
<b>(iii) Market Risk</b>					
Benchmark Rate Risk	95,843	95,405	438	250	20
Foreign Currency Risk <sup>4</sup>	9,318	36,084	(26,766)	36,588	2,927
			(26,328)	36,838	2,947
<b>(iv) Operational Risk</b>			397,409	397,409	31,793
<b>(v) Total RWA and Capital Requirements</b>		<b>9,615,365</b>	<b>6,143,355</b>	<b>6,143,355</b>	<b>491,468</b>

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital adequacy (Cont'd.)

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

Bank	Gross Exposures		Net	Risk Weighted	Total Risk	Capital
	RM'000	RM'000	Exposures **	Assets	Assets After	Requirement
As at 31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>						
<b>(a) On-Balance Sheet Exposures</b>						
Sovereigns/Central Banks	1,650,923	1,650,923	44,090	44,090	3,527	
Banks, Development Financial Institutions & MDBs	522,240	522,240	167,864	167,864	13,429	
Corporates	3,586,068	3,586,068	3,151,740	3,151,740	252,139	
Regulatory Retail	2,009,719	2,009,719	1,504,584	1,504,584	120,367	
Residential Mortgages	737,234	737,234	416,125	416,125	33,290	
Higher Risk Assets <sup>1</sup>	60,757	60,757	91,136	91,136	7,291	
Other Assets	263,964	263,964	109,745	109,745	8,780	
Defaulted Exposures <sup>2</sup>	239,834	239,834	292,175	292,175	23,374	
	<b>9,070,739</b>	<b>9,070,739</b>	<b>5,777,459</b>	<b>5,777,459</b>	<b>462,197</b>	
<b>(b) Off-Balance Sheet Exposures*</b>						
OTC Hedging Financial Instruments <sup>3</sup>	11,392	11,392	3,577	3,577	286	
Off balance sheet exposures other than OTC hedging financial instruments	241,416	241,416	219,152	219,152	17,532	
	<b>252,808</b>	<b>252,808</b>	<b>222,729</b>	<b>222,729</b>	<b>17,818</b>	
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,323,547</b>	<b>9,323,547</b>	<b>6,000,188</b>	<b>6,000,188</b>	<b>480,015</b>	
<b>(ii) Large Exposures Risk Requirement</b>	<b>36,118</b>	<b>36,118</b>	<b>17,108</b>	<b>17,108</b>	<b>1,369</b>	
	<b>Long Position</b>	<b>Short Position</b>				
<b>(iii) Market Risk</b>						
Benchmark Rate Risk	111,583	110,084	1,499	1,709	137	
Foreign Currency Risk <sup>4</sup>	1,450	21,191	(19,741)	21,517	1,721	
			<b>(18,242)</b>	<b>23,226</b>	<b>1,858</b>	
<b>(iv) Operational Risk</b>				<b>403,858</b>	<b>32,309</b>	
<b>(v) Total RWA and Capital Requirements</b>				<b>6,444,380</b>	<b>515,551</b>	

Note:

\* Credit equivalent of off-balance sheet items

\*\* After netting and credit risk mitigation

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

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

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

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital adequacy (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
Group	As at 30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Risk-Weights</b>										
	0%	1,145,489	40,023	1,163,857	3,797	4,136	-	106,595	2,463,897	-
	20%	213,682	68,457	387,517	-	-	-	-	669,656	133,931
	35%	-	-	-	-	420,386	-	-	420,386	147,135
	50%	-	119,199	112,768	92	200,053	-	-	432,111	216,055
	75%	-	-	-	2,132,081	-	-	-	2,132,081	1,599,061
	100%	-	-	2,897,504	71	229,175	-	179,308	3,306,059	3,306,059
	150%	-	-	82,903	1,478	-	109,167	-	193,548	290,323
		<b>1,359,170</b>	<b>227,679</b>	<b>4,644,549</b>	<b>2,137,519</b>	<b>853,750</b>	<b>109,167</b>	<b>285,904</b>	<b>9,617,738</b>	<b>5,692,564</b>
<b>As at 31 Dec 2017</b>										
<b>Risk-Weights</b>										
	0%	1,442,458	39,337	338,651	4,630	3,944	-	121,733	1,950,753	-
	20%	220,451	230,050	106,492	-	-	-	40,608	597,601	119,520
	35%	-	-	-	-	356,649	-	-	356,649	124,827
	50%	-	233,794	110,519	(41)	178,051	-	-	522,323	261,162
	75%	-	-	-	2,051,961	-	-	-	2,051,961	1,538,971
	100%	-	-	3,250,191	133	218,650	-	127,531	3,596,505	3,596,505
	150%	-	-	123,495	2,428	-	116,835	-	242,758	364,136
		<b>1,662,909</b>	<b>503,181</b>	<b>3,929,348</b>	<b>2,059,112</b>	<b>757,294</b>	<b>116,835</b>	<b>289,872</b>	<b>9,318,550</b>	<b>6,005,122</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 Capital adequacy (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
Bank	As at 30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Risk-Weights</b>										
	0%	1,133,618	40,023	1,163,857	3,797	4,136	-	106,595	2,452,027	-
	20%	213,682	68,796	387,517	-	-	-	-	669,995	133,999
	35%	-	-	-	-	420,386	-	-	420,386	147,135
	50%	-	119,199	112,768	92	200,053	-	-	432,111	216,056
	75%	-	-	-	2,132,081	-	-	-	2,132,081	1,599,061
	100%	-	-	2,897,512	71	229,175	-	178,669	3,305,428	3,305,428
	150%	-	-	82,903	1,478	-	109,167	-	193,548	290,323
		<b>1,347,300</b>	<b>228,018</b>	<b>4,644,557</b>	<b>2,137,519</b>	<b>853,750</b>	<b>109,167</b>	<b>285,265</b>	<b>9,605,575</b>	<b>5,692,001</b>
<b>As at 31 Dec 2017</b>										
<b>Risk-Weights</b>										
	0%	1,430,472	39,337	338,651	4,630	3,943	-	121,733	1,938,766	-
	20%	220,451	255,059	106,492	-	-	-	40,608	622,610	124,522
	35%	-	-	-	-	356,649	-	-	356,649	124,827
	50%	-	237,613	110,519	(41)	178,052	-	-	526,143	263,072
	75%	-	-	-	2,051,961	-	-	-	2,051,961	1,538,971
	100%	-	-	3,264,254	133	218,650	-	101,623	3,584,660	3,584,660
	150%	-	-	123,495	2,428	-	116,835	-	242,758	364,136
		<b>1,650,923</b>	<b>532,009</b>	<b>3,943,411</b>	<b>2,059,112</b>	<b>757,294</b>	<b>116,835</b>	<b>263,964</b>	<b>9,323,547</b>	<b>6,000,188</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 CAPITAL ADEQUACY (Cont'd.)

(f) The breakdown of risk-weighted assets by risk-weights are as follows:

	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
<b>As at 30 Jun 2018</b>				
0%	2,463,897	-	2,452,027	-
20%	669,656	133,931	669,995	133,999
35%	420,386	147,135	420,386	147,135
50%	432,111	216,055	432,111	216,055
75%	2,132,081	1,599,061	2,132,081	1,599,061
100%	3,306,059	3,306,059	3,305,428	3,305,428
150%	193,548	290,323	193,548	290,323
Risk-weighted assets for credit risk	<b>9,617,738</b>	<b>5,692,564</b>	<b>9,605,575</b>	<b>5,692,000</b>
Risk-weighted assets for market risk		36,831		36,831
Risk-weighted assets for operational risk		407,642		397,409
Large exposure risk-weighted assets for equity holdings		17,108		17,108
Total risk-weighted assets		<b>6,154,145</b>		<b>6,143,348</b>
<b>As at 31 Dec 2017</b>				
0%	1,950,753	-	1,938,766	-
20%	597,601	119,520	622,610	124,522
35%	356,649	124,827	356,649	124,827
50%	522,323	261,163	526,143	263,072
75%	2,051,961	1,538,971	2,051,961	1,538,971
100%	3,596,505	3,596,505	3,584,660	3,584,660
150%	242,758	364,136	242,758	364,136
Risk-weighted assets for credit risk	<b>9,318,550</b>	<b>6,005,122</b>	<b>9,323,547</b>	<b>6,000,188</b>
Risk-weighted assets for market risk		23,226		23,226
Risk-weighted assets for operational risk		415,610		403,858
Large exposure risk-weighted assets for equity holdings		17,108		17,108
Total risk-weighted assets		<b>6,461,066</b>		<b>6,444,380</b>

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

Group and Bank	As at 30 Jun 2018		As at 31 Dec 2017	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Benchmark Rate Risk	250	20	1,709	137
Foreign Exchange Risk	36,588	2,927	21,517	1,721
Total	<b>36,838</b>	<b>2,947</b>	23,226	1,858

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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.

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
<b>Group</b>			
<b>30 Jun 2018</b>			
<b>Financial assets</b>			
Securities held at FVTPL	7,038	-	7,038
Debt instruments measured at FVOCI	2,669,324	-	2,669,324
Equity instruments at FVOCI	36,118	-	36,118
Financing, advances and other receivables	1,632,701	3,905,767	5,538,467
Hedging financial instruments	12,031	-	12,031
<b>Total</b>	<b>4,357,213</b>	<b>3,905,767</b>	<b>8,262,979</b>
<b>Financial liability</b>			
Deposits from customers	4,347,727	-	4,347,727
Hedging financial instruments	8,345	-	8,345
Subordinated Murabahah Tawarruq	-	403,609	403,609
	<b>4,356,072</b>	<b>403,609</b>	<b>4,759,681</b>
<b>31 Dec 2017</b>			
<b>Financial assets</b>			
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
<b>Total</b>	<b>3,742,052</b>	<b>4,078,290</b>	<b>7,820,342</b>
<b>Financial liability</b>			
Deposits from customers	4,694,762	-	4,694,762
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	<b>4,709,743</b>	<b>404,676</b>	<b>5,114,419</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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
<b>Bank</b>			
<b>30 Jun 2018</b>			
<b>Financial assets</b>			
Financial assets at FVTPL	7,038	-	7,038
Debt instruments measured at FVOCI	2,657,465	-	2,657,465
Equity instruments at FVOCI	36,118	-	36,118
Financing, advances and other receivables	1,632,701	3,905,767	5,538,467
Hedging financial instruments	12,031	-	12,031
<b>Total</b>	<b>4,338,315</b>	<b>3,905,767</b>	<b>8,244,081</b>
<b>Financial liability</b>			
Deposits from customers	4,186,668	-	4,186,668
Hedging financial instruments	8,345	-	8,345
Subordinated Murabahah Tawarruq	-	403,609	403,609
	<b>4,195,013</b>	<b>403,609</b>	<b>4,598,621</b>
<b>31 Dec 2017</b>			
<b>Financial assets</b>			
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
<b>Total</b>	<b>3,730,065</b>	<b>4,078,290</b>	<b>7,808,355</b>
<b>Financial liability</b>			
Deposits from customers	4,412,237	-	4,412,237
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	<b>4,427,218</b>	<b>404,676</b>	<b>4,831,894</b>

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

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



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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			
		30 Jun 2018		31 Dec 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>					
	Securities held-to-maturity	-	-	5,064	5,006
	Financing, advances and other receivables	5,544,082	5,538,467	5,596,649	5,589,525
		<b>5,544,082</b>	<b>5,538,467</b>	<b>5,601,713</b>	<b>5,594,531</b>
<b>Financial Liabilities</b>					
	Deposits from customers	4,354,167	4,347,727	4,699,178	4,694,762
	Subordinated Murabahah Tawarruq	405,508	403,609	409,716	404,676
		<b>4,759,675</b>	<b>4,751,336</b>	<b>5,108,894</b>	<b>5,099,438</b>

		Bank			
		30 Jun 2018		31 Dec 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
<b>Financial Assets</b>					
	Securities held-to-maturity	-	-	5,064	5,006
	Financing, advances and other receivables	5,544,082	5,538,467	5,596,649	5,589,525
		<b>5,544,082</b>	<b>5,538,467</b>	<b>5,601,713</b>	<b>5,594,531</b>
<b>Financial Liabilities</b>					
	Deposits from customers	4,193,349	4,186,668	4,416,919	4,412,237
	Subordinated Murabahah Tawarruq	405,508	403,609	409,716	404,676
		<b>4,598,857</b>	<b>4,590,276</b>	<b>4,826,635</b>	<b>4,816,913</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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.

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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.

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT

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

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

#### (a) CREDIT RISK

##### (i) Maximum exposure to credit risk without taking account of any collateral

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

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

	30 Jun 2018		31-Dec-17	
	Total gross maximum exposure		Total gross maximum exposure	
	Group	Bank	Group	Bank
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	206,636	206,636	429,575	458,403
Deposits and placements with banks and other financial institutions	108,993	109,332	214,806	214,806
Securities FVOCI	2,687,972	2,676,101	2,224,097	2,212,110
Securities held-to-maturity	-	-	5,064	5,064
Financing, advances and other receivables	5,544,082	5,544,082	5,596,649	5,596,649
Other assets	138,092	137,903	65,828	65,692
Statutory deposits with Bank Negara Malaysia ("BNM")	205,770	205,770	213,600	213,600
Hedging financial instruments - Ijarah rental swap	12,031	12,031	1,714	1,714
<b>Total On-Balance Sheet</b>	<b>8,903,576</b>	<b>8,891,856</b>	<b>8,751,333</b>	<b>8,768,039</b>
Financial guarantees	2,020	2,020	2,287	2,287
Contingent liabilities	193,288	193,288	119,141	119,141
Commitments*	847,534	847,534	446,661	446,661
<b>Total Off-Balance Sheet</b>	<b>1,042,842</b>	<b>1,042,842</b>	<b>568,089</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>9,946,417</b>	<b>9,934,697</b>	<b>9,319,422</b>	<b>9,336,127</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By geographical segment:

	Geographic region				Total gross maximum exposure
	Malaysia	Middle east	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 Jun 2018</b>					
<b>Group</b>					
Cash and short-term funds	167,528	6,464	32,644	-	206,636
Deposits and placements with banks and other financial institutions	4,423	-	104,570	-	108,993
Securities FVOCI					
- Unquoted	2,572,802	103,299	11,870	-	2,687,972
Financing, advances and other receivables	5,651,794	4,046	2,610	(114,368)	5,544,082
Other assets	138,092	-	-	-	138,092
Statutory deposits with BNM	205,770	-	-	-	205,770
Hedging financial instruments					
- Ijarah rental swap	12,031	-	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>8,752,440</b>	<b>113,809</b>	<b>151,694</b>	<b>(114,368)</b>	<b>8,903,576</b>
Financial guarantees	2,020	-	-	-	2,020
Contingent liabilities	193,288	-	-	-	193,288
Commitments*	847,148	135	251	-	847,535
<b>Total Off-Balance Sheet</b>	<b>1,042,456</b>	<b>135</b>	<b>251</b>	<b>-</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>9,794,896</b>	<b>113,944</b>	<b>151,945</b>	<b>(114,368)</b>	<b>9,946,418</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By geographical segment (Cont'd.)

	Geographic region				Total gross maximum exposure
	Malaysia	Middle east	Others	Collective assessment	
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 Dec 2017</b>					
<b>Group</b>					
Cash and short-term funds	299,244	12,256	118,075	-	429,575
Deposits and placements with banks and other financial institutions	38,269	-	176,538	-	214,806
Securities available-for-sale					
- Unquoted	2,105,618	106,492	11,987	-	2,224,097
Securities held-to-maturity					
- Unquoted	5,064	-	-	-	5,064
Financing, advances and other receivables	5,709,146	4,647	5,077	(122,221)	5,596,649
Other assets	(30,787)	96,615	-	-	65,828
Statutory deposits with BNM	213,600	-	-	-	213,600
Hedging financial instruments					
- Ijarah rental swap	1,714	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>8,341,869</b>	<b>220,009</b>	<b>311,676</b>	<b>(122,221)</b>	<b>8,751,333</b>
Financial guarantees	2,287	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	119,141
Commitments*	446,526	135	-	-	446,661
<b>Total Off-Balance Sheet</b>	<b>567,954</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,909,823</b>	<b>220,144</b>	<b>311,676</b>	<b>(122,221)</b>	<b>9,319,422</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By geographical segment (Cont'd.)

	Geographic region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle east RM'000	Others RM'000	Collective assessment RM'000	
<b>30 Jun 2018</b>					
<b>Bank</b>					
Cash and short-term funds	167,528	6,464	32,644	-	206,636
Deposits and placements with banks and other financial institutions	4,762	-	104,570	-	109,332
Securities FVOCI					
- Unquoted	2,572,802	103,299	-	-	2,676,101
Financing, advances and other receivables	5,651,794	4,046	2,610	(114,368)	5,544,082
Other assets	137,903	-	-	-	137,903
Statutory deposits with BNM	205,770	-	-	-	205,770
Hedging financial instruments					
- Ijarah rental swap	12,031	-	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>8,752,591</b>	<b>113,809</b>	<b>139,823</b>	<b>(114,368)</b>	<b>8,891,855</b>
Financial guarantees	2,020	-	-	-	2,020
Contingent liabilities	193,288	-	-	-	193,288
Commitments*	847,148	135	251	-	847,535
<b>Total Off-Balance Sheet</b>	<b>1,042,456</b>	<b>135</b>	<b>251</b>	<b>-</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>9,795,047</b>	<b>113,944</b>	<b>140,075</b>	<b>(114,368)</b>	<b>9,934,697</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By geographical segment (Cont'd.)

	Geographic region				Total gross maximum exposure RM'000
	Malaysia RM'000	Middle east RM'000	Others RM'000	Collective assessment RM'000	
<b>31 Dec 2017</b>					
<b>Bank</b>					
Cash and short-term funds	328,072	12,256	118,075	-	458,403
Deposits and placements with banks and other financial institutions	38,269	-	176,538	-	214,806
Securities available-for-sale					
- Unquoted	2,105,618	106,492	-	-	2,212,110
Securities held-to-maturity					
- Unquoted	5,064	-	-	-	5,064
Financing, advances and other receivables	5,709,146	4,647	5,077	(122,221)	5,596,649
Other assets	(30,923)	96,615	-	-	65,692
Statutory deposits with BNM	213,600	-	-	-	213,600
Hedging financial instruments					
- Ijarah rental swap	1,714	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>8,370,561</b>	<b>220,009</b>	<b>299,689</b>	<b>(122,221)</b>	<b>8,768,038</b>
Financial guarantees	2,287	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	119,141
Commitments*	446,526	135	-	-	446,661
<b>Total Off-Balance Sheet</b>	<b>567,954</b>	<b>135</b>	<b>-</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>8,938,515</b>	<b>220,144</b>	<b>299,689</b>	<b>(122,221)</b>	<b>9,336,127</b>

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



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By Industry sector:

	Industry						Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
30 Jun 2018 Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	206,636	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	-	108,993	-	-	-	-	108,993
Securities FVOCI	-	250,629	644,535	359,609	1,029,427	403,772	2,687,972
Securities held-to-maturity	-	-	-	-	-	-	-
Financing, advances and other receivables	877,193	114,598	1,028,359	155,979	-	3,482,321	(114,368)
Other assets	-	-	-	-	-	138,092	138,092
Statutory deposits with BNM	-	205,770	-	-	-	-	205,770
Hedging financial instruments	-	-	-	12,031	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>877,193</b>	<b>886,624</b>	<b>1,672,894</b>	<b>527,619</b>	<b>1,029,427</b>	<b>4,024,184</b>	<b>(114,368)</b>
Financial guarantees	-	-	600	-	-	1,420	2,020
Contingent liabilities	2,873	-	93,784	7,860	-	88,770	193,288
Commitments*	63,246	-	590,067	16,192	-	178,030	847,535
<b>Total Off-Balance Sheet</b>	<b>66,118</b>	<b>-</b>	<b>684,451</b>	<b>24,052</b>	<b>-</b>	<b>268,221</b>	<b>-</b>
<b>Total On and Off-Balance Sheet</b>	<b>943,312</b>	<b>886,624</b>	<b>2,357,345</b>	<b>551,671</b>	<b>1,029,427</b>	<b>4,292,405</b>	<b>(114,368)</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By Industry sector (Cont'd.):

	Industry						Total gross maximum exposure RM'000
	Trading and manufacturing RM'000	Banks and financial institutions RM'000	Construction and real estate RM'000	Transportation, storage and communication RM'000	Government RM'000	Others RM'000	
<b>31 Dec 2017</b>							
<b>Group</b>							
Cash and short-term funds	-	429,575	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	-	214,806	-	-	-	-	214,806
Securities available-for-sale	-	95,790	15,333	-	1,851,235	261,739	2,224,097
Securities held-to-maturity	-	-	-	5,064	-	-	5,064
Financing, advances and other receivables	810,004	129,875	1,422,206	181,565	-	3,175,220	5,596,649
Other assets	-	-	-	-	-	65,828	65,828
Statutory deposits with BNM	-	213,600	-	-	-	-	213,600
Hedging financial instruments	-	1,714	-	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>810,004</b>	<b>1,085,361</b>	<b>1,437,539</b>	<b>186,629</b>	<b>1,851,235</b>	<b>3,502,787</b>	<b>(122,221)</b>
Financial guarantees	-	-	600	-	-	1,687	2,287
Contingent liabilities	2,527	-	8,382	2,861	-	105,371	119,141
Commitments*	11,669	-	260,087	5,013	-	169,892	446,661
<b>Total Off-Balance Sheet</b>	<b>14,196</b>	<b>-</b>	<b>269,069</b>	<b>7,874</b>	<b>-</b>	<b>276,950</b>	<b>-</b>
<b>Total On and Off-Balance Sheet</b>	<b>824,199</b>	<b>1,085,361</b>	<b>1,706,608</b>	<b>194,503</b>	<b>1,851,235</b>	<b>3,779,737</b>	<b>(122,221)</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By Industry sector (Cont'd.):

	Industry						Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>							
Cash and short-term funds	-	206,636	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	-	109,332	-	-	-	-	109,332
Securities FVOCI	-	250,629	644,535	359,609	1,017,557	403,772	2,676,101
Financing, advances and other receivables	877,193	114,598	1,028,359	155,979	-	3,482,321	(114,368)
Other assets	-	-	-	-	-	137,903	137,903
Statutory deposits with BNM	-	205,770	-	-	-	-	205,770
Hedging financial instruments	-	-	-	12,031	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>877,193</b>	<b>886,965</b>	<b>1,672,894</b>	<b>527,619</b>	<b>1,017,557</b>	<b>4,023,996</b>	<b>(114,368)</b>
Financial guarantees	-	-	600	-	-	1,420	2,020
Contingent liabilities	2,873	-	93,784	7,860	-	88,770	193,288
Commitments*	63,246	-	590,067	16,192	-	178,030	847,535
<b>Total Off-Balance Sheet</b>	<b>66,118</b>	<b>-</b>	<b>684,451</b>	<b>24,052</b>	<b>-</b>	<b>268,221</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>943,312</b>	<b>886,965</b>	<b>2,357,345</b>	<b>551,671</b>	<b>1,017,557</b>	<b>4,292,216</b>	<b>(114,368)</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

By Industry sector (Cont'd.):

	Industry						Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 Dec 2017</b>							
<b>Bank</b>							
Cash and short-term funds	-	458,403	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	-	214,806	-	-	-	-	214,806
Securities available-for-sale	-	95,790	15,333	-	1,839,249	261,738	2,212,110
Securities held-to-maturity	-	-	-	5,064	-	-	5,064
Financing, advances and other receivables	810,004	129,875	1,422,206	181,565	-	3,175,220	5,596,649
Other assets	-	-	-	-	-	65,692	65,692
Statutory deposits with BNM	-	213,600	-	-	-	-	213,600
Hedging financial instruments	-	1,714	-	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>810,004</b>	<b>1,114,189</b>	<b>1,437,539</b>	<b>186,629</b>	<b>1,839,249</b>	<b>3,502,650</b>	<b>8,768,038</b>
Financial guarantees	-	-	600	-	-	1,687	2,287
Contingent liabilities	2,527	-	8,382	2,860	-	105,371	119,141
Commitments*	11,669	-	260,087	5,013	-	169,892	446,661
<b>Total Off-Balance Sheet</b>	<b>14,196</b>	<b>-</b>	<b>269,069</b>	<b>7,873</b>	<b>-</b>	<b>276,951</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>824,199</b>	<b>1,114,189</b>	<b>1,706,608</b>	<b>194,502</b>	<b>1,839,249</b>	<b>3,779,601</b>	<b>9,336,127</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

By residual maturity:

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
30 Jun 2018 Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	206,636	-	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	49,256	59,738	-	-	-	-	108,993
Securities FVOCI	15,022	-	1,072,459	1,600,491	-	-	2,687,972
Financing, advances and other receivables	2,539,930	26,444	533,688	2,558,388	-	(114,368)	5,544,082
Other assets	-	-	-	-	138,092	-	138,092
Statutory deposits with BNM	-	-	-	-	205,770	-	205,770
Hedging financial instruments	-	-	-	12,031	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>2,810,843</b>	<b>86,181</b>	<b>1,606,147</b>	<b>4,170,910</b>	<b>343,862</b>	<b>(114,368)</b>	<b>8,903,575</b>
Financial guarantees	1,600	400	-	-	20	-	2,020
Contingent liabilities	73,131	9,460	58,124	17,415	35,158	-	193,288
Commitments*	128,206	11,815	293,925	210,444	203,145	-	847,535
<b>Total Off-Balance Sheet</b>	<b>202,936</b>	<b>21,675</b>	<b>352,049</b>	<b>227,859</b>	<b>238,323</b>	<b>-</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>3,013,780</b>	<b>107,856</b>	<b>1,958,196</b>	<b>4,398,769</b>	<b>582,185</b>	<b>(114,368)</b>	<b>9,946,417</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
31 Dec 2017 Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	429,575	-	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	-	214,806
Securities available-for-sale	59,661	15,035	1,027,093	1,122,308	-	-	2,224,097
Securities held-to-maturity	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	2,327,402	51,669	329,624	3,010,175	-	(122,221)	5,596,649
Other assets	-	-	-	-	65,828	-	65,828
Statutory deposits with BNM	-	-	-	-	213,600	-	213,600
Hedging financial instruments	-	-	1,714	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>3,031,444</b>	<b>66,704</b>	<b>1,363,496</b>	<b>4,132,483</b>	<b>279,428</b>	<b>(122,221)</b>	<b>8,751,333</b>
Financial guarantees	1,087	-	-	-	1,200	-	2,287
Contingent liabilities	95,359	3,211	12,938	-	7,632	-	119,141
Commitments*	45,215	63,519	67,965	249,746	20,216	-	446,661
<b>Total Off-Balance Sheet</b>	<b>141,661</b>	<b>66,731</b>	<b>80,903</b>	<b>249,746</b>	<b>29,048</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>3,173,105</b>	<b>133,434</b>	<b>1,444,399</b>	<b>4,382,229</b>	<b>308,476</b>	<b>(122,221)</b>	<b>9,319,422</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
<b>30 Jun 2018</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>	<b>206,636</b>	-	-	-	-	-	<b>206,636</b>
Cash and short-term funds							
Deposits and placements with banks and other financial institutions	<b>109,332</b>	-	-	-	-	-	<b>109,332</b>
Securities FVOCI	<b>15,022</b>	-	<b>1,060,589</b>	<b>1,600,491</b>	-	-	<b>2,676,101</b>
Financing, advances and other receivables	<b>2,539,930</b>	<b>26,444</b>	<b>533,688</b>	<b>2,558,388</b>	-	<b>(114,368)</b>	<b>5,544,082</b>
Other assets	-	-	-	-	<b>137,903</b>	-	<b>137,903</b>
Statutory deposits with BNM	-	-	-	-	<b>205,770</b>	-	<b>205,770</b>
Hedging financial instruments	-	-	-	<b>12,031</b>	-	-	<b>12,031</b>
<b>Total On-Balance Sheet</b>	<b>2,870,920</b>	<b>26,444</b>	<b>1,594,277</b>	<b>4,170,910</b>	<b>343,673</b>	<b>(114,368)</b>	<b>8,891,855</b>
Financial guarantees	1,600	400	-	-	20	-	2,020
Contingent liabilities	73,131	9,460	58,124	17,415	35,158	-	193,288
Commitments*	128,206	11,815	293,925	210,444	203,145	-	847,535
<b>Total Off-Balance Sheet</b>	<b>202,936</b>	<b>21,675</b>	<b>352,049</b>	<b>227,859</b>	<b>238,323</b>	-	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>3,073,856</b>	<b>48,118</b>	<b>1,946,326</b>	<b>4,398,769</b>	<b>581,996</b>	<b>(114,368)</b>	<b>9,934,697</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

By residual maturity: (Cont'd.)

	Residual Maturity				Not on demand and no maturity date	Collective assessment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>							
Cash and short-term funds	458,403	-	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	-	214,806
Securities available-for-sale	59,661	15,035	1,015,107	1,122,307	-	-	2,212,110
Securities held-to-maturity	-	-	5,064	-	-	-	5,064
Financing, advances and other receivables	2,327,402	51,669	329,624	3,010,175	-	(122,221)	5,596,649
Other assets	-	-	-	-	65,692	-	65,692
Statutory deposits with BNM	-	-	-	-	213,600	-	213,600
Hedging financial instruments	-	-	1,714	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>3,060,273</b>	<b>66,704</b>	<b>1,351,509</b>	<b>4,132,482</b>	<b>279,292</b>	<b>(122,221)</b>	<b>8,768,038</b>
Financial guarantees	1,087	-	-	-	1,200	-	2,287
Contingent liabilities	95,359	3,211	12,938	-	7,632	-	119,141
Commitments*	45,215	63,519	67,965	249,746	20,216	-	446,662
<b>Total Off-Balance Sheet</b>	<b>141,661</b>	<b>66,730</b>	<b>80,903</b>	<b>249,746</b>	<b>29,048</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>3,201,933</b>	<b>133,434</b>	<b>1,432,413</b>	<b>4,382,228</b>	<b>308,340</b>	<b>(122,221)</b>	<b>9,336,127</b>

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



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

#### (ii) Credit quality per class of financial assets

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

30 Jun 2018 Group	Performing RM'000	Performing unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	206,636	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	108,993	-	-	-	-	108,993
Securities FVOCI	2,445,251	242,720	-	-	-	2,687,972
Financing, advances and other receivables	2,502,677	2,568,081	439,832	3,298	368,807	5,882,696
Other assets	138,092	-	-	-	-	138,092
Statutory deposits with BNM	205,770	-	-	-	-	205,770
Hedging financial instruments	12,031	-	-	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>5,619,450</b>	<b>2,810,802</b>	<b>439,832</b>	<b>3,298</b>	<b>368,807</b>	<b>9,242,189</b>
Financial guarantees	2,020	-	-	-	-	2,020
Contingent liabilities	193,288	-	-	-	-	193,288
Commitments*	847,535	-	-	-	-	847,535
<b>Total Off-Balance Sheet</b>	<b>1,042,842</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,662,292</b>	<b>2,810,802</b>	<b>439,832</b>	<b>3,298</b>	<b>368,807</b>	<b>10,285,031</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

#### (ii) Credit quality per class of financial assets (Cont'd.)

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

31 Dec 2017 Group	Performing RM'000	Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	429,575	-	-	-	-	429,575
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	214,806
Securities available-for-sale	2,162,881	61,215	-	-	-	2,224,096
Securities held-to-maturity	5,064	-	-	-	-	5,064
Financing, advances and other receivables	2,696,702	2,464,770	374,923	27,869	418,478	5,982,742
Other assets	65,568	-	-	-	260	65,827
Statutory deposits with BNM	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>5,789,910</b>	<b>2,525,985</b>	<b>374,923</b>	<b>27,869</b>	<b>418,738</b>	<b>9,137,424</b>
Financial guarantees	2,287	-	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	-	119,141
Commitments*	446,661	-	-	-	-	446,661
<b>Total Off-Balance Sheet</b>	<b>568,089</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,357,998</b>	<b>2,525,985</b>	<b>374,923</b>	<b>27,869</b>	<b>418,738</b>	<b>9,705,513</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

#### (ii) Credit quality per class of financial assets (Cont'd)

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

	Performing	Performing unrated	Past due but not impaired	Restructured & rescheduled	Impaired	Total
<b>30 Jun 2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Bank</b>						
Cash and short-term funds	206,636	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	109,332	-	-	-	-	109,332
Securities FVOCI	2,433,381	242,720	-	-	-	2,676,101
Financing, advances and other receivables	2,502,677	2,568,081	439,832	3,298	368,807	5,882,696
Other assets	137,903	-	-	-	-	137,903
Statutory deposits with BNM	205,770	-	-	-	-	205,770
Hedging financial instruments	12,031	-	-	-	-	12,031
<b>Total On-Balance Sheet</b>	<b>5,607,732</b>	<b>2,810,802</b>	<b>439,832</b>	<b>3,298</b>	<b>368,807</b>	<b>9,230,470</b>
Financial guarantees	2,020	-	-	-	-	2,020
Contingent liabilities	193,288	-	-	-	-	193,288
Commitments*	847,535	-	-	-	-	847,535
<b>Total Off-Balance Sheet</b>	<b>1,042,842</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,042,842</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,650,574</b>	<b>2,810,802</b>	<b>439,832</b>	<b>3,298</b>	<b>368,807</b>	<b>10,273,312</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

#### (ii) Credit quality per class of financial assets (Cont'd)

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

31 Dec 2017	Performing	Performing unrated	Past due but not impaired	Restructured & rescheduled	Impaired	Total
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	458,403	-	-	-	-	458,403
Deposits and placements with banks and other financial institutions	214,806	-	-	-	-	214,806
Securities available-for-sale	2,150,896	61,215	-	-	-	2,212,110
Securities held-to-maturity	5,064	-	-	-	-	5,064
Financing, advances and other receivables	2,696,701	2,464,770	374,923	27,869	418,478	5,982,742
Other assets	65,432	-	-	-	260	65,692
Statutory deposits with BNM	213,600	-	-	-	-	213,600
Hedging financial instruments	1,714	-	-	-	-	1,714
<b>Total On-Balance Sheet</b>	<b>5,806,617</b>	<b>2,525,985</b>	<b>374,923</b>	<b>27,869</b>	<b>418,738</b>	<b>9,154,132</b>
Financial guarantees	2,287	-	-	-	-	2,287
Contingent liabilities	119,141	-	-	-	-	119,141
Commitments*	446,661	-	-	-	-	446,661
<b>Total Off-Balance Sheet</b>	<b>568,089</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>568,089</b>
<b>Total On and Off-Balance Sheet</b>	<b>6,374,706</b>	<b>2,525,985</b>	<b>374,923</b>	<b>27,869</b>	<b>418,738</b>	<b>9,722,220</b>

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

The principal objective of credit risk measurement for KFHMB is to produce accurate quantitative assessment of the credit risk to which the Bank is exposed to. To determine the counterparty risk, KFHMB has a risk rating system that enables the rank-ordering of the customers' risk profile to assess the credit quality of customers and assigns them an internal risk rating. Over the year, to ensure that the integrity of the data used is in place, KFHMB has undergone a verification exercise with an independent consultant and is in the midst of further refining the rating process. The rating system is actively monitored and a monthly analysis of the corporate and commercial customers are provided to the senior management and the Board for oversight.

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

Group and Bank	30 Jun 2018 RM'000
<b>Corporate &amp; Commercial</b>	
Excellent	-
Very Strong	9,274
Strong	473,366
Good	934,040
Satisfactory	470,309
Weak	283,106
Special Mention	339,659
Impaired	128,893
Unrated *	3,019,803
	5,658,450
Less: Collective assessment	(114,368)
Total Corporate, Commercial and Retail	5,544,082

Group and Bank	31-Dec-17 RM'000
<b>Corporate &amp; Commercial</b>	
Excellent	-
Very Strong	760
Strong	224,192
Good	669,440
Satisfactory	589,278
Weak	543,333
Special Mention	721,659
Impaired	127,884
Unrated *	2,842,324
	5,718,870
Less: Collective assessment	(122,221)
Total Corporate, Commercial and Retail	5,596,649

\* Unrated segment includes retail credit exposures, which includes impaired retail credit exposures

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

30 Jun 2018

Securities

Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C		Government - guaranteed	
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			Total
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated		RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>							
Securities available-for-sale	435,110	685,681	-			1,567,180	2,687,972
<b>Bank</b>							
Securities available-for-sale	423,240	685,681	-			1,567,180	2,676,101

31 Dec 2017

Securities

Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C		Government - guaranteed	
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
RAM	AAA to AA3	A to A3	BBB to BB	B to D			Total
MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated		RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>							
Securities available-for-sale	136,386	367,551	-	-	61,215	1,658,945	2,224,097
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
<b>Bank</b>							
Securities available-for-sale	124,399	367,551	-	-	61,215	1,658,945	2,212,110
Securities held-to-maturity	5,064	-	-	-	-	-	5,064

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

30 Jun 2018 Group and Bank	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RM'000	RM'000	RM'000	RM'000
<b>Financing and advances to customers</b>				
Corporate financing	1,242	-	50	1,292
Retail & Consumer financing	348,804	70,377	19,358	438,539
<b>Total</b>	<b>350,046</b>	<b>70,377</b>	<b>19,408</b>	<b>439,832</b>

31 Dec 2017 Group and Bank	Less than 30 days	31 to 60 days	61 to 90 days	Total
	RM'000	RM'000	RM'000	RM'000
<b>Financing and advances to customers</b>				
Corporate financing	22,572	3,890	50	26,513
Retail & Consumer financing	269,898	58,562	19,951	348,411
<b>Total</b>	<b>292,470</b>	<b>62,452</b>	<b>20,001</b>	<b>374,923</b>

#### Impaired and past due financing by geographical regions

30 Jun 2018 Group and Bank	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	367,616	439,153	223,175		8,180
Middle East	0	-	0		-
Others	1,191	679	1,071		-
<b>Total</b>	<b>368,807</b>	<b>439,832</b>	<b>224,246</b>	<b>114,368</b>	<b>8,180</b>

31 Dec 2017 Group and Bank	Impaired	Past due but not impaired	Individual impairment	Collective impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	415,272	373,385	263,010		8,290
Middle East	-	851	-		-
Others	3,206	687	863		-
<b>Total</b>	<b>418,478</b>	<b>374,923</b>	<b>263,873</b>	<b>122,221</b>	<b>8,290</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

##### Impaired and past due financing by industry sector

30 Jun 2018 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Trading and manufacturing	157,659	1,242	87,391		-
Banks and financial institutions	0	-	0		-
Construction and real estate	154,286	712	101,552		-
Transportation, storage and communication	0	-	0		-
Others	56,862	437,877	35,303		8,180
<b>Total</b>	<b>368,807</b>	<b>439,832</b>	<b>224,246</b>	<b>114,368</b>	<b>8,180</b>

31 Dec 2017 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Individual impairment RM'000	Collective impairment RM'000	Write-off RM'000
Trading and manufacturing	163,242	4,369	91,435		-
Banks and financial institutions	-	22,093	-		-
Construction and real estate	193,020	742	136,942		-
Transportation, storage and communication	-	-	-		-
Others	62,217	347,719	35,496		8,290
<b>Total</b>	<b>418,478</b>	<b>374,923</b>	<b>263,873</b>	<b>122,221</b>	<b>8,290</b>



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

##### **Collateral**

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

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

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 67.9% as at 30 June 2018 (31 Dec 2017: 80.5%). The financial effect of collateral held for other financial assets is not significant.

##### **Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions**

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

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (b) LIQUIDITY RISK

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

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

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

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

#### Contractual maturity of total assets and liabilities

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

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

Group	Up to	>6 - 12	>1 - 5	Over 5	Not on demand	Total
	6 months	months	years	years	& no maturity date	
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>						
Cash and short-term funds	-	-	-	-	206,636	206,636
Deposits and placements with banks and other financial institutions	49,256	59,738	-	-	-	108,993
Securities - FVTPL	-	-	-	-	7,038	7,038
Securities - FVOCI	15,022	-	1,072,459	1,600,491	17,471	2,705,443
Financing, advances and receivables	1,910,805	32,398	702,902	2,897,977	-	5,544,083
Musyarakah capital investment	-	-	-	-	-	-
Other assets	-	-	-	-	680,787	680,787
<b>Total Assets</b>	<b>1,975,082</b>	<b>92,136</b>	<b>1,775,361</b>	<b>4,498,468</b>	<b>911,932</b>	<b>9,252,979</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Group	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,423,230	445,436	72,813	-	412,688	4,354,167
Deposits and placements of banks and other financial institutions	2,361,462	317,059	27,281	-	(0)	2,705,802
Subordinated Murabahah Tawarruq	-	-	-	405,508	-	405,508
Other liabilities	-	-	-	-	118,098	118,098
<b>Total Liabilities</b>	<b>5,784,692</b>	<b>762,495</b>	<b>100,094</b>	<b>405,508</b>	<b>530,786</b>	<b>7,583,576</b>
Shareholder's equity	-	-	-	-	1,669,404	1,669,404
<b>Total Liabilities and Shareholder's equity</b>	<b>5,784,692</b>	<b>762,495</b>	<b>100,094</b>	<b>405,508</b>	<b>2,200,190</b>	<b>9,252,979</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	202,936	21,675	352,049	227,859	238,323	1,042,842
<b>Net maturity mismatch</b>	<b>(4,012,546)</b>	<b>(692,034)</b>	<b>1,323,218</b>	<b>3,865,101</b>	<b>(1,526,582)</b>	<b>(1,042,842)</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Group	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>						
Cash and short-term funds	373,357	-	-	-	64,436	437,793
Deposits and placements with banks and other financial institutions	100,253	106,335	-	-	-	206,588
Securities available-for-sale	59,661	15,035	1,027,093	1,122,308	58,179	2,282,276
Securities held-to-maturity	-	-	5,064	-	-	5,064
Financing, advances and receivables	2,330,496	52,077	751,263	2,462,813	-	5,596,649
Musyarakah capital investment	-	-	-	-	18	18
Other assets	-	-	-	-	613,623	613,623
<b>Total Assets</b>	<b>2,863,767</b>	<b>173,447</b>	<b>1,783,420</b>	<b>3,585,121</b>	<b>736,257</b>	<b>9,142,011</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,355,108	710,660	51,731	886	580,793	4,699,178
Deposits and placements of banks and other financial institutions	1,989,840	273,063	-	-	8,218	2,271,121
Subordinated Murabahah Tawarruq	-	-	-	409,716	-	409,716
Other liabilities	-	-	-	-	111,505	111,505
<b>Total Liabilities</b>	<b>5,344,948</b>	<b>983,723</b>	<b>51,731</b>	<b>410,602</b>	<b>700,517</b>	<b>7,491,520</b>
Shareholder's equity	-	-	-	-	1,650,491	1,650,491
<b>Total Liabilities and Shareholder's equity</b>	<b>5,344,948</b>	<b>983,723</b>	<b>51,731</b>	<b>410,602</b>	<b>2,351,007</b>	<b>9,142,011</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	141,661	66,731	80,903	249,746	29,048	568,089
<b>Net maturity mismatch</b>	<b>(2,622,842)</b>	<b>(877,007)</b>	<b>1,650,786</b>	<b>2,924,773</b>	<b>(1,643,798)</b>	<b>(568,089)</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Bank	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>						
Cash and short-term funds	130,663	-	-	-	75,973	206,636
Deposits and placements with banks and other financial institutions	109,332	-	-	-	-	109,332
Securities - FVTPL	-	-	-	-	7,038	7,038
Securities - FVOCI	15,022	-	1,060,589	1,600,491	17,482	2,693,583
Financing, advances and receivables	1,910,808	32,398	702,902	2,897,974	-	5,544,082
Other assets	-	-	-	-	690,344	690,344
<b>Total Assets</b>	<b>2,165,826</b>	<b>32,398</b>	<b>1,763,491</b>	<b>4,498,465</b>	<b>790,837</b>	<b>9,251,016</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,262,411	445,436	72,813	-	412,688	4,193,349
Deposits and placements of banks and other financial institutions	2,833,458	56,510	-	-	(0)	2,889,968
Subordinated Murabahah Tawarruq	-	-	-	405,508	-	405,508
Other liabilities	-	-	-	-	117,770	117,770
<b>Total Liabilities</b>	<b>6,095,869</b>	<b>501,946</b>	<b>72,813</b>	<b>405,508</b>	<b>530,458</b>	<b>7,606,595</b>
Shareholder's equity	-	-	-	-	1,644,421	1,644,421
<b>Total Liabilities and Shareholder's equity</b>	<b>6,095,869</b>	<b>501,946</b>	<b>72,813</b>	<b>405,508</b>	<b>2,174,880</b>	<b>9,251,016</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	202,936	21,675	352,049	227,859	238,323	1,042,842
<b>Net maturity mismatch</b>	<b>(4,132,980)</b>	<b>(491,223)</b>	<b>1,338,629</b>	<b>3,865,098</b>	<b>(1,622,366)</b>	<b>(1,042,842)</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

Bank 31 Dec 2017	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>						
Cash and short-term funds	402,185	-	-	-	64,436	466,621
Deposits and placements with banks and other financial institutions	100,253	106,335	-	-	-	206,588
Securities available-for-sale	59,661	15,035	1,015,106	1,122,308	43,421	2,255,530
Securities held-to-maturity	-	-	5,064	-	-	5,064
Financing, advances and receivables	2,330,496	52,077	751,263	2,462,813	-	5,596,649
Musarakah capital investment	-	-	-	-	18	18
Other assets	-	-	-	-	626,736	626,736
<b>Total Assets</b>	<b>2,892,595</b>	<b>173,447</b>	<b>1,771,433</b>	<b>3,585,121</b>	<b>734,611</b>	<b>9,157,207</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Deposits from customers	3,152,203	710,660	51,731	886	501,439	4,416,919
Deposits and placements of banks and other financial institutions	2,311,828	273,063	-	-	8,218	2,593,109
Subordinated Murabahah Tawarruq	-	-	-	409,716	-	409,716
Other liabilities	-	-	-	-	111,003	111,003
<b>Total Liabilities</b>	<b>5,464,031</b>	<b>983,723</b>	<b>51,731</b>	<b>410,602</b>	<b>620,660</b>	<b>7,530,747</b>
Shareholder's equity	-	-	-	-	1,626,460	1,626,460
<b>Total Liabilities and Shareholder's equity</b>	<b>5,464,031</b>	<b>983,723</b>	<b>51,731</b>	<b>410,602</b>	<b>2,247,120</b>	<b>9,157,207</b>
<b>OFF-BALANCE SHEET LIABILITIES</b>						
Commitments & contingencies	141,661	66,731	80,903	249,746	29,048	568,089
<b>Net maturity mismatch</b>	<b>(2,713,098)</b>	<b>(877,007)</b>	<b>1,638,799</b>	<b>2,924,773</b>	<b>(1,541,557)</b>	<b>(568,089)</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 Jun 2018</b>						
<b>Group</b>						
Deposits from customers	3,476,473	455,868	79,878	-	412,688	4,424,907
Deposit and placements of banks and other financial institutions	2,404,748	325,817	30,423	-	-	2,760,987
Subordinated Murabahah Tawarruq	-	-	-	602,752	-	602,752
Other liabilities	-	-	-	-	118,098	118,098
<b>Total</b>	<b>5,881,220</b>	<b>781,685</b>	<b>110,300</b>	<b>602,752</b>	<b>530,786</b>	<b>7,906,744</b>
<b>Bank</b>						
Deposits from customers	3,315,162	456,283	80,169	-	412,688	4,264,302
Deposit and placements of banks and other financial institutions	2,882,060	57,971	-	-	-	2,940,030
Subordinated Murabahah Tawarruq	-	-	-	602,752	-	602,752
Other liabilities	-	-	-	-	117,770	117,770
<b>Total</b>	<b>6,197,222</b>	<b>514,254</b>	<b>80,169</b>	<b>602,752</b>	<b>530,458</b>	<b>7,924,855</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

31 Dec 2017	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deposits from customers	3,405,379	726,692	56,560	1,028	580,793	4,770,452
Deposit and placements of banks and other financial institutions	2,024,931	280,318	-	-	8,218	2,313,467
Subordinated Murabahah Tawarruq	-	-	-	609,007	-	609,007
Other liabilities	-	-	-	-	111,505	111,505
<b>Total</b>	<b>5,430,310</b>	<b>1,007,010</b>	<b>56,560</b>	<b>610,035</b>	<b>700,517</b>	<b>7,804,431</b>
<b>Bank</b>						
Deposits from customers	3,202,429	727,712	56,878	1,037	501,439	4,489,495
Deposit and placements of banks and other financial institutions	2,347,557	279,418	-	-	8,218	2,635,193
Subordinated Murabahah Tawarruq	-	-	-	609,007	-	609,007
Other liabilities	-	-	-	-	111,003	111,003
<b>Total</b>	<b>5,549,986</b>	<b>1,007,130</b>	<b>56,878</b>	<b>610,044</b>	<b>620,660</b>	<b>7,844,697</b>

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

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



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK

##### Trading

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

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

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

The Bank's exposures to benchmark rate risk comprise of exposures in ijarah rental swap (IRS) and forward foreign exchange related contracts. As at 30 June 2018, the total risk weighted assets for exposures with benchmark rate risk was RM0.25 million (31 December 2017: RM1.71 million) with a total capital charge of RM0.02 million (31 December 2017: RM0.14million).

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

##### Securities held-for-trading

	30 Jun 2018			31 Dec 2017		
	Nominal amount RM' 000	Modified duration	BPV	Nominal amount RM	Modified duration	BPV
Group and Bank						
US Dollar (USD)	-	-	-	-	-	-

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK (Cont'd.)

##### (ii) Foreign exchange risk

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

As at 30 June 2018, the total risk weighted assets for exposures with foreign exchange rate risk was RM36.59 million (31 December 2017: RM21.52 million) with a total capital charge of RM2.93 million (31 December 2017: RM1.72 million).

The table below indicates the currencies to which the Bank had significant exposure as at 30 June 2018. The analysis calculates the effect of a reasonably possible movement of the currencies' exchange rates against Ringgit Malaysia, with all other variables held constant, on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	30 Jun 2018		31 Dec 2017	
	Change in exchange rate %	Effect on Income Statements / Equity RM	Change in exchange rate %	Effect on Income Statements / Equity RM
<b>Group</b>				
Singapore Dollar (SGD)	1	(1,338)	1	(76)
US Dollar (USD)	1	(5,303)	1	(14,181)
Euro (EUR)	1	-	1	(1,408)
<b>Bank</b>				
Singapore Dollar (SGD)	1	(1,338)	1	(76)
US Dollar (USD)	1	(7,263)	1	(27,215)
Euro (EUR)	1	-	1	(12)

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (c) MARKET RISK (Cont'd.)

##### Non-Trading

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

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

##### Securities available-for-sale

Group	30 Jun 2018			31 Dec 2017		
	Nominal amount RM' 000	Modified duration	BPV	Nominal amount RM' 000	Modified duration	BPV
Ringgit Malaysia	2,290,670	5.15	1,169,640	1,760,865	5.04	888,119
US Dollar	375,071	2.72	104,296	416,944	2.89	125,439
<b>Bank</b>						
Ringgit Malaysia	2,290,670	5.15	1,169,640	1,760,865	5.04	888,119
US Dollar	363,375	2.75	102,137	404,800	2.90	122,621

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<b>ASSETS</b>									
Cash and short-term funds	-	-	-	-	-	206,636	-	206,636	3.23
Deposits and placements with banks and other financial institutions	-	-	108,993	-	-	-	-	108,993	1.17
Securities - FVTPL	-	-	15,022	1,072,459	1,600,491	7,038	-	7,038	4.22
Securities - FVOCI	-	-	75,364	527,461	1,715,201	17,471	-	2,705,442	5.14
Financing, advances and receivables	1,372,285	1,853,771	-	-	-	-	-	5,544,083	
Other assets	-	-	-	-	-	680,787	-	680,787	
<b>TOTAL ASSETS</b>	<b>1,372,285</b>	<b>1,853,771</b>	<b>199,379</b>	<b>1,599,920</b>	<b>3,315,692</b>	<b>911,932</b>	<b>-</b>	<b>9,252,979</b>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,670,650	986,841	1,211,133	72,813	-	412,729	-	4,354,167	3.13
Deposits and placements of banks and other financial institutions	-	-	2,678,521	27,281	-	(0)	-	2,705,802	3.70
Subordinated Murabahah Tawarruq	405,508	-	-	-	-	-	-	405,508	8.25
Other liabilities	-	-	-	-	-	118,098	-	118,098	
<b>Total Liabilities</b>	<b>2,076,158</b>	<b>986,841</b>	<b>3,889,655</b>	<b>100,094</b>	<b>-</b>	<b>530,827</b>	<b>-</b>	<b>7,583,576</b>	
Shareholder's equity	-	-	-	-	-	1,669,404	-	1,669,404	
<b>Total Liabilities and Shareholder's Equity</b>	<b>2,076,158</b>	<b>986,841</b>	<b>3,889,655</b>	<b>100,094</b>	<b>-</b>	<b>2,200,231</b>	<b>-</b>	<b>9,252,979</b>	
On-balance sheet profit sensitivity gap	(703,873)	866,930	(3,690,275)	1,499,826	3,315,692	(1,288,299)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
<b>Total profit sensitivity gap</b>	<b>(703,873)</b>	<b>866,930</b>	<b>(3,690,275)</b>	<b>1,499,826</b>	<b>3,315,692</b>	<b>(1,288,299)</b>	<b>-</b>	<b>-</b>	

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
<b>ASSETS</b>									
Cash and short-term funds	373,357	-	-	-	-	64,436	-	437,793	2.67
Deposits and placements with banks and other financial institutions	-	30,051	176,537	-	-	-	-	206,588	1.66
Securities available-for-sale	-	40,608	34,088	1,027,093	1,122,308	58,179	-	2,282,276	3.97
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,795,962	1,960,488	5,778	496,242	1,338,179	-	-	5,596,649	5.21
Musarakah capital investment	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	613,623	-	613,623	
<b>TOTAL ASSETS</b>	<b>2,169,319</b>	<b>2,031,147</b>	<b>216,403</b>	<b>1,528,399</b>	<b>2,460,487</b>	<b>736,256</b>	<b>-</b>	<b>9,142,011</b>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
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	775,015	533,548	-	-	8,218	-	2,271,122	3.56
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	111,504	-	111,504	
<b>Total Liabilities</b>	<b>2,561,554</b>	<b>1,835,812</b>	<b>2,341,908</b>	<b>51,731</b>	<b>-</b>	<b>700,515</b>	<b>-</b>	<b>7,491,520</b>	
Shareholder's equity	-	-	-	-	-	1,650,491	-	1,650,491	
<b>Total Liabilities and Shareholder's Equity</b>	<b>2,561,554</b>	<b>1,835,812</b>	<b>2,341,908</b>	<b>51,731</b>	<b>-</b>	<b>2,351,006</b>	<b>-</b>	<b>9,142,011</b>	
On-balance sheet profit sensitivity gap	(392,235)	195,335	(2,125,505)	1,476,668	2,460,487	(1,614,750)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
<b>Total profit sensitivity gap</b>	<b>(392,235)</b>	<b>195,335</b>	<b>(2,125,505)</b>	<b>1,476,668</b>	<b>2,460,487</b>	<b>(1,614,750)</b>	<b>-</b>	<b>-</b>	

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 30 Jun 2018	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000				
<b>ASSETS</b>									
Cash and short-term funds	130,663	-	-	-	-	75,973	-	206,636	3.22
Deposits and placements with banks and other financial institutions	-	49,594	59,738	-	-	-	-	109,332	1.17
Securities - FVTPL	-	-	-	-	-	7,038	-	7,038	-
Securities - FVOCI	-	-	15,022	1,060,589	1,600,491	17,482	-	2,693,583	4.23
Financing, advances and receivables	1,372,288	1,853,771	75,364	527,461	1,715,198	-	-	5,544,082	5.14
Other assets	-	-	-	-	-	690,344	-	690,344	-
<b>TOTAL ASSETS</b>	<b>1,502,951</b>	<b>1,903,366</b>	<b>150,124</b>	<b>1,588,049</b>	<b>3,315,689</b>	<b>790,837</b>	<b>-</b>	<b>9,251,016</b>	<b>-</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,509,832	986,841	1,211,133	72,813	-	412,729	-	4,193,349	3.26
Deposits and placements of banks and other financial institutions	927,029	1,618,599	344,341	-	-	(0)	-	2,889,968	3.46
Subordinated Murabahah Tawarruq	405,508	-	-	-	-	-	-	405,508	8.25
Other liabilities	-	-	-	-	-	117,770	-	117,770	-
<b>Total Liabilities</b>	<b>2,842,369</b>	<b>2,605,440</b>	<b>1,555,474</b>	<b>72,813</b>	<b>-</b>	<b>530,499</b>	<b>-</b>	<b>7,606,595</b>	<b>-</b>
Shareholder's equity	-	-	-	-	-	1,644,421	-	1,644,421	-
<b>Total Liabilities and Shareholder's Equity</b>	<b>2,842,369</b>	<b>2,605,440</b>	<b>1,555,474</b>	<b>72,813</b>	<b>-</b>	<b>2,174,921</b>	<b>-</b>	<b>9,251,016</b>	<b>-</b>
On-balance sheet profit sensitivity gap	(1,339,417)	(702,074)	(1,405,350)	1,515,236	3,315,689	(1,384,083)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>(1,339,417)</b>	<b>(702,074)</b>	<b>(1,405,350)</b>	<b>1,515,236</b>	<b>3,315,689</b>	<b>(1,384,083)</b>	<b>-</b>	<b>-</b>	<b>-</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A25 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>ASSETS</b>									
Cash and short-term funds	402,185	-	-	-	-	64,436	-	466,621	2.50
Deposits and placements with banks and other financial institutions	-	30,051	176,537	-	-	-	-	206,588	1.32
Securities available-for-sale	-	40,608	34,088	1,015,106	1,122,308	43,421	-	2,255,531	4.00
Securities held-to-maturity	-	-	-	5,064	-	-	-	5,064	3.75
Financing, advances and receivables	1,795,962	1,960,488	5,778	496,242	1,338,180	-	-	5,596,649	5.21
Musyarakah capital investment	-	-	-	-	-	18	-	18	-
Other assets	-	-	-	-	-	626,736	-	626,736	-
<b>TOTAL ASSETS</b>	2,198,147	2,031,147	216,403	1,516,412	2,460,488	734,611	-	9,157,207	-
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
Deposits from customers	1,404,268	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	-	-	8,218	-	2,593,109	3.11
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	111,003	-	111,003	-
<b>Total Liabilities</b>	2,662,377	1,854,031	2,341,908	51,731	-	620,700	-	7,530,747	-
Shareholder's equity	-	-	-	-	-	1,626,460	-	1,626,460	-
<b>Total Liabilities and Shareholder's Equity</b>	2,662,377	1,854,031	2,341,908	51,731	-	2,247,160	-	9,157,207	-
On-balance sheet profit sensitivity gap	(464,230)	177,116	(2,125,506)	1,464,681	2,460,488	(1,512,549)	-	-	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	-
<b>Total profit sensitivity gap</b>	(464,230)	177,116	(2,125,506)	1,464,681	2,460,488	(1,512,549)	-	-	-

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (e) FOREIGN EXCHANGE RISK

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

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

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

Group  
30 Jun 2018

#### ASSETS

Cash and short-term funds  
Deposits and placements with banks and  
other financial institutions  
Securities - FVTPL  
Securities - FVOCI  
Financing, advances and receivables  
Musyarakah capital investment  
Other assets  
**Total Assets**

	MYR	SGD	USD	EUR	KWD	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	206,636	-	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	4,423	104,570	-	-	-	-	108,993
Securities - FVTPL	-	-	7,038	-	-	-	7,038
Securities - FVOCI	2,309,203	-	396,240	-	-	-	2,705,442
Financing, advances and receivables	5,530,806	-	13,277	-	-	-	5,544,083
Musyarakah capital investment	-	-	-	-	-	-	-
Other assets	680,787	-	-	-	-	-	680,787
<b>Total Assets</b>	<b>8,731,854</b>	<b>104,570</b>	<b>416,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,252,979</b>



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	MYR	SGD	USD	EUR	KWD	Others	Total
30 Jun 2018 (Cont'd.)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>LIABILITIES AND</b>							
<b>SHAREHOLDER'S EQUITY</b>							
Deposits from customers	4,019,841	238,391	91,974	-	-	3,961	4,354,167
Deposits and placements with banks and other financial institutions	2,256,448	-	449,355	-	-	-	2,705,802
Subordinated Murabahah Tawarruq	-	-	405,508	-	-	-	405,508
Other liabilities	118,098	-	-	-	-	-	118,098
<b>Total Liabilities</b>	<b>6,394,387</b>	<b>238,391</b>	<b>946,837</b>	<b>-</b>	<b>-</b>	<b>3,961</b>	<b>7,583,576</b>
Shareholder's equity	1,669,404	-	-	-	-	-	1,669,404
<b>Total Liabilities and Shareholder's equity</b>	<b>8,063,791</b>	<b>238,391</b>	<b>946,837</b>	<b>-</b>	<b>-</b>	<b>3,961</b>	<b>9,252,979</b>
On-balance sheet open position	668,063	(133,821)	(530,282)	-	-	(3,961)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>668,063</b>	<b>(133,821)</b>	<b>(530,282)</b>	<b>-</b>	<b>-</b>	<b>(3,961)</b>	<b>-</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group	MYR	SGD	USD	EUR	KWD	Others	Total
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>							
Cash and short-term funds	343,587	61,790	32,416	-	-	-	437,793
Deposits and placements with banks and other financial institutions	30,051	176,537	-	-	-	-	206,588
Securities available-for-sale	1,839,399	-	442,877	-	-	-	2,282,276
Securities held-to-maturity	5,064	-	-	-	-	-	5,064
Financing, advances and receivables	5,452,801	-	143,848	-	-	-	5,596,649
Musarakah capital investment	18	-	-	-	-	-	18
Other assets	613,623	-	-	-	-	-	613,623
<b>Total Assets</b>	<b>8,284,543</b>	<b>238,327</b>	<b>619,141</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,142,011</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	4,378,730	240,845	75,510	-	-	4,093	4,699,178
Deposits and placements with banks and other financial institutions	1,757,822	-	484,231	29,069	-	-	2,271,122
Subordinated Murabahah Tawarruq	-	-	409,716	-	-	-	409,716
Other liabilities	111,504	-	-	-	-	-	111,504
<b>Total Liabilities</b>	<b>6,248,056</b>	<b>240,845</b>	<b>969,457</b>	<b>29,069</b>	<b>-</b>	<b>4,093</b>	<b>7,491,520</b>
Shareholder's equity	1,650,491	-	-	-	-	-	1,650,491
<b>Total Liabilities and Shareholder's equity</b>	<b>7,898,547</b>	<b>240,845</b>	<b>969,457</b>	<b>29,069</b>	<b>-</b>	<b>4,093</b>	<b>9,142,011</b>
On-balance sheet open position	385,996	(2,518)	(350,316)	(29,069)	-	(4,093)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>385,996</b>	<b>(2,518)</b>	<b>(350,316)</b>	<b>(29,069)</b>	<b>-</b>	<b>(4,093)</b>	<b>-</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	MYR	SGD	USD	EUR	KWD	Others	Total
30 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>							
Cash and short-term funds	206,636	-	-	-	-	-	206,636
Deposits and placements with banks and other financial institutions	-	109,332	-	-	-	-	109,332
Securities - FVTPL	-	-	7,038	-	-	-	7,038
Securities - FVOCI	2,309,213	-	384,369	-	-	-	2,693,583
Financing, advances and receivables	5,530,806	-	13,277	-	-	-	5,544,082
Other assets	690,344	-	-	-	-	-	690,344
<b>Total Assets</b>	<b>8,737,000</b>	<b>109,332</b>	<b>404,684</b>	-	-	-	<b>9,251,016</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	3,859,023	238,391	91,974	-	-	3,961	4,193,349
Deposits and placements with banks and other financial institutions	2,256,448	-	633,520	-	-	-	2,889,968
Subordinated Murabahah Tawarruq	-	-	405,508	-	-	-	405,508
Other liabilities	117,770	-	-	-	-	-	117,770
<b>Total Liabilities</b>	<b>6,233,241</b>	<b>238,391</b>	<b>1,131,003</b>	-	-	<b>3,961</b>	<b>7,606,595</b>
Shareholder's equity	1,644,421	-	-	-	-	-	1,644,421
<b>Total Liabilities and Shareholder's equity</b>	<b>7,877,662</b>	<b>238,391</b>	<b>1,131,003</b>	-	-	<b>3,961</b>	<b>9,251,016</b>
On-balance sheet open position	859,338	(129,059)	(726,318)	-	-	(3,961)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>859,338</b>	<b>(129,059)</b>	<b>(726,318)</b>	-	-	<b>(3,961)</b>	-

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank	MYR	SGD	USD	EUR	KWD	Others	Total
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>							
Cash and short-term funds	343,587	61,790	32,416	28,828	-	-	466,621
Deposits and placements with banks and other financial institutions	30,051	176,537	-	-	-	-	206,588
Securities available-for-sale	1,812,655	-	442,876	-	-	-	2,255,531
Securities held-to-maturity	5,064	-	0	-	-	-	5,064
Financing, advances and receivables	5,452,795	-	143,854	-	-	-	5,596,649
Musarakah capital investment	18	-	-	-	-	-	18
Other assets	626,736	-	-	-	-	-	626,736
<b>Total Assets</b>	<b>8,270,906</b>	<b>238,327</b>	<b>619,146</b>	<b>28,828</b>	<b>-</b>	<b>-</b>	<b>9,157,207</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
Deposits from customers	4,096,471	240,845	75,510	-	-	4,093	4,416,919
Deposits and placements with banks and other financial institutions	1,757,821	-	806,219	29,069	-	-	2,593,109
Subordinated Murabahah Tawarruq	-	-	409,716	-	-	-	409,716
Other liabilities	111,003	-	-	-	-	-	111,003
<b>Total Liabilities</b>	<b>5,965,295</b>	<b>240,845</b>	<b>1,291,445</b>	<b>29,069</b>	<b>-</b>	<b>4,093</b>	<b>7,530,747</b>
Shareholder's equity	1,626,460	-	-	-	-	-	1,626,460
<b>Total Liabilities and Shareholder's equity</b>	<b>7,591,755</b>	<b>240,845</b>	<b>1,291,445</b>	<b>29,069</b>	<b>-</b>	<b>4,093</b>	<b>9,157,207</b>
On-balance sheet open position	679,151	(2,518)	(672,299)	(241)	-	(4,093)	-
Off-balance sheet open position	-	-	-	-	-	-	-
<b>Net open position</b>	<b>679,151</b>	<b>(2,518)</b>	<b>(672,299)</b>	<b>(241)</b>	<b>-</b>	<b>(4,093)</b>	<b>-</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A23 FINANCIAL RISK MANAGEMENT (Cont'd.)**

**(f) PROFIT RATE RISK**

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

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

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

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

The following table summarises the Bank's exposures to profit rate risk as at 30 June 2018. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

**Exposures to profit rate risk**

**30 Jun 2018  
Group**

<i>RM million</i>	<b>1-3 months</b>	<b>4-6 months</b>	<b>7-12 months</b>	<b>Over 12 months</b>	<b>Non-sensitive</b>	<b>Total</b>
Rate sensitive assets	3,402	130	20	4,950	751	9,253
Rate sensitive liabilities	5,427	1,051	502	73	531	7,584
Monthly mismatch	(2,024)	(921)	(482)	4,877	220	
Cumulative mismatch	(5,498)	(7,996)	(19,356)	1,449	1,669	
<b>Bank</b>						
Rate sensitive assets	3,402	130	20	4,938	761	9,251
Rate sensitive liabilities	5,450	1,051	502	73	530	7,607
Monthly mismatch	(2,048)	(921)	(482)	4,865	230	
Cumulative mismatch	(5,568)	(8,066)	(19,496)	1,414	1,644	

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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**A23 FINANCIAL RISK MANAGEMENT (Cont'd.)**

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

The following table summarises the Bank's exposures to profit rate risk as at 31 December 2016. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates. All retail deposits (liabilities) are assumed to be re-priced immediately when the market profit rate changes.

**Exposures to profit rate risk**

**31 Dec 2017**

**Group**

<i>RM million</i>	<b>1-3 months</b>	<b>4-6 months</b>	<b>7-12 months</b>	<b>Over 12 months</b>	<b>Non-sensitive</b>	<b>Total</b>
Rate sensitive assets	4,199	93	123	4,338	389	9,142
Rate sensitive liabilities	4,403	1,356	981	52	701	7,493
Monthly mismatch	(203)	(1,263)	(858)	4,287	(312)	
Cumulative mismatch	(1,317)	(3,057)	(12,420)	1,962	1,650	
<b>Bank</b>						
Rate sensitive assets	4,228	93	123	4,326	387	9,157
Rate sensitive liabilities	4,522	1,356	981	52	621	7,532
Monthly mismatch	(294)	(1,263)	(858)	4,275	(234)	
Cumulative mismatch	(1,588)	(3,328)	(12,961)	1,860	1,626	

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

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

**Profit rate risk simulation sensitivity analysis (%)**

**30 Jun 2018**

**Group**

	<b>Movement in market profit rate (%)</b>					
	<b>(2.00)</b>	<b>(1.00)</b>	<b>(0.50)</b>	<b>0.50</b>	<b>1.00</b>	<b>2.00</b>
Change in Net Revenue	34.97	17.50	8.75	(10.44)	(20.87)	(41.75)
Change in Economic Value of Equity	42.73	20.35	9.94	(9.49)	(18.55)	(35.49)
<b>Bank</b>						
Change in Net Revenue	38.21	19.12	9.56	(9.78)	(19.55)	(39.10)
Change in Economic Value of Equity	42.70	20.33	9.93	(9.48)	(18.53)	(35.46)

**31 Dec 2017**

**Group**

	<b>Movement in market profit rate (%)</b>					
	<b>(2.00)</b>	<b>(1.00)</b>	<b>(0.50)</b>	<b>0.50</b>	<b>1.00</b>	<b>2.00</b>
Change in Net Revenue	9.13	4.58	2.29	(4.61)	(9.23)	(18.45)
Change in Economic Value of Equity	38.06	18.10	8.83	(8.41)	(16.44)	(31.41)
<b>Bank</b>						
Change in Net Revenue	14.40	7.21	3.61	(3.81)	(7.63)	(15.25)
Change in Economic Value of Equity	38.03	18.08	8.82	(8.41)	(16.42)	(31.37)

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

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

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

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

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

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

30 Jun 2018

Exposure class	Rating of Corporates by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>						
<b>Credit exposures (using corporate risk-weights)</b>		RM '000	RM '000	RM '000	RM '000	RM '000
<b>Group</b>						
Corporates		284,218	1,234,002	187,238	14,857	2,924,234
		284,218	1,234,002	187,238	14,857	2,924,234
<b>Bank</b>						
Corporates		284,218	1,234,002	187,238	14,857	2,924,241
		284,218	1,234,002	187,238	14,857	2,924,241

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

30 Jun 2018

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<b>On and Off-Balance Sheet Exposures</b>		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Group</b> Sovereigns/Central Banks		11,870	1,111,720	-	-	-	235,580
<b>Bank</b> Sovereigns/Central Banks		-	1,111,720	-	-	-	235,580

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
<b>Group</b> Banks, MDBs and FDIs		37,980	166,497	1,331	24	-	21,848
<b>Bank</b> Banks, MDBs and FDIs		38,319	166,497	1,331	24	-	21,848



# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31 Dec 2017

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>						
<b>Credit exposures (using corporate risk-weights)</b>						
<b>Group</b>	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Corporates	-	167,707	200,152	17,357	3,544,132	
<b>Bank</b>						
Corporates	-	167,707	200,152	17,357	3,558,195	

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<b>On and Off-Balance Sheet Exposures</b>							
<b>Group</b>	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Sovereigns/Central Banks	11,986	1,427,920	-	-	-	223,003	
<b>Bank</b>							
Sovereigns/Central Banks	-	1,427,920	-	-	-	223,003	

Exposure class	Rating of Banking Institutions by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<b>On and Off-Balance Sheet Exposures</b>							
<b>Group</b>	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Banks, MDBs and FDIs	12,122	285,092	681	44	-	205,242	
<b>Bank</b>							
Banks, MDBs and FDIs	12,122	313,919	681	44	-	205,242	

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

30 Jun 2018

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	1,359,171	765,154	-
Banks, Development Financial Institutions & MDBs	196,163	40,023	-
Corporates	4,121,002	1,070,350	90,436
Regulatory Retail	2,101,235	-	3,797
Residential Mortgages	842,233	-	4,136
Higher Risk Assets <sup>1</sup>	56,433	-	-
Other Assets	285,904	-	-
Defaulted Exposures <sup>2</sup>	204,280	-	3,070
<b>Total On Balance Sheet Exposures</b>	<b>9,166,420</b>	<b>1,875,528</b>	<b>101,439</b>
<b>(b) Off-Balance Sheet Exposures</b>			
OTC Derivatives <sup>3</sup>	32,428	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	418,890	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>451,318</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,617,738</b>	<b>1,875,528</b>	<b>101,439</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31 Dec 2017

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	1,662,909	447,533	-
Banks, Development Financial Institutions & MDBs	493,412	39,337	-
Corporates	3,572,005	246,901	139,596
Regulatory Retail	2,009,719	-	6,250
Residential Mortgages	737,234	-	4,303
Higher Risk Assets <sup>1</sup>	60,757	-	-
Other Assets	289,872	-	-
Defaulted Exposures <sup>2</sup>	239,835	-	3,360
<b>Total On Balance Sheet Exposures</b>	<b>9,065,743</b>	<b>733,772</b>	<b>153,509</b>
<b>(b) Off-Balance Sheet Exposures</b>			
OTC Derivatives <sup>3</sup>	11,392	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	241,416	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>252,808</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,318,551</b>	<b>733,772</b>	<b>153,509</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

30 Jun 2018

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	1,347,300	765,154	-
Banks, Development Financial Institutions & MDBs	196,502	40,023	-
Corporates	4,121,009	1,070,350	90,436
Regulatory Retail	2,101,235	-	3,797
Residential Mortgages	842,233	-	4,136
Higher Risk Assets <sup>1</sup>	56,433	-	-
Other Assets	285,265	-	-
Defaulted Exposures <sup>2</sup>	204,280	-	3,070
<b>Total On-Balance Sheet Exposures</b>	<b>9,154,257</b>	<b>1,875,528</b>	<b>101,439</b>
<b>(b) Off-Balance Sheet Exposures</b>			
OTC Derivatives <sup>3</sup>	32,428	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	418,890	-	-
<b>Total Off Balance Sheet Exposures</b>	<b>451,318</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,605,575</b>	<b>1,875,528</b>	<b>101,439</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

31 Dec 2017

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
<b>(i) Credit Risk</b>			
<b>(a) On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	1,650,923	447,533	-
Banks, Development Financial Institutions & MDBs	522,240	39,337	-
Corporates	3,586,068	246,901	139,596
Regulatory Retail	2,009,719	-	6,250
Residential Mortgages	737,234	-	4,303
Higher Risk Assets <sup>1</sup>	60,757	-	-
Other Assets	263,964	-	-
Defaulted Exposures <sup>2</sup>	239,834	-	3,360
<b>Total On Balance Sheet Exposures</b>	<b>9,070,739</b>	<b>733,772</b>	<b>153,509</b>
<b>(b) Off-Balance Sheet Exposures</b>			
OTC Derivatives <sup>3</sup>	11,392	-	-
Off-balance sheet exposures other than OTC derivatives <sup>2</sup>	241,416	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>252,808</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>9,323,547</b>	<b>733,772</b>	<b>153,509</b>

\* Credit equivalent of off-balance sheet items

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

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

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

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk

Off-balance Sheet exposures and Counterparty Credit Risk (CCR) as at 30 June 2018, are as follows:

#### Group and Bank 30 Jun 2018

Direct Credit Substitutes  
Transaction related contingent Items  
Short Term Self Liquidating trade related contingencies  
Foreign exchange related contracts  
    One year or less  
Profit rate related contracts  
    Over five years  
Other commitments, such as formal standby facilities  
    and credit lines, with an original maturity of over one year  
Other commitments, such as formal standby facilities  
    and credit lines, with an original maturity of up to one year

Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
2,020		2,020	1,420
169,994		84,997	73,301
23,294		4,659	4,659
1,264,294	-	31,895	7,364
95,491	-	533	393
525,691		262,846	253,839
321,843		64,369	61,698
2,402,627	-	451,318	402,673

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

#### (i) General Disclosure for Off-Balance Sheet exposures and Counterparty Credit Risk (Cont'd.)

Off-balance Sheet exposures and Counterparty Credit Risk (CCR) as at 31 December 2017, are as follows:

<b>Group and Bank</b>	<b>Principal Amount</b>	<b>Positive Fair Value of Derivative Contracts</b>	<b>Credit Equivalent Amount</b>	<b>Risk Weighted Assets</b>
<b>31 Dec 2017</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Direct Credit Substitutes	2,287		2,287	2,287
Transaction related contingent Items	100,027		50,014	40,901
Short Term Self Liquidating trade related contingencies	19,113		3,823	3,823
Foreign exchange related contracts				
One year or less	646,620	-	9,582	2,053
Profit rate related contracts				
Over five years	124,610	-	1,810	1,525
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	319,868		159,934	147,384
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	126,793		25,359	24,757
	<b>1,339,319</b>	<b>-</b>	<b>252,808</b>	<b>222,728</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### A23 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

30 Jun 2018  
Group and Bank

Equity

Privately Held

(a) **Subsidiaries**

Kuwait Finance House (Labuan) Berhad  
KFH Asset Management Sdn. Bhd.

(b) **Investment**

Intrared Sdn Bhd  
Al Faiz Fund 1

(c) **Musyarakah Capital Investment**

	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
	<b>30,200</b>	<b>(16,468)</b>	
	10,200	-	Capital Deduction
	20,000	(16,468)	Capital Deduction
	<b>56,213</b>	<b>(13,075)</b>	<b>64,707</b>
	36,100	-	54,150
	20,113	(13,075)	10,557
	<b>18</b>	<b>-</b>	<b>27</b>

31 Dec 2017  
Group and Bank

Equity

Privately Held

(a) **Subsidiaries**

Kuwait Finance House (Labuan) Berhad  
KFH Asset Management Sdn. Bhd.

(b) **Investment**

Intrared Sdn Bhd  
Al Faiz Fund 1

(c) **Musyarakah Capital Investment**

	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
	<b>30,200</b>	<b>(16,468)</b>	
	10,200	-	Capital Deduction
	20,000	(16,468)	Capital Deduction
	<b>56,266</b>	<b>(12,845)</b>	<b>65,131</b>
	36,100	-	54,150
	20,166	(12,845)	10,981
	<b>18</b>	<b>-</b>	<b>27</b>



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

**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 six months ended 30 June 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 30 June 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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
<b>Total Financial Assets</b>		<b>9,142,011</b>		<b>9,142,011</b>
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
<b>Total Financial Liabilities</b>		<b>7,491,520</b>		<b>7,491,520</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
<b>Total Financial Assets</b>		<b>9,157,207</b>		<b>9,157,207</b>
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
<b>Total Financial Liabilities</b>		<b>7,530,747</b>		<b>7,530,747</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

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

\* F&R = Financing, Advances and Receivable

\* AC = Amortised Cost

\* FVOCI = Fair Values Through Other Comprehensive Income

\* FVTPL = Fair Values Through Profit & Loss

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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									
RM'000	REF	MFRS139 Amount	MFRS139 Category	Re-classification	Remeasurement ECL Other		MFRS9 Amount	MFRS9 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		<b>9,157,207</b>		-	-	-	<b>9,157,207</b>		

\* 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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
<b>Fair value reserve</b>		
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)
<b>Retained earnings</b>		
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
<b>Total change in equity due to adopting MFRS 9</b>	<b>222,178</b>	<b>201,188</b>

# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

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

### 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
<b>RM'000</b>			
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
	<b>401,059</b>	<b>1,158</b>	<b>402,217</b>

Bank	Financing loss provision under MFRS 139/MFRS 137 at 31 December 2017	Remeasurement/ Reclassification	ECLs under MFRS 9 at 1 January 2018
<b>RM'000</b>			
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
	<b>415,062</b>	<b>(12,844)</b>	<b>402,217</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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 VTPL:

- 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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.



**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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:

<b>FRSs, Amendments to FRSs and Interpretations</b>	<b>Effective for financial period beginning on or after</b>
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

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**B3 Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the audited financial statements for the financial year ended 31 December 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 six-months ended 30 June 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 six-months ended 30 June 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 six-months ended 30 June 2018.

**B7 Debt and Equity Securities**

There were no issuances, cancellation, repurchases, resales or repayments of debt and equity securities during the six-months ended 30 June 2018.

**B8 Dividends Paid**

There were no dividends paid during the six-months ended 30 June 2018.

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**B9 Segment Information on Operating Revenue, Profit Before Zakat & Taxation and Total Assets**

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

<b>Group</b>	<b>Treasury &amp; Capital Markets</b>	<b>Corporate &amp; Investment Banking</b>	<b>Commercial Banking</b>	<b>Others</b>	<b>Elimination</b>	<b>Total</b>
<b>30 Jun 2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
External revenue	57,512	60,516	22,268	86,060		226,357
Revenue from other segments	86,607	425	1,344	38,597	(126,972)	-
<b>Total Revenue</b>	<b>144,119</b>	<b>60,941</b>	<b>23,612</b>	<b>124,657</b>	<b>(126,972)</b>	<b>226,357</b>
Segment results	8,949	65,423	11,993	11,595		97,960
Unallocated expenses						(55,105)
<b>Profit from operations</b>						<b>42,854</b>
Taxation						(9,884)
<b>Net profit for the year</b>						<b>32,971</b>
<b>Other information</b>						
Segment assets	3,188,399	2,075,171	550,853	3,103,707	(233,449)	8,684,681
Unallocated corporate assets						568,299
<b>Total assets</b>						<b>9,252,979</b>
Segment liabilities	5,542,664	2,286,286	419,154	7,006,275	(223,249)	15,031,130
Unallocated corporate liabilities						(7,447,554)
<b>Total liabilities</b>						<b>7,583,576</b>
<b>Other segment items</b>						
Purchase of property and equipment				966		966
Purchase of intangible assets				12,559		12,559
Depreciation of property and equipment				-		-
Amortisation of intangible assets				-		-
Other non-cash expense other than depreciation	(48)	52,775	4,098	(19,847)	-	36,978

(ii) **By Geographical Locations**

<b>Group</b>	<b>Operating Revenue RM'000</b>	<b>Profit Before Zakat and Taxation RM'000</b>	<b>Total Assets RM'000</b>
<b>30 Jun 2018</b>			
Malaysia	226,357	42,854	9,252,979
	<b>226,357</b>	<b>42,854</b>	<b>9,252,979</b>

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
(672174-T)  
(Incorporated in Malaysia)

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

**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
30 Jun 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	61,445	74,625	26,494	82,663		245,228
Revenue from other segments	109,360	486	2,579	28,448	(140,873)	-
<b>Total Revenue</b>	<b>170,805</b>	<b>75,111</b>	<b>29,073</b>	<b>111,111</b>	<b>(140,873)</b>	<b>245,228</b>
Segment results	4,230	20,782	40,508	14,799		80,320
Unallocated expenses						(42,600)
<b>Profit from operations</b>						<b>37,720</b>
Zakat						(10,424)
Taxation						(10,424)
<b>Net profit for the year</b>						<b>27,296</b>
<b>Other information</b>						
Segment assets	3,439,513	3,145,587	767,878	2,771,223	(229,564)	9,894,637
Unallocated corporate assets						477,581
<b>Total assets</b>						<b>10,372,219</b>
Segment liabilities	6,179,309	4,795,312	1,079,003	8,736,686	(215,689)	20,574,621
Unallocated corporate liabilities						(11,883,652)
<b>Total liabilities</b>						<b>8,690,969</b>
<b>Other segment items</b>						
Purchase of property and equipment				363		363
Purchase of intangible assets				546		546
Depreciation of property and equipment				3,863		3,863
Amortisation of intangible assets				1,540		1,540
Other non-cash expense other than depreciation	(9,365)	11,574	29,679	(12,254)	-	19,634

(ii) **By Geographical Locations**

Group	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
<b>30 Jun 2017</b>			
Malaysia	245,228	37,720	10,372,219

**KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD**  
**(672174-T)**  
**(Incorporated in Malaysia)**

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

**B10 Valuation of Property and Equipment**

There was no change in the valuation of property and equipment that were brought forward from the previous audited financial statements for the year ended 31 December 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 30 June 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
- purchase of equipment

Group	Bank
RM'000	RM'000
219	219
1,294	1,294
9,468	9,468
<b>10,982</b>	<b>10,982</b>
32,083	32,083
-	373
<b>32,083</b>	<b>32,456</b>


# KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

## 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.

P/P



David Power  
Chief Executive Officer