KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

Interim Report for the Period Ended 30 Sept 2018

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

		Group		Bank	
	Note	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
ASSETS					
Cash and short-term funds	A3	**599,074**	428,793	**599,074**	457,746
Deposits and placements with banks and other financial institutions	A4	**27,899**	214,098	**28,238**	214,098
Gold depository		**91,176**	102,824	**91,176**	102,824
Securities available-for-sale	A5	**-**	2,277,021	**-**	2,250,288
Securities held-to-maturity	A5	**-**	5,064	**-**	5,064
Financial assets at FVTPL	A6	**5,533**	-	**5,533**	-
Equity instruments at FVOCI	A7	**36,118**	-	**36,118**	-
Debt instruments at FVOCI	A7	**2,850,904**	-	**2,838,700**	-
Financing, advances and other receivables	A8	**5,423,262**	5,603,257	**5,423,262**	5,603,257
Other assets	A9	**136,607**	65,828	**136,500**	65,692
Hedging financial instruments	A10	**7,194**	1,714	**7,194**	1,714
Statutory deposits with Bank Negara Malaysia		**209,200**	213,600	**209,200**	213,600
Musyarakah capital investment	A11	**-**	18	**-**	18
Investment in subsidiaries		**-**	-	**10,200**	13,732
Property and equipment		**23,822**	22,281	**23,521**	22,020
Intangible assets		**20,552**	10,601	**20,402**	10,379
Deferred tax assets		**179,691**	196,775	**179,691**	196,775
		9,611,033	9,141,874	**9,608,810**	9,157,207
LIABILITIES					
Deposits from customers	A12	**5,065,147**	4,699,178	**4,964,062**	4,416,919
Investment accounts of customers	A14	**7,586**	8,218	**7,586**	8,218
Deposits and placements of banks and other financial institutions	A13	**2,313,172**	2,262,903	**2,439,702**	2,584,891
Hedging financial instruments	A10	**4,875**	14,981	**4,875**	14,981
Subordinated Murabahah Tawarruq	A16	**415,571**	409,716	**415,571**	409,716
Other liabilities	A15	**99,346**	96,524	**99,247**	96,022
		7,905,697	7,491,520	**7,931,043**	7,530,747
SHAREHOLDER'S EQUITY					
Share capital	A17	**1,425,272**	1,425,272	**1,425,272**	1,425,272
Reserves		**280,064**	225,082	**252,495**	201,188
		1,705,336	1,650,354	**1,677,767**	1,626,460
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**9,611,033**	9,141,874	**9,608,810**	9,157,207
COMMITMENTS AND CONTINGENCIES	A23	**2,463,324**	1,692,582	**2,463,324**	1,692,582
CAPITAL ADEQUACY					
Common Equity Tier I/ Tier I Capital Ratio	A24	**24.782%**	22.498%	**24.236%**	21.716%
Total Capital Ratio	A24	**32.958%**	29.925%	**32.426%**	29.162%
NET ASSETS PER SHARE (RM)		**1.20**	1.16	**1.18**	1.14

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

(Incorporated in Malaysia)

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

Group	Note	3rd Quarter ended 30-Sep 2018 RM'000	3rd Quarter ended 30-Sep 2017 RM'000	Nine-months ended 30-Sep 2018 RM'000	Nine-months ended 30-Sep 2017 RM'000
Operating revenue		**118,277**	117,817	**344,634**	363,045
Income derived from investment of depositors' funds and others	A18	**96,111**	98,497	**273,264**	293,560
Income derived from investment of investment account funds	A22	**50**	77	**167**	229
Income derived from investment of shareholder's equity	A19	**22,116**	19,243	**71,202**	69,256
Total gross income		**118,277**	117,817	**344,634**	363,045
Impairment write-back on others		**-**	-	**-**	-
Impairment write-back/(loss) on securities	A20	**-**	-	**-**	(9,365)
Impairment (charge)/write-back on financing	A20	**-**	15,087	**-**	44,087
Credit loss writeback on financial assets	A20	**17,212**	-	**54,190**	-
Total distributable income		**135,489**	132,904	**398,824**	397,767
Income attributable to the depositors	A21	**(62,386)**	(65,370)	**(172,506)**	(191,348)
Profit distributed to investment account holders	A22	**(30)**	(46)	**(100)**	(136)
Total net income		**73,073**	67,489	**226,217**	206,282
Personnel expenses		**(26,184)**	(22,870)	**(81,179)**	(65,332)
Other overheads and expenditures		**(19,013)**	(20,212)	**(58,030)**	(62,858)
Finance cost		**(8,641)**	(8,980)	**(24,919)**	(24,945)
Profit before zakat and taxation		**19,235**	15,426	**62,090**	53,147
Taxation		**(3,175)**	(1,610)	**(13,059)**	(12,034)
Net profit for the period		**16,059**	13,817	**49,031**	41,113
Attributable to:					
Equity holders of the Bank		**16,059**	13,817	**49,031**	41,113
Earnings per share attributable to equity holders of the Bank					
- Basic/Diluted (sen)		**1.13**	0.97	**3.44**	2.88

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

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
Group	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Net profit for the period	**16,059**	13,817	**49,031**	41,113
Other comprehensive income/(loss):				
Items that may be reclassified subsequenty to profit or loss:				
Securities held at FVOCI:				
- Net unrealised gain on securities held at FVOCI	**24,812**	869	**9,157**	6,968
- Net realised gain on securities held at FVOCI reclassified to the income statement	**208**	2,343	**18**	2,339
Exchange differences on translation of foreign operations:				
Net gain/(loss) taken to equity	**879**	(1,967)	**818**	(2,543)
Income tax relating to components of other comprehensive income	**(6,028)**	(216)	**(4,042)**	(533)
Other comprehensive income for the period, net of tax	**19,871**	1,030	**5,951**	6,231
Total comprehensive income for the period	**35,930**	14,847	**54,982**	47,344
Total comprehensive income for the period attributable to equity holders of the Bank	**35,930**	14,847	**54,982**	47,344

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

		3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
Bank	**Note**	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Operating revenue		**116,844**	117,675	**342,472**	358,218
Income derived from investment of depositors' funds and others	A18	**95,797**	98,583	**272,697**	293,815
Income derived from investment of investment account funds	A22	**50**	77	**167**	229
Income derived from investment of shareholder's equity	A19	**20,997**	19,016	**69,608**	64,174
Total gross income		**116,844**	117,676	**342,472**	358,218
Impairment loss on others		**-**	(119)	**-**	(1,281)
Impairment loss on securities	A20	**-**	-	**-**	(9,365)
Impairment write-back on financing	A20	**-**	15,087	**-**	44,087
Credit loss writeback on financial assets	A20	**17,212**	-	**54,050**	-
Total distributable income		**134,056**	132,644	**396,522**	391,659
Income attributable to the depositors	A21	**(62,983)**	(65,688)	**(174,136)**	(192,092)
Profit distributed to investment account holders	A22	**(30)**	(46)	**(100)**	(136)
Total net income		**71,043**	66,909	**222,286**	199,431
Personnel expenses		**(26,042)**	(22,675)	**(80,703)**	(63,742)
Other overheads and expenditures		**(18,849)**	(19,932)	**(57,543)**	(61,589)
Finance cost		**(8,641)**	(8,980)	**(24,919)**	(24,945)
Profit before zakat and taxation		**17,511**	15,322	**59,121**	49,155
Taxation		**(3,170)**	(1,605)	**(13,044)**	(12,019)
Net profit for the period		**14,340**	13,718	**46,077**	37,136

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

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INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
Bank	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Net profit for the period	**14,340**	13,718	**46,077**	37,136
Other comprehensive income/(loss):				
Securities held at FVOCI:				
- Net unrealised gain on securities held at FVOCI	**24,825**	552	**9,252**	6,582
- Net realised gain on securities held at FVOCI reclassified to the income statement	**208**	2,343	**18**	2,339
Income tax relating to components of other comprehensive income	**(6,027)**	-	**(4,041)**	(317)
Other comprehensive income for the period, net of tax	**19,006**	2,895	**5,230**	8,604
Total comprehensive income for the period	**33,346**	16,613	**51,307**	45,740

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

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INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

		Non-distributable			Distributable	
	Share Capital RM'000	**Statutory Reserve RM'000**	**Translation Reserve RM'000**	**FVOCI Reserve RM'000**	**Retained Earnings RM'000**	**Total Equity RM'000**
Group						
At 1 Jan 2018						
- As previously stated	1,425,272	162,216	3,178	(6,825)	66,650	1,650,491
- Effect of MFRS 9 adoption	-	-	-	-	(137)	(137)
As at 1 Jan 2018, as restated	1,425,272	162,216	3,178	(6,825)	66,513	1,650,354
Total comprehensive income	-	-	818	5,133	49,031	54,981
At 30 Sept 2018	**1,425,272**	**162,216**	**3,996**	**(1,692)**	**115,544**	**1,705,336**
At 1 Jan 2017	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)	-
At 31 Dec 2017	**1,425,272**	**162,216**	**3,178**	**(6,825)**	**66,650**	**1,650,491**
Bank						
At 1 Jan 2018	1,425,272	162,216	-	(6,648)	45,620	1,626,460
Total comprehensive income	-	-	-	5,230	46,077	51,307
At 30 Sept 2018	**1,425,272**	**162,216**	**-**	**(1,418)**	**91,697**	**1,677,767**
At 1 Jan 2017	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)	-
At 31 Dec 2017	**1,425,272**	**162,216**	**-**	**(6,648)**	**45,620**	**1,626,460**

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(672174-T)

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INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	Group		Bank	
	30-Sep 2018 RM'000	**30-Sep 2017 RM'000**	**30-Sep 2018 RM'000**	**30-Sep 2017 RM'000**
Profit before zakat and taxation	**62,090**	53,147	**59,121**	49,155
Adjustments for non-cash items	**(30,556)**	231	**(33,460)**	1,396
Operating profit before changes in working capital	**31,534**	53,378	**25,661**	50,550
Changes in the working capital				
Net changes in operating assets	**352,770**	187,208	**359,146**	185,382
Net changes in operating liabilities	**402,095**	(782,368)	**391,382**	(774,474)
Zakat and taxation refund/(paid)	**-**	(20)	**-**	-
Net cash generated from operating activities	**754,865**	(595,180)	**750,528**	(589,092)
Net purchases of assets	**(620,114)**	(904,036)	**(634,860)**	(902,750)
Net cash used in investing activities	**(620,114)**	(904,036)	**(634,860)**	(902,750)
Net change in cash and cash equivalents	**166,286**	(1,445,838)	**141,328**	(1,441,292)
Cash and cash equivalents at beginning of the period	**428,793**	2,341,840	**457,746**	2,341,840
Exchange differences on translation of opening balances	**3,996**	4,546	**-**	-
Cash and cash equivalents at end of the period	**599,074**	900,548	**599,074**	900,548

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

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

A1 Performance Review

The Group and the Bank recorded a profit before tax of RM62.1 million and RM59.1 million respectively for the period ended 30 Sept 2018.

A2 OUTLOOK FOR 2018

The Malaysian economy is projecting a growth of 5.0% in 2018 (2017: 5.9%). Going forward, the Malaysian economy is expected to remain on a steady growth path. Growth is expected to be sustained, supported mainly by private sector activity. Positive labour market conditions and capacity expansion will continue to support robust private consumption and investment respectively. The external sector is expected to remain strong supported by sustained demand from major trading partners. Inflation is expected to moderate in 2018 between 2.0% and 2.5% while it is expected the economy continues to operate under full employment.

On the supply side, growth is broad-based with favourable contribution from all sectors. The Services sector will continue to account for the largest share of GDP and Malaysia's global pre-eminence in the provision of Islamic finance will support the growth of the financial services sector. Overall, the current monetary policy stance is appropriate to support the economic activity.

A3 Cash and short term funds

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Cash and short-term funds	600,193	429,575	600,193	458,403
Less : ECL allowance	(1,119)	(782)	(1,119)	(657)
	599,074	428,793	**599,074**	457,746

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.

	2018				2017
Group	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**
Internal rating grade :					
Performing	600,193	-	-	600,193	429,575
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	600,193	-	-	600,193	429,575

	2018				2017
Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**
Internal rating grade :					
Performing	600,193	-	-	600,193	458,403
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	600,193	-	-	600,193	458,403

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

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

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	429,575	-	-	429,575
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	-	-	-	-
New financial assets originated or purchased	98,468	-	-	98,468
Financial assets that have matured	(429,575)	-	-	(429,575)
New - classification movement	501,724	-	-	501,724
Gross carrying amount as at 30 Sep 2018	600,193	-	-	600,193

2018 Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	782	-	-	782
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have matured	(782)	-	-	(782)
New - classification movement	1,119	-	-	1,119
ECL allowance as at 30 Sep 2018	1,119	-	-	1,119
Net carrying amount (after ECL)	599,074	-	-	599,074

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	458,403	-	-	458,403
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	-	-	-	-
New financial assets originated or purchased	98,468	-	-	98,468
Financial assets that have matured	(458,403)	-	-	(458,403)
New - classification movement	501,724	-	-	501,724
Gross carrying amount as at 30 Sep 2018	600,193	-	-	600,193

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	657	-	-	657
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have matured	(657)	-	-	(657)
New - classification movement	1,119	-	-	1,119
ECL allowance as at 30 Sep 2018	1,119	-	-	1,119
Net carrying amount (after ECL)	599,074	-	-	599,074

A4 Deposits and Placements with Banks and Other Financial Institutions

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Licensed Islamic banks	**-**	148,000	**-**	148,000
Bank Negara Malaysia ^	**7,587**	8,218	**7,587**	8,218
Other financial institutions	**22,945**	58,588	**22,945**	58,588
Less : ECL Allowance	**(2,633)**	(708)	**(2,293)**	(708)
	27,899	214,098	**28,238**	214,098

^ 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.

	2018				2017
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	30,532	-	-	30,532	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	30,532	-	-	30,532	214,806

	2018				2017
Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	30,532	-	-	30,532	214,806
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	30,532	-	-	30,532	214,806

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

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

2018 **Group**	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Stage 3** **RM'000**	**Total** **RM'000**
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	426	-	-	426
New financial assets originated or purchased	471,131	-	-	471,131
Financial assets that have matured	(154,108)	-	-	(154,108)
Matured - classification movement	(501,724)	-	-	(501,724)
Gross carrying amount as at 30 Sep 2018	30,532	-	-	30,532

2018 **Group**	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Stage 3** **RM'000**	**Total** **RM'000**
ECL allowance as at 1 January 2018	708	-	-	708
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	2,443	-	-	2,443
New financial assets originated or purchased	1,013	-	-	1,013
Financial assets that have matured	(413)	-	-	(413)
Matured - classification movement	(1,119)	-	-	(1,119)
ECL allowance as at 30 Sep 2018	2,633	-	-	2,633
Net carrying amount (after ECL)	27,899	-	-	27,899

2018 **Bank**	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Stage 3** **RM'000**	**Total** **RM'000**
Gross carrying amount as at 1 January 2018	214,806	-	-	214,806
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	426	-	-	426
New financial assets originated or purchased	471,131	-	-	471,131
Financial assets that have matured	(154,108)	-	-	(154,108)
Matured - classification movement	(501,724)	-	-	(501,724)
Gross carrying amount as at 30 Sep 2018	30,532	-	-	30,532

2018 **Bank**	**Stage 1** **RM'000**	**Stage 2** **RM'000**	**Stage 3** **RM'000**	**Total** **RM'000**
ECL allowance as at 1 January 2018	708	-	-	708
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	2,104	-	-	2,104
New financial assets originated or purchased	1,013	-	-	1,013
Financial assets that have matured	(413)	-	-	(413)
Matured - classification movement	(1,119)	-	-	(1,119)
ECL allowance as at 30 Sep 2018	2,293	-	-	2,293
Net carrying amount (after ECL)	28,238	-	-	28,238

A5 Securities

i) Securities Available-For-Sale

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
At fair value				
Unquoted securities				
- Islamic private debt securities/sukuks	-	344,701	-	332,714
- Government guaranteed sukuk	-	1,879,396	-	1,879,396
	-	2,224,097	-	2,212,110
At cost				
Unquoted shares in Malaysia	-	36,100	-	36,100
Property funds	-	14,758	-	-
Collective Investment Scheme	-	7,321	-	7,320
	-	58,179	-	43,420
	-	2,282,276	-	2,255,530
Less : ECL allowance	-	(5,254)	-	(5,242)
	-	2,277,021	-	2,250,288

ii) Securities Held-To-Maturity

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
At amortised cost				
Unquoted Islamic private debt securities/sukuk	-	5,064	-	5,064

A6 Financial assets at FVTPL

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
At fair value				
Collective Investment Scheme	**5,533**	-	**5,533**	-
	-	-	-	-
Property funds	-	-	-	-
	5,533	-	**5,533**	-

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 Sept 2018			
Group	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	**2,870,353**	-	-	**2,870,353**
Past due but not impaired	-	-	-	-
Individually impaired	-	-	**16,477**	**16,477**
Total	**2,870,353**	-	**16,477**	**2,886,831**

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

	30 Sept 2018			
Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Internal rating grade :				
Performing	2,858,138	-	-	2,858,138
Past due but not impaired	-	-	-	-
Individually impaired	-	-	16,477	16,477
Total	2,858,138	-	16,477	2,874,616

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

	30 Sept 2018			
Group	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Fair value amount as at 1 January	2,229,161	-	16,124	2,245,285
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	(135,496)	-	354	(135,142)
New financial assets originated or purchased	1,014,976	-	-	1,014,976
Financial assets that have matured	(238,288)	-	-	(238,288)
Fair value amount as at 30 Sept 2018	2,870,353	-	16,477	2,886,831

	30 Sept 2018			
Group	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
ECL allowance as at 1 January	5,254	-	16,124	21,378
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	13,716	-	354	14,069
New financial assets originated or purchased	1,112	-	-	1,112
Financial assets that have matured	(634)	-	-	(634)
ECL allowance as at 30 Sept 2018	19,449	-	16,477	35,927
Net carrying amount (after ECL)	2,850,904	-	-	2,850,904

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

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

	30 Sept 2018			
Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Fair value amount as at 1 January	2,217,174	-	16,124	2,233,298
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	(135,724)	-	354	(135,371)
New financial assets originated or purchased	1,014,976	-	-	1,014,976
Financial assets that have matured	(238,288)	-	-	(238,288)
Fair value amount as at 30 Sept 2018	2,858,138	-	16,477	2,874,616

	30 Sept 2018			
Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
ECL allowance as at 1 January	5,242	-	16,124	21,366
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	13,717	-	354	14,071
New financial assets originated or purchased	1,112	-	-	1,112
Financial assets that have matured	(634)	-	-	(634)
ECL allowance as at 30 Sept 2018	19,438	-	16,477	35,916
Net carrying amount (after ECL)	2,838,700	-	-	2,838,700

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 Sept 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

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(672174-T)
(Incorporated in Malaysia)

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A8 Financing, Advances and Other Receivables

i) At amortised cost

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Term financing		
- House financing	**1,073,274**	946,670
- Personal financing	**1,200,347**	1,172,038
- Leasing financing	**-**	17,319
- Syndicated financing	**261,851**	276,530
- Cashline financing	**10,926**	11,865
- Hire purchase receivables	**773,912**	679,081
- Other term financing	**2,389,083**	2,865,532
Credit card	**234**	-
Staff financing	**21,922**	13,707
	5,731,549	5,982,742
Less: Impairment allowances		
- Stage 1 Financing	**(103,762)**	(108,080)
- Stage 2 Financing	**(6,370)**	(5,831)
- Stage 3 Financing	**(196,555)**	(263,873)
Net financing and advances to customers	**5,424,862**	5,604,958
Less: Impairment allowances		
- Stage 1 Undrawn	**(147)**	(1,333)
- Stage 1 Trade facilities	**(1,313)**	(318)
- Stage 2 Trade facilities	**(140)**	(50)
Net financing, advances and other receivables	**5,423,262**	5,603,257

ii) By contract

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Ijarah Muntahia Bittamlik (lease ended with ownership)	**2,279,845**	2,160,107
Murabahah (cost-plus)	**3,362,549**	3,711,313
Mudharabah (profit sharing)	**43,705**	61,024
Qard (benevolent financing)	**1,461**	931
Musyarakah (profit and loss sharing)	**42,705**	48,098
Istisna'	**1,050**	1,269
Ujrah (Credit card)	**234**	-
	5,731,549	5,982,742

iii) By type of customer

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Domestic business enterprises		
- Small medium enterprises	**489,668**	554,265
- Others	**2,145,377**	2,592,970
Individuals	**3,093,437**	2,831,795
Domestic non-bank financial institutions	**3,067**	3,712
	5,731,549	5,982,742

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

(iv) By residual contractual maturity

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Maturity within one year	**2,219,052**	2,609,787
More than one year to three years	**101,030**	122,852
More than three years to five years	**365,674**	216,249
More than five years	**3,045,793**	3,033,854
	5,731,549	5,982,742

(v) By geographical distribution

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Malaysia	**5,724,619**	5,972,156
Middle East	**3,967**	4,647
Other countries	**2,963**	5,939
	5,731,549	5,982,742

vi) By profit rate sensitivity

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Fixed rate		
- House financing	**3,659**	7,712
- Hire purchase receivables	**773,912**	679,081
- Syndicated financing	**10,926**	276,530
- Term financing	**1,242,059**	1,299,375
Variable rate		
- House financing	**1,070,090**	943,794
- Term financing	**2,630,903**	2,776,250
	5,731,549	5,982,742

vii) By economic purpose

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Purchase of securities	**-**	4,878
Purchase of transport vehicles	**777,918**	682,572
Purchase of landed properties		
- residential	**1,104,304**	974,066
- non-residential	**372,508**	782,258
Purchase of fixed assets	**20,537**	45,217
Working capital	**1,617,274**	1,582,570
Construction	**176,413**	207,679
Personal use	**1,226,761**	1,196,969
Other purposes	**435,834**	506,533
	5,731,549	5,982,742

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

viii) By sector

	Group and Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Construction	**453,120**	647,838
Education, Health and Others	**5,409**	-
Electricity, gas and water	**114,925**	124,148
Finance, insurance and business services	**110,860**	129,875
Household	**3,092,037**	2,831,795
Manufacturing	**436,828**	512,982
Mining and quarrying	**156**	-
Agriculture, hunting, forestry & fishing	**320,019**	203,680
Real Estate	**538,515**	911,310
Transports, storage and communication	**145,948**	181,565
Wholesale & retail trade and restaurants & hotels	**481,168**	388,456
Others	**32,564**	51,093
	5,731,549	5,982,742

(ix) Financing by types and Shariah contract

30 Sep 2018	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
House financing	1,055,123	85	-	17,016	-	1,050	-	1,073,274
Personal financing	-	1,199,397	-	-	950	-	-	1,200,347
Leasing financing	-	-	-	-	-	-	-	-
Syndicated financing	51,315	210,536	-	-	-	-	-	261,851
Cashline financing	-	10,926	-	-	-	-	-	10,926
Hire purchase receivables	773,912	-	-	-	-	-	-	773,912
Other term financing	383,239	1,936,638	43,705	25,500	-	-	-	2,389,083
Staff financing	16,255	4,967	-	189	511	-	-	21,922
Credit card							234	234
Total	2,279,845	3,362,549	43,705	42,705	1,461	1,050	234	5,731,549

31 Dec 2017	Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'/ (lease ended with ownership)	Murabahah (cost-plus)	Mudharabah (profit sharing)	Musyarakah (profit and loss sharing)	Qard (benevolent financing)	Istisna'	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
House financing	922,913	88	-	22,400	-	1,269	946,670
Personal financing	-	1,171,530	-	-	508	-	1,172,038
Leasing financing	-	-	17,319	-	-	-	17,319
Syndicated financing	55,370	221,160	-	-	-	-	276,530
Cashline financing	-	11,865	-	-	-	-	11,865
Hire purchase receivables	679,081	-	-	-	-	-	679,081
Other term financing	492,501	2,303,826	43,705	25,500	-	-	2,865,532
Staff financing	10,242	2,844	-	198	423	-	13,707
Total	2,160,107	3,711,313	61,024	48,098	931	1,269	5,982,742

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

x) Purpose and Source of Qard financing

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
As at 1 January	**931**	1,043
Source of Qard fund:	**1,214**	1,347
- Depositors' Fund	**1,002**	1,104
- Shareholders' Fund	**212**	243
Uses of Qard fund:	**(684)**	(1,459)
- Financing for asset purchase	**(565)**	(1,197)
- Staff Benevolent	**(119)**	(262)
Closing balance	**1,461**	931

xi) Movements in impaired financing, advances and other receivables

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
At 1 Jan	**418,478**	478,060
Impaired during the period/year	**(82,034)**	(59,582)
- Impaired during the period/year	***59,178***	*127,884*
- Reclassified to performing during the year	***(12,457)***	*(3,440)*
- Amount recovered	***(111,775)***	*(175,736)*
- Amount written off	***(16,980)***	*(8,290)*
Closing balance	**336,444**	418,478
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less individual impairment (stage 3)	**2.53%**	2.70%

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

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Stage 1 and 2 impairment		
At 1 Jan	**115,612**	139,421
Allowance charged during the year	**(3,881)**	(23,809)
Closing balance	**111,731**	115,612
As % of total gross financing, advances and other receivables less individual impairment	**2.02%**	2.02%

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 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Stage 3 impairment		
At 1 Jan	**263,873**	229,687
Allowance reversed during the year	**(50,338)**	42,475
- Allowance made	***37,553***	*110,693*
- Allowance written-back	***(87,890)***	*(68,218)*
Amount written off	**(16,980)**	(8,290)
Closing balance	**196,555**	263,873

xiii) Impaired financing by sector

	Group and Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**
Electricity, gas and water	**79**	79
Finance, insurance and business services	**9,050**	168
Household	**53,606**	61,971
Manufacturing	**136,708**	158,820
Real Estate	**121,768**	193,020
Wholesale & retail trade and restaurants & hotels	**15,234**	4,420
	336,444	418,478

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.

	2018				2017
Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	5,268,425	-	-	5,268,425	3,611,854
Past due but not impaired	-	126,679	-	126,679	1,776,143
Individually impaired	-	-	336,444	336,444	594,746
Total	5,268,425	126,679	336,444	5,731,549	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 :

	2018			
Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	5,387,996	176,268	418,478	5,982,742
Transfer to 12-month ECL	39,279	(30,479)	(8,800)	-
Transfer to lifetime ECL not credit impaired	(43,676)	46,383	(2,707)	-
Transfer to lifetime ECL credit impaired	(7,677)	(11,889)	19,566	-
Net remeasurement of outstanding balance	(138,177)	(3,502)	(48,812)	(190,490)
New financial assets originated or purchased	2,912,602	45,035	240,426	3,198,062
Financial assets that have matured	(2,881,922)	(95,137)	(281,706)	(3,258,765)
Gross carrying amount as at 30 Sep 2018	5,268,425	126,680	336,444	5,731,549

	2018			
Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	108,080	5,831	263,873	377,784
Transfer to 12-month ECL	4,959	(2,624)	(2,335)	-
Transfer to lifetime ECL not credit impaired	(659)	1,522	(863)	-
Transfer to lifetime ECL credit impaired	(157)	(298)	454	-
Net remeasurement of loss allowance	(11,033)	1,666	(30,047)	(39,414)
New financial assets originated or purchased	88,729	775	147,395	236,898
Financial assets that have matured	(86,158)	(502)	(181,921)	(268,581)
ECL allowance as at 30 Sep 2018	103,762	6,370	196,555	306,687
Net carrying amount (after ECL)	5,164,664	120,310	139,888	5,424,862

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A9 Other Assets

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Deposits and prepayments	**11,296**	8,845	**11,185**	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	**81**	795	**81**	795
Sundry debtors	**4,477**	2,252	**4,477**	2,246
	136,607	65,828	**136,500**	65,692

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	Fair Value Liabilities RM'000
Group and Bank			
At 30 Sept 2018			
- in connection with fair value hedges	727,151	3,547	1,111
- other derivatives without hedge accounting	600,135	3,647	3,763
Total	**1,327,286**	**7,194**	**4,875**

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	Fair Value Liabilities RM'000
Group and Bank			
At 31 Dec 2017			
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	771,230	1,714	14,981

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 caried 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 Sept 2018 RM'000	**31 Dec 2017 RM'000**	**30 Sept 2018 RM'000**	**31 Dec 2017 RM'000**
Qard				
- Demand deposits	**441,946**	473,933	**362,215**	394,620
- Gold deposits	**90,723**	102,061	**90,723**	102,061
Wakalah	**21,354**	202,946	**-**	-
Murabahah				
- Term placement	**4,422,133**	3,833,900	**4,422,133**	3,833,900
- Savings deposits	**88,991**	86,338	**88,992**	86,338
	5,065,147	4,699,178	**4,964,062**	4,416,919

(ii) By type of customer

	Group		Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**	**30 Sept 2018 RM'000**	**31 Dec 2017 RM'000**
Business enterprises	**1,680,212**	1,807,400	**1,485,725**	1,477,483
Individuals	**348,045**	335,578	**348,045**	335,578
Subsidiaries	**-**	-	**93,505**	47,659
Government and statutory bodies	**2,412,830**	2,063,351	**2,412,830**	2,063,351
Other enterprises	**624,061**	492,849	**623,958**	492,849
	5,065,147	4,699,178	**4,964,062**	4,416,919

(iii) By contractual maturity

	Group		Bank	
	30 Sept 2018 RM'000	**31 Dec 2017 RM'000**	**30 Sept 2018 RM'000**	**31 Dec 2017 RM'000**
Due within six months	**4,163,399**	3,928,810	**4,062,314**	3,646,550
More than six months to one year	**653,486**	656,716	**653,486**	656,716
More than one year to three years	**248,262**	113,652	**248,262**	113,653
	5,065,147	4,699,178	**4,964,062**	4,416,919

A13 Deposits and Placements of Banks and Other Financial Institutions

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Murabahah				
Licensed Islamic banks	**185,162**	50,000	**185,162**	50,000
Other financial institutions	**2,128,010**	2,212,903	**2,254,539**	2,534,891
	2,313,172	2,262,903	**2,439,702**	2,584,891

A14 INVESTMENT ACCOUNTS

	Group and Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000
As at 1 January	**8,218**	8,563
Net placement during the year	**(732)**	(524)
Income from investment	**167**	300
Profit distributed to mudarib	**(67)**	(121)
As at 31 December	**7,586**	8,218
Investment asset:		
Wadiah placement with BNM	**7,586**	8,218

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder	
	Average profit sharing ratio	Average rate of return
	(%)	(%)
Unrestricted investment accounts:		
Less than 3 months	60	1.89

	Group and Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Business enterprises	**1,210**	1,193
Individuals	**4,205**	6,477
Other enterprises	**2,172**	548
	7,586	8,218

A15 Other Liabilities

	Group		Bank	
	30 Sept 2018 RM'000	31 Dec 2017 RM'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Sundry creditors	**69,474**	49,071	**69,458**	48,954
Accrued restoration cost	**5,597**	5,707	**5,597**	5,600
Undistributed charity funds (ii)	**3,435**	2,760	**3,435**	2,760
Other provisions and accruals	**20,840**	38,986	**20,757**	38,708
	99,346	96,524	**99,247**	96,022

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

(ii) Sources and uses of charity funds:	Group and Bank	
	30 Sept 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	**853**	5,672
Total sources of funds during the year	**3,613**	13,050
Uses of charity funds:		
Compensation of late payment charges	**(1)**	(10,000)
Contribution to non profit organisations	**(105)**	(195)
Aid to needy family	**(72)**	(95)
Total uses of funds during the year	**(178)**	(10,290)
Closing balance	**3,435**	2,760

A16 Subordinated Murabahah Tawarruq

The principal of subordinated Murabahah Tawarruq is a facility agreement with the holding company of the Bank, Kuwait Finance House K.S.C. The facility with principal and profit amount of USD100,458,333 or equivalent RM415,571,010 (Dec 2017: USD101,214,583 or equivalent RM409,716,633) is unsecured effective from 31 May 2007 which extended until 10 October 2018 and forms part of the Bank's Tier-2 capital.

A17 Share Capital

	Number of ordinary shares at RM1.00 each		Amount	
	30 Sept 2018 Units'000	31 Dec 2017 Units'000	30 Sept 2018 RM'000	31 Dec 2017 RM'000
Authorised:				
At 1 January/At closing balance	**3,000,000**	3,000,000	**3,000,000**	3,000,000
Issued and fully paid:				
At 1 January	**1,425,272**	1,425,272	**1,425,272**	1,425,272
At 1 January/At closing balance	**1,425,272**	1,425,272	**1,425,272**	1,425,272

A18 Income derived from investment of depositors' funds and others

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group				
Finance income from financing, advances and other receivables	**67,501**	74,348	**199,193**	220,382
Finance income from impaired financing	**1,240**	261	**1,441**	604
Income from securities				
- Held-for-trading	**-**	-	**-**	21
- Available-for-sale	**-**	16,179	**-**	37,721
- Held-to-maturity	**-**	285	**-**	1,581
- Financial assets at FVTPL	**-**	-	9	-
- Financial assets at FVOCI	**24,083**	-	65,911	-
Money at call and deposits with financial institutions	**2,886**	6,043	**6,651**	25,198
	95,710	97,117	**273,205**	285,506
Amortisation of premium less accretion of discounts	**(1,204)**	(1,237)	**(3,472)**	(3,514)
Total finance income and hibah	**94,506**	95,880	**269,733**	281,992
Gain/(loss) arising from sale of securities				
- Held-for-trading	**-**	79	**-**	232
- Available-for-sale	**-**	1,396	**-**	1,697
- Financial assets at FVTPL	**-**	-	**280**	-
- Financial assets at FVOCI	**(54)**	-	**1,815**	-
Foreign exchange (loss)/gain				
- Realised	**1,322**	530	**267**	7,621
Gain on Ijarah rental swap obligation	**337**	612	**1,169**	2,018
	96,111	98,497	**273,264**	293,560

A18 Income derived from investment of depositors' funds and others (Cont'd.)

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Bank				
Finance income from financing, advances and other receivables	**67,562**	74,468	**199,319**	220,766
Finance income from impaired financing	**1,241**	262	**1,443**	605
Income from securities				
- Held-for-trading	**-**	-	**-**	21
- Available-for-sale	**-**	16,155	**-**	37,631
- Held-to-maturity	**-**	286	**-**	1,583
- Financial assets at FVTPL	**-**	-	**9**	-
- Financial assets at FVOCI	**24,057**	-	**65,814**	-
Money at call and deposits with financial institutions	**2,888**	6,085	**6,676**	25,348
	95,748	97,256	**273,261**	285,955
Amortisation of premium less accretion of discounts	**(1,205)**	(1,239)	**(3,474)**	(3,521)
Total finance income and hibah	**94,543**	96,018	**269,787**	282,434
Gain/(loss) arising from sale of securities				
- Held-for-trading	**-**	79	**-**	233
- Available-for-sale	-	-	**-**	-
- Financial assets at FVTPL	**-**	-	**280**	-
- Financial assets at FVOCI	**(54)**	-	**1,816**	-
Foreign exchange gain				
- Realised	**971**	474	**(355)**	7,427
Gain on Ijarah rental swap obligation	**337**	613	**1,169**	2,021
	95,797	98,583	**272,697**	293,815

A19 Income derived from Investment of Shareholder's Equity

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2018	2017	2018	2017
<u>Group</u>	RM'000	RM'000	RM'000	RM'000
Finance income from financing, advances and other receivables	**14,735**	14,706	**44,715**	43,402
Finance income from impaired financing	**271**	52	**316**	119
Income from securities:				
- Held-for-trading	**-**	-	**-**	4
- Available-for-sale	**-**	3,202	**-**	7,462
- Held-to-maturity	**-**	56	**-**	311
- Financial assets at FVTPL	**-**	-	**2**	-
- Financial assets at FVOCI	**5,256**	-	**14,772**	-
Money at call and deposits with financial institutions	**629**	1,194	**1,485**	4,910
	20,890	19,210	**61,290**	56,207
Amortisation of premium less accretion of discounts	**(263)**	(245)	**(779)**	(692)
Total finance income and hibah	**20,627**	18,966	**60,511**	55,515
Fee income				
- Commission	**823**	767	**3,996**	2,007
- Fund management fee	**781**	(3)	**781**	493
- Other fee income	**1,254**	1,816	**4,298**	4,898
- Compensation of late payment charges	**-**	1,500	**-**	6,500
Gain/(loss) arising from sale of securities				
- Held-for-trading	**-**	15	**-**	47
- Available-for-sale	**-**	278	**-**	338
- Financial assets at FVTPL	**-**	-	**64**	-
- Financial assets at FVOCI	**(12)**	-	**408**	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	**(437)**	(848)	**(1,498)**	(2,698)
Foreign exchange (loss)/gain				
- Realised	**14,683**	(5,775)	**(8,134)**	(4,221)
- Unrealised	**(15,884)**	2,317	**10,086**	1,777
Gain on Ijarah rental swap obligation	**74**	121	**263**	397
Other income	**168**	89	**388**	4,150
Management fee	**30**	-	**30**	49
	22,116	19,243	**71,202**	69,256

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

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
Bank	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Finance income from financing, advances and other receivables	**14,674**	14,586	**44,588**	43,018
Finance income from impaired financing	**270**	51	**315**	118
Income from securitites:				
- Held-for-trading	**-**	-	**-**	4
- Available-for-sale	**-**	3,166	**-**	7,367
- Held-to-maturity	**-**	56	**-**	308
- Financial assets at FVTPL	**-**	-	**2**	-
- Financial assets at FVOCI	**5,224**	-	**14,698**	-
Money at call and deposits with financial institutions	**626**	1,191	**1,485**	4,884
	20,793	19,049	**61,089**	55,699
Amortisation of premium less accretion of discounts	**(262)**	(243)	**(777)**	(686)
Total finance income and hibah	**20,532**	18,807	**60,312**	55,012
Fee income				
- Commission	**827**	767	**4,007**	2,022
- Other fee income	**1,249**	3,316	**4,287**	11,397
Gain/(loss) arising from sale of securities				
- Held-for-trading	**-**	15	**-**	47
- Available-for-sale	**-**	-	**-**	-
Gain/(loss) arising from sale of securities				
- Financial assets at FVTPL	**-**	-	**64**	-
- Financial assets at FVOCI	**(12)**	-	**407**	-
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	**(437)**	(848)	**(1,498)**	(2,698)
Foreign exchange (loss)/gain				
- Realised	**14,605**	(5,787)	**(8,273)**	(4,275)
- Unrealised	**(15,879)**	2,320	**9,940**	1,756
Gain on Ijarah rental swap obligation	**73**	120	**262**	393
Management fee	**30**	30	**90**	183
	20,997	19,016	**69,608**	64,174

A20 Credit Loss Expenses

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

2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Group				
Due from banks	(3,072)	-	-	(3,072)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-
Financing and advances to customers	(2,838)	(3,194)	68,994	62,962
Debt instruments measured at FVOCI	(6,063)	-	-	(6,063)
Debt instruments measured at amortised cost	-	-	-	-
Financial guarantees	-	-	-	-
Financing commitments	362	-	-	362
Letters of credit	-	-	-	-
Total Impairment loss	(11,610)	(3,194)	68,994	54,190

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

2017	Specific RM'000	Collective (individually not significant exposures) RM'000	Collective (Incurred but not yet identified) RM'000	Total RM'000
Group				
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	48,287	-	(4,200)	44,087
				-
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	38,922	-	(4,200)	34,722

A20 Credit Loss Expenses (Cont'd.)

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

2018 Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Due from banks	(2,858)	-	-	(2,858)
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-
Financing and advances to customers	(2,838)	(3,194)	68,994	62,962
Debt instruments measured at FVOCI	(6,416)	-	-	(6,416)
Debt instruments measured at amortised cost	-	-	-	-
Financial guarantees	-	-	-	-
Financing commitments	362	-	-	362
Letters of credit	-	-	-	-
Total Impairment loss	(11,750)	(3,194)	68,994	54,050

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

2017 Bank	Specific RM'000	Collective (individually not significant RM'000	Collective (Incurred but not yet identified) RM'000	Total RM'000
Credit loss expense on due from banks	-	-	-	-
Credit loss expense on financing and advances to customers	48,287	-	(4,200)	44,087
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	38,922	-	(4,200)	34,722

A21 Income Attributable to the Depositors

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group				
Deposits from customers				
- Murabahah	**37,589**	36,919	**104,502**	97,851
- Wakalah	**122**	1	**711**	3
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	**24,487**	27,767	**66,376**	91,323
Others	**188**	683	**918**	2,171
	62,386	65,370	**172,506**	191,348
Bank				
Deposits from customers				
- Murabahah	**37,539**	36,920	**104,219**	97,851
Deposits and placements of banks and other financial institutions				
- Murabahah and Wakalah	**25,257**	28,087	**68,999**	92,069
Others	**188**	683	**918**	2,171
	62,983	65,688	**174,136**	192,092

A22 Profit Distributed to Investment Account Holders

	3rd Quarter ended 30-Sep		Nine-months ended 30-Sep	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group & Bank				
Income derived from investment of investment account funds	**50**	77	**167**	229
Profit distributed to mudarib	**(20)**	31	**(67)**	92
	30	46	**100**	136

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

A23 Commitments and Contingencies

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

	As at 30 Sept 2018			As at 31 Dec 2017		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Group and Bank						
Direct credit substitutes	**2,020**	**2,020**	**1,420**	2,287	2,287	2,287
Transaction related contingencies	**170,104**	**85,052**	**68,392**	100,027	50,014	40,901
Trade related contingencies	**21,663**	**4,333**	**4,071**	19,113	3,823	3,823
Irrevocable commitments to extend credit						
- maturity less than one year	**610,437**	**122,087**	**119,852**	495,869	99,174	98,573
- maturity more than one year	**327,899**	**163,950**	**124,272**	319,868	159,934	147,321
Foreign exchange related contracts *						
- less than one year	**1,147,296**	**20,293**	**4,062**	630,808	9,582	2,053
- one year to five years	**183,904**	**7,150**	**2,752**	-	-	-
Profit rate related contracts (Ijarah rental swap obligation) *						
- five years and above	**-**	**-**	**-**	124,610	1,810	1,525
	2,463,324	**404,885**	**324,822**	1,692,582	326,624	296,483

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

A23.1 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	**172,124**	102,314
Letters of credit	**21,663**	19,113
Other undrawn commitments	**938,336**	815,737
Total commitment	**1,132,124**	937,164
Less : ECL (charge)/writeback	**(1,600)**	(1,701)
	1,130,524	935,463

A23.1 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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	168,913	3,211	-	172,124	102,314
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	168,913	3,211	-	172,124	102,314

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

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	99,103	3,211	-	102,314
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	1,181	-	-	1,181
New financial assets originated or purchased	78,646	-	-	78,646
Financial assets that have matured	(10,017)	-	-	(10,017)
Gross carrying amount as at 30 Sep 2018	168,913	3,211	-	172,124

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	294	50	-	344
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	15	90	-	104
New financial assets originated or purchased	1,053	-	-	1,053
Financial assets that have matured	(76)	-	-	(76)
ECL allowance as at 30 Sep 2018	1,286	140	-	1,425
Net carrying amount (after ECL)	167,628	3,072	-	170,699

A23.1 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 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Internal rating grade :					
Performing	21,663	-	-	21,663	19,113
Past due but not impaired	-	-	-	-	-
Total	21,663	-	-	21,663	19,113

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

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	19,113	-	-	19,113
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	(4,638)	-	-	(4,638)
New financial assets originated or purchased	20,357	-	-	20,357
Gross carrying amount as at 30 Sep 2018	21,663	-	-	21,663

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018	24	-	-	24
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	(22)	-	-	(22)
New financial assets originated or purchased	28	-	-	28
Financial assets that have matured	(3)	-	-	(3)
ECL allowance as at 30 Sep 2018	28	-	-	28
Net carrying amount (after ECL)	21,636	-	-	21,636

A23.1 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.

	2018				2017
Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**
Internal rating grade :					
Performing	927,562	10,774	-	938,336	815,737
Past due but not impaired	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	927,562	10,774	-	938,336	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**
Gross carrying amount as at 1 January 2018	812,513	3,224	-	815,737
Transfer to 12-month ECL	60	(60)	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	5,164	(188)	-	4,976
New financial assets originated or purchased	915,356	10,232	-	925,589
Financial assets that have matured	(805,531)	(2,435)	-	(807,966)
Gross carrying amount as at 30 Sep 2018	927,562	10,774	-	938,336

Group and Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
ECL allowance as at 1 January 2018	1,333	-	-	1,333
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit impaired	-	-	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	147	-	-	147
Financial assets that have matured	(1,333)	-	-	(1,333)
ECL allowance as at 30 Sep 2018	147	-	-	147
Net carrying amount (after ECL)	927,415	10,774	-	938,189

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

A24 Capital Adequacy

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

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

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

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

	Group		Bank	
	30 Sep 2018	**31 Dec 2017**	**30 Sep 2018**	**31 Dec 2017**
Common Equity Tier I/ Tier I Capital Ratio				
Credit risk	**26.915%**	24.206%	**26.275%**	23.324%
Credit, market, operational and large exposure risks	**24.782%**	22.498%	**24.236%**	21.716%
Total Capital Ratio				
Credit risk	**35.793%**	32.197%	**35.154%**	31.320%
Credit, market, operational and large exposure risks	**32.958%**	29.925%	**32.426%**	29.162%

A24 Capital Adequacy (Cont' d.)

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

	Group		Bank	
	30 Sep 2018 RM'000	**31 Dec 2017 RM'000**	**30 Sep 2018 RM'000**	**31 Dec 2017 RM'000**
CET I / Tier I capital				
Paid-up share capital	**1,425,272**	1,425,272	**1,425,272**	1,425,272
Statutory reserve	**162,216**	162,216	**162,216**	162,216
Other reserves	**68,817**	62,866	**44,202**	38,972
	1,656,305	1,650,354	**1,631,690**	1,626,460
Less: Deferred tax assets (net)	**(196,775)**	(196,775)	**(196,775)**	(196,775)
Less: Investment in subsidiaries		-	**(10,200)**	(30,200)
Total CET I / Tier I capital	**1,459,530**	1,453,579	**1,424,715**	1,399,485
Tier II capital				
Subordinated Murabahah Tawarruq	**413,675**	404,800	**413,675**	404,800
Collective impairment on financing	**67,784**	75,065	**67,778**	75,003
Total Tier II capital	**481,459**	479,865	**481,453**	479,803
Total capital	**1,940,989**	1,933,444	**1,906,168**	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 Sep 2018 RM'000	**31 Dec 2017 RM'000**	**30 Sep 2018 RM'000**	**31 Dec 2017 RM'000**
Computation of Total Risk-Weighted Assets (RWA)				
Total Credit RWA	**5,422,755**	6,005,122	**5,422,276**	6,000,188
Total Market RWA	**45,516**	23,226	**45,516**	23,226
Total Operational RWA	**403,988**	415,610	**393,707**	403,857
Large Exposure Risk RWA for Equity Holdings	**17,108**	17,108	**17,108**	17,108
Total Risk-Weighted Assets	**5,889,367**	6,461,066	**5,878,607**	6,444,380
Computation of Capital Ratios				
Core Capital	**1,459,530**	1,453,579	**1,424,715**	1,399,485
Capital Base	**1,940,989**	1,933,444	**1,906,168**	1,879,288
CET I/ Tier I Capital Ratio	**24.782%**	22.498%	**24.236%**	21.716%
Total Capital Ratio	**32.958%**	29.925%	**32.426%**	29.162%

A25 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
Group	**RM'000**	**RM'000**	**RM'000**
30 Sept 2018			
Financial assets			
Securities held at FVTPL	**5,533**	**-**	**5,533**
Debt instruments measured at FVOCI	**2,850,904**	**-**	**2,850,904**
Equity instruments at FVOCI	**36,118**	**-**	**36,118**
Financing, advances and other receivables	**1,730,848**	**3,695,654**	**5,426,502**
Hedging financial instruments	**7,194**	**-**	**7,194**
Total	**4,630,597**	**3,695,654**	**8,326,251**
Financial liability			
Deposits from customers	**4,347,727**	**-**	**4,347,727**
Hedging financial instruments	**4,875**	**-**	**4,875**
Subordinated Murabahah Tawarruq	**-**	**413,528**	**413,528**
	4,352,602	**413,528**	**4,766,130**
31 Dec 2017			
Financial assets			
Securities available-for-sale	2,224,097	-	2,224,097
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,742,052	4,078,290	7,820,342
Financial liability			
Deposits from customers	4,694,762	-	4,694,762
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	4,709,743	404,676	5,114,419

A25 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Cont'd.)

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

	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
Bank			
30 Sept 2018			
Financial assets			
Financial assets at FVTPL	**5,533**	**-**	**5,533**
Debt instruments measured at FVOCI	**2,838,700**	**-**	**2,838,700**
Equity instruments at FVOCI	**36,118**	**-**	**36,118**
Financing, advances and other receivables	**1,730,848**	**3,695,654**	**5,426,502**
Hedging financial instruments	**7,194**	**-**	**7,194**
Total	**4,618,393**	**3,695,654**	**8,314,047**
Financial liability			
Deposits from customers	**4,186,668**	**-**	**4,186,668**
Hedging financial instruments	**4,875**	**-**	**4,875**
Subordinated Murabahah Tawarruq	**-**	**413,528**	**413,528**
	4,191,542	**413,528**	**4,605,070**
31 Dec 2017			
Financial assets			
Securities available-for-sale	2,212,110	-	2,212,110
Securities held-to-maturity	5,006	-	5,006
Financing, advances and other receivables	1,511,235	4,078,290	5,589,525
Hedging financial instruments	1,714	-	1,714
Total	3,730,065	4,078,290	7,808,355
Financial liability			
Deposits from customers	4,412,237	-	4,412,237
Hedging financial instruments	14,981	-	14,981
Subordinated Murabahah Tawarruq	-	404,676	404,676
	4,427,218	404,676	4,831,894

Description of significant unobservable inputs to valuation:

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

A25 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 Sept 2018		31 Dec 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	**-**	**-**	5,064	5,006
Financing, advances and other receivables	**5,423,262**	**5,426,502**	5,596,649	5,589,525
	5,423,262	**5,426,502**	5,601,713	5,594,531
Financial Liabilities				
Deposits from customers	**5,065,147**	**4,347,727**	4,699,178	4,694,762
Subordinated Murabahah Tawarruq	**415,571**	**413,528**	409,716	404,676
	5,480,718	**4,761,255**	5,108,894	5,099,438

	Bank			
	30 Sept 2018		31 Dec 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	RM'000	RM'000	RM'000	RM'000
Financial Assets				
Securities held-to-maturity	**-**	**-**	5,064	5,006
Financing, advances and other receivables	**5,423,262**	**5,426,502**	5,596,649	5,589,525
	5,423,262	**5,426,502**	5,601,713	5,594,531
Financial Liabilities				
Deposits from customers	**4,964,062**	**4,186,668**	4,416,919	4,412,237
Subordinated Murabahah Tawarruq	**415,571**	**413,528**	409,716	404,676
	5,379,633	**4,600,196**	4,826,635	4,816,913

A25 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.

A25 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) Surbodinated Murabahah Tawaruq

The fair values of surbodinated 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.

A26 FINANCIAL RISK MANAGEMENT

(d) RATE OF RETURN RISK

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

	Non-trading book								
Group **30 Sept 2018**	**Up to 1 month** **RM'000**	**>1 - 3 months** **RM'000**	**>3 - 12 months** **RM'000**	**>1 - 5 years** **RM'000**	**Over 5 years** **RM'000**	**Non-profit sensitive** **RM'000**	**Trading book** **RM'000**	**Total** **RM'000**	**Effective profit rate** **%**
ASSETS									
Cash and short-term funds	497,973	-	-	-	-	101,100	-	599,074	3.12
Deposits and placements with banks and other financial institutions	-	27,900	-	-	-	-	-	27,900	1.18
Securities - FVTPL						5,533	-	5,533	4.20
Securities - FVOCI	-	15,191	24,781	1,301,103	1,529,278	16,669	-	2,887,022	
Financing, advances and receivables	1,226,298	1,907,227	23,481	510,354	1,755,902		-	5,423,262	5.27
Musyarakah capital investment						-	-	-	
Other assets						668,243	-	668,243	
TOTAL ASSETS	1,724,271	1,950,317	-	1,811,457	3,285,180	791,545	-	9,611,033	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,514,856	1,296,302	1,530,339	190,982	-	532,669	-	5,065,147	3.32
Deposits and placements of banks and other financial institutions	1,007,645	662,895	642,633	-	-	-	-	2,313,172	3.57
Subordinated Murabahah Tawarruq	415,571	-	-	-	-	-	-	415,571	8.25
Other liabilities	-	-	-	-	-	111,806	-	111,806	
Total Liabilities	2,938,071	1,959,197	2,172,971	190,982	-	644,475	-	7,905,697	
Shareholder's equity	-	-	-	-	-	1,705,336	-	1,705,336	
Total Liabilities and Shareholder's Equity	2,938,071	1,959,197	2,172,971	190,982	-	2,349,811	-	9,611,033	
On-balance sheet profit sensitivity gap	(1,213,800)	(8,879)	(2,172,971)	1,620,475	3,285,180	(1,558,266)	-	-	
Off-balance sheet profit sensitivity gap							-	-	
Total profit sensitivity gap	(1,213,800)	(8,879)	(2,172,971)	1,620,475	3,285,180	(1,558,266)	-	-	

A26 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 31 Dec 2017	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
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
Musyarakah capital investment	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	613,623	-	613,623	
TOTAL ASSETS	2,169,319	2,031,147	216,403	1,528,399	2,460,487	736,256	-	9,142,011	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,607,213	651,081	1,808,360	51,731	-	580,793	-	4,699,178	3.02
Deposits and placements of banks and other financial institutions	954,341	775,015	533,548	-	-	8,218	-	2,271,122	3.56
Subordinated Murabahah Tawarruq	-	409,716	-	-	-	-	-	409,716	8.25
Other liabilities	-	-	-	-	-	111,504	-	111,504	
Total Liabilities	2,561,554	1,835,812	2,341,908	51,731	-	700,515	-	7,491,520	
Shareholder's equity	-	-	-	-	-	1,650,491		1,650,491	
Total Liabilities and Shareholder's Equity	2,561,554	1,835,812	2,341,908	51,731	-	2,351,006	-	9,142,011	
On-balance sheet profit sensitivity gap	(392,235)	195,335	(2,125,505)	1,476,668	2,460,487	(1,614,750)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(392,235)	195,335	(2,125,505)	1,476,668	2,460,487	(1,614,750)	-	-	

A26 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 30 Sept 2018	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	498,313	-	-	-	-	100,761	-	599,074	3.12
Deposits and placements with banks and other financial institutions	-	28,239	-	-	-	-	-	28,239	1.18
Securities - FVTPL						5,533	-	5,533	4.22
Securities - FVOCI	-	15,191	24,781	1,288,888	1,529,278	16,680	-	2,874,818	
Financing, advances and receivables	1,226,298	1,907,227	23,481	510,354	1,755,902		-	5,423,262	5.27
Musyarakah capital investment	-	-	-	-	-	-	-	-	
Other assets	-	-	-	-	-	677,884	-	677,884	
TOTAL ASSETS	1,724,611	1,950,656	48,262	1,799,242	3,285,180	800,858	-	9,608,810	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,493,501	1,296,302	1,530,339	190,982	-	452,938	-	4,964,062	3.39
Deposits and placements of banks and other financial institutions	1,125,898	671,171	642,633	-	-	-	-	2,439,702	3.50
Subordinated Murabahah Tawarruq	415,571	-	-	-	-	-	-	415,571	8.25
Other liabilities	-	-	-	-	-	111,708	-	111,708	
Total Liabilities	3,034,970	1,967,473	2,172,971	190,982	-	564,646	-	7,931,043	
Shareholder's equity	-	-	-	-	-	1,677,767	-	1,677,767	
Total Liabilities and Shareholder's Equity	3,034,970	1,967,473	2,172,971	190,982	-	2,242,413	-	9,608,810	
On-balance sheet profit sensitivity gap	(1,310,360)	(16,817)	(2,124,709)	1,608,260	3,285,180	(1,441,555)	-	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,310,360)	(16,817)	(2,124,709)	1,608,260	3,285,180	(1,441,555)	-	-	

A26 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 31 Dec 2017	Non-trading book Up to 1 month RM'000	 >1 - 3 months RM'000	 >3 - 12 months RM'000	 >1 - 5 years RM'000	 Over 5 years RM'000	 Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
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	
TOTAL ASSETS	2,198,147	2,031,147	216,403	1,516,412	2,460,488	734,611	-	9,157,207	
LIABILITIES AND SHAREHOLDER'S EQUITY									
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	
Total Liabilities	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	-
Total Liabilities and Shareholder's Equity	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	-	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(464,230)	177,116	(2,125,506)	1,464,681	2,460,488	(1,512,549)	-	-	

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 ninth months ended 30 September 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 September 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.

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:

	MFRS 139		*MFRS 9*	
Group	***Measurement category***	***Carrying Amount RM000***	***Measurement category***	***Carrying Amount RM000***
Cash and balances with banks and financial institutions		429,575		428,793
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,098
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,603,257
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVOCI	5,052
Investment securities: Debt	FVOCI (Available for sale)	2,224,097	FVOCI	2,218,838
Investment securities: Equity	FVOCI (Available for sale)	7,321	FVTPL	7,321
Investment securities: Equity	FVOCI (Available for sale)	14,758	FVTPL	14,758
Investment securities: Equity	FVOCI (Available for sale)	36,118	FVOCI	36,118
Derivative assets	FVTPL	1,714	FVTPL	1,714
Non Financial Assets		611,909		611,909
Total Financial Assets		9,142,011		9,141,857
Due to Banks and Financial institutions	Amortised cost	4,699,178	Amortised cost	4,699,178
Deposits from customers	Amortised cost	2,271,122	Amortised cost	2,271,122
Other Financial Liabilities	Amortised cost	521,221	Amortised cost	521,221
Total Financial Liabilities		7,491,520		7,491,520

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 139		*MFRS 9*	
Bank	***Measurement category***	***Carrying Amount RM000***	***Measurement category***	***Carrying Amount RM000***
Cash and balances with banks and financial institutions		458,403		457,746
Short-term Murabaha	Amortised cost (Financing and receivables)	214,806	Amortised cost	214,098
Financing receivables	Amortised cost (Financing and receivables)	5,596,649	Amortised cost	5,603,257
Investment securities: Debt	Amortised cost (Held-to-maturity)	5,064	FVOCI	5,052
Investment securities: Debt	FVOCI (Available for sale)	2,212,110	FVOCI	2,206,880
Investment securities: Equity	FVOCI (Available for sale)	7,321	FVTPL	7,321
Investment securities: Equity	FVOCI (Available for sale)	36,118	FVOCI	36,118
Derivative assets	FVTPL	1,714	FVTPL	1,714
Non Financial Assets		625,021		625,021
Total Financial Assets		9,157,207		9,157,207
Due to Banks and Financial institutions	Amortised cost	4,416,919	Amortised cost	4,416,919
Deposits from customers	Amortised cost	2,593,109	Amortised cost	2,593,109
Other Financial Liabilities	Amortised cost	520,719	Amortised cost	520,719
Total Financial Liabilities		7,530,747		7,530,747

B2 Significant Accounting Policies (Cont'd.)
B2.1. MFRS 9 Financial Instruments (Cont'd.)
B2.1.2. Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9

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

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

Group

RM'000		MFRS139			Remeasurement		MFRS9	
Financial Assets	REF	Amount	Category	Re-classification	ECL	Other	Amount	Category
Cash and Bank Balances		429,575		-	(782)	-	428,793	
Deposits and Placement due from designated Financial Institutions		214,806		-	(708)	-	214,098	
Financial Investments - AFS								
To: Debt Instruments at FVOCI	A	2,224,097	AFS	(2,224,097)	-	-	-	
To: Equity Instruments at FVOCI	B	36,118	AFS	(36,118)	-	-	-	
To: Equity Instruments at FVOCI	C	14,758	AFS	(14,758)	-	-	-	
To: Equity Instruments at FVTPL	C	7,321	AFS	(7,321)	-	-	-	
Debt Instruments at FVOCI								
From: Financial Investments - AFS	A	-		2,224,097	(5,259)	-	2,218,838	FVOCI
From:Financial Investments - HTM	D	-		5,064	(12)	-	5,052	FVOCI
Equity Instruments at FVOCI								
From: Financial Investments - AFS	B	-		36,118	-	-	36,118	FVOCI
Financial Investments - FVOCI								
To: Equity Instruments at FVTPL	C	-		7,321	-	-	7,321	FVTPL
To: Equity Instruments at FVTPL	C	-		14,758	-	-	14,758	FVTPL
Financial Investments - HTM								
To: Debt Instruments at FVOCI	D	5,064	HTM	(5,064)	-	-	-	
Financial Investments - F&R								
To: Debt Instruments at Amortised Cost	E	5,596,649	F&R	(5,596,649)	-	-	-	
Debt Instruments at Amortised Cost								
From:Financial Investments - F&R	E	-		5,596,649	6,608	-	5,603,257	AC
Derivative assets		1,714		-	-	-	1,714	
Non Financial Assets		611,909		-	-	-	611,909	
Total Assets		**9,142,011**	**-**	**-**	**-**	**-**	**9,141,858**	**-**

* F&R = Financing, Advances and Receivable
* AC = Amortised Cost
* FVOCI = Fair Values Through Other Comprehensive Income
*FVTPL = Fair Values Through Profit & Loss

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		MFRS139			Remeasurement		MFRS9	
Financial Assets	REF	Amount	Category	Re-classification	ECL	Other	Amount	Category
Cash and Bank Balances		458,403		-	(657)	-	457,746	
Deposits and Placement due from designated Financial Institutions		214,806		-	(708)	-	214,098	
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	(5,230)	-	2,206,880	FVOCI
From:Financial Investments - HTM	D	-		5,064	(12)	-	5,052	AC
Equity 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 Cost	D	5,064	HTM	(5,064)	-	-	-	
Financial Investments - F&R								
To: Debt Instruments at Amortised Cost	E	5,596,649	F&R	(5,596,649)	-	-	-	
Debt Instruments at Amortised Cost								
From:Financial Investments - F&R	E	-		5,596,649	6,608	-	5,603,257	AC
Derivative assets		1,714		-	-	-	1,714	
Non Financial Assets		625,021		-	-	-	625,021	
Total Assets		**9,157,207**	**-**	**-**	**-**	**-**	**9,157,207**	

* F&R = Financing, Advances and Receivable
* AC = Amortised Cost
* FVOCI = Fair Values Through Other Comprehensive Income
*FVTPL = Fair Values Through Profit & Loss

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

B:Designation of equity instruments at FVOCI
The Bank has elected the option to irrevocably designate some if 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.

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

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 RM'000	Financing loss provision under MFRS 139/MFRS 137 at 31 December 2017	Remeasurement/ Reclassification	ECLs under MFRS 9 at 1 January 2018
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/financial assets at amortised cost under MFRS 9	386,230	(8,445)	377,784
Deposit and placement with FI	-	1,615	1,490
Available-for-sale debt investment securities per MFRS139/Debt instruments at FVOCI under MFRS 9	16,124	5,266	21,378
Financial guarantees	-	343	343
Letters of credit for customers	-	24	24
Other commitments	-	1,333	1,333
	402,354	138	402,354

Bank RM'000	Financing loss provision under MFRS 139/MFRS 137 at 31 December 2017	Remeasurement/ Reclassification	ECLs under MFRS 9 at 1 January 2018
Impairment allowance for financing and receivables and held to maturity securities per MFRS139/financial assets at amortised cost under MFRS 9	386,093	(8,309)	377,784
Deposit and placement with FI	-	1,365	1,365
Available-for-sale debt investment securities per MFRS139/Debt instruments at FVOCI under MFRS 9	16,124	5,242	21,366
Financial guarantees	-	343	343
Letters of credit for customers	-	24	24
Other commitments	-	1,333	1,333
	402,217	0	402,217

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.

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.

B2 Significant Accounting Policies (Cont'd.)

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

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

ii) Classification (Cont'd.)

Financial Liabilities

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

iii) Derecognition

Financial assets

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

iv) Modifications of financial assets and financial liabilities

Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

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

v) Impairment

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

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

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

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

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

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

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.

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.

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.

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 statments.

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.

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.

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.

B2 Significant Accounting Policies (Cont'd.)

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

Presentation

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

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

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

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

B2.8. Standards issued but are not yet effective

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

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

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.

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 nine-months ended 30 Sept 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 nine-months ended 30 Sept 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 nine-months ended 30 Sept 2018.

B7 Debt and Equity Securities

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

B8 Dividends Paid

There were no dividends paid during the nine-months ended 30 Sept 2018.

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

(i) Primary Segment - By Business Segment

Group **30 Sept 2018**	**Treasury & Capital Markets** **RM'000**	**Corporate & Investment Banking** **RM'000**	**Commercial Banking** **RM'000**	**Others** **RM'000**	**Elimination** **RM'000**	**Total** **RM'000**
External revenue	91,412	90,327	32,076	130,818		344,634
Revenue from other segments	135,584	625	1,988	59,434	(197,630)	-
Total Revenue	226,996	90,952	34,064	190,252	(197,630)	344,634
Segment results	13,379	69,932	36,839	21,960		142,110
Unallocated expenses						(80,020)
Profit from operations						62,090
Taxation						(13,059)
Net profit for the year						49,031
Other information						
Segment assets	3,622,391	1,953,341	522,818	3,168,931	(230,238)	9,037,243
Unallocated corporate assets						573,790
Total assets						9,611,033
Segment liabilities	6,689,682	1,926,526	420,400	7,029,295	(220,038)	15,845,865
Unallocated corporate liabilities						(7,940,168)
Total liabilities						7,905,697
Other segment items						
Purchase of property and equipment				3,408		3,408
Purchase of intangible assets				13,182		13,182
Depreciation of property and equipment				1,972		1,972
Amortisation of intangible assets				3,233		3,233
Other non-cash expense other than depreciation	(214)	51,338	25,673	(22,607)	-	54,190

(ii) By Geographical Locations

Group	**Operating Revenue** **RM'000**	**Profit Before Zakat and Taxation** **RM'000**	**Total Assets** **RM'000**
30 Sept 2018			
Malaysia	344,634	62,090	9,611,033
	344,634	62,090	9,611,033

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 Sept 2017	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
External revenue	84,146	112,091	39,604	127,205		363,046
Revenue from other segments	161,141	671	3,698	46,123	(211,634)	-
Total Revenue	245,287	112,762	43,302	173,328	(211,634)	363,046
Segment results	1,243	18,833	68,710	29,176		117,963
Unallocated expenses						(64,816)
Profit from operations						53,147
Zakat						
Taxation						(12,034)
Net profit for the year						41,113
Other information						
Segment assets	3,288,928	2,937,321	770,640	2,841,630	(226,470)	9,612,050
Unallocated corporate assets						486,001
Total assets						10,098,051
Segment liabilities	5,651,147	4,422,844	1,010,834	8,746,288	(212,714)	19,618,399
Unallocated corporate liabilities						(11,214,469)
Total liabilities						8,403,930
Other segment items						
Purchase of property and equipment				481		481
Purchase of intangible assets				643		643
Depreciation of property and equipment				-		-
Amortisation of intangible assets				-		-
Other non-cash expense other than depreciation	(9,365)	5,261	53,018	(14,193)	-	34,722

(ii) By Geographical Locations

<u>**Group**</u>	**Operating Revenue RM'000**	**Profit Before Zakat and Taxation RM'000**	**Total Assets RM'000**
30 Sept 2017			
Malaysia	363,045	53,147	10,098,051

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 A23.

B14 Capital Commitments

The capital commitments not provided for in the interim financial statements as at 30 Sept 2018 are as follows:

	Group	Bank
	RM'000	RM'000
Capital expenditure		
Authorised and contracted for:		
- renovation	145	145
- purchase of IT hardware	5,341	5,341
- purchase of IT software	9,957	9,957
	15,444	15,444
Authorised and not contracted for:		
- purchase of IT hardware & software	-	-
- purchase of equipment	-	-
	-	-

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.

David Power
Chief Executive Officer