

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

(200401033666) (672174-T)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements as at 31 December 2019

*Registered Office:
Level 26, Menara Prestige
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P.O.Box 10103
50450 Kuala Lumpur*

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1 PERFORMANCE OVERVIEW

The Group and the Bank recorded a profit before zakat and taxation of RM29.1 million and RM53.7 million respectively for the year ended 31 December 2019.

Net loss for the year recorded by the Group and the Bank amount to RM79.0 million and RM56.4 million respectively. The net loss for the year is due to reversal of deferred tax assets on unutilised tax losses of RM119 million following the adjustment in projected profit and the latest tax ruling which only allows the utilisation of accumulated business losses up to year 2025.

The Group's CET 1/ Tier 1 Capital Ratio and Total Capital Ratio as at 31 December 2019 stood at 30.446% and 31.6% respectively.

2 STATEMENT OF CORPORATE GOVERNANCE

(i) Board responsibility and oversight

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

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

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

In 2019, there were no Shariah non-compliance incidences reported to the Board.

Roles and Responsibilities of the Board

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

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

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

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

There is a clear division of responsibility between the Board and the management. The Acting Chief Executive Officer is supported by a team of senior management who are responsible for the implementation of the Board's decisions and have overall responsibilities of the day-to-day operations of the Bank's businesses and operational efficiency.

Board Composition and Balance

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

BNM has granted exemption to the Bank from complying with the requirement to have majority independent directors as stipulated in the Corporate Governance Policy Document, until March 2020. The Bank will appoint an independent director within the stipulated timeline granted by BNM.

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile

Muad S M M AIOsaimi

Chairman / Independent Non-Executive Director

(41 years of age - Kuwaiti)

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

Currently, he is the CEO of Faiha International Real Estate Company K.S.C and the Deputy General Manager of Global Retail Company (a family-owned company) since 2003. He was appointed as an Independent Non-Executive Director of Kuwait Finance House K.S.C.P. ("KFHK") on 23 March 2014 and has been appointed as a member of Board Executive Committee, Board Risk Committee, Board Investment Committee of KFHK and Board Merger Committee (KFHK-AUB).

Mr AIOsaimi has extensive experience in investment, leasing and knowledge in the banking and real estate development and investment. He was an Investment Officer under the Investment Department of Aayan Leasing and Investment Company K.S.C.P in 2002 and completed an 18-month specialized training program consisting both theoretical and practical training in the fields of finance and investment at the Kuwait Investment Authority in 2001.

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

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

Mohammad Nasser AIFouzan

Non-Independent Non-Executive Director

(57 years of age - Kuwaiti)

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

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

Mr AIFouzan was appointed as a Non Independent Non-Executive Director ("NINED") of KFHMB on 7 October 2014. He is also currently the Vice Chairman of Kuwait Finance House (Bahrain) B.S.C., a subsidiary of KFHK and the Chairman of the Board Executive Committee of the said entity. Further, he is a Board Member of Sharjah Islamic Bank in United Arab Emirates.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile (Cont'd.)

Ahmad S A A AlKharji

Non-Independent Executive Director

(47 years of age - Kuwaiti)

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

Mr AlKharji was appointed as a Non-Independent Non-Executive Director ("NINED") of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 1 June 2014. Subsequent thereto, he became the Chief Executive Officer and Managing Director ("CEO & MD") of KFHMB and upon his resignation as CEO & MD, he remained as a board member and was re-designated as a NINED in July 2016. He was subsequently re-designated as Non-Independent Executive Director in 2017 to comply with the definition of Executive Director under BNM's Corporate Governance Policy. He is currently a Board member of Kuveyt Turk Participation Bank Inc, a subsidiary of Kuwait Finance House K.S.C.P. ("KFHK") in Turkey and KFH Capital Investment Company K.S.C.C in Kuwait.

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

Khalid Sufat

Non-Independent Non-Executive Director

(64 years of age - Malaysian)

Fellow Member of Association of Chartered Certified Accountants (UK), Member of Malaysian Institute of Certified Public Accountants and Member of Malaysian Institute of Accountants.

En Khalid Sufat ("En Khalid") was appointed as an Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad ("KFHMB") on 3 January 2011. He was then redesignated as a Non-Independent Non-Executive Director on 3 January 2020 upon the expiry of his 9 year tenure as an Independent Non-Executive Director.

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Directors' Profile (Cont'd.)

His directorships in other public companies include Malaysian Reinsurance Berhad and MNRB Holdings Berhad. He is also a Professional Member on the Board of Employees Provident Fund.

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

Bachelor of Economics (B. Admin) degree from the University of Malaya, Malaysia.

En Abdul Khalil Bin Abdul Hamid (“En Abdul Khalil”) was appointed as an Independent Non-Executive Director (“INED”) of Kuwait Finance House (Malaysia) Berhad (“KFHMB”) on 10 June 2016. He is an Investment Committee member of Eastspring Investments Bhd and in May 2019, was appointed as Chairman of the said committee. On 13 April 2007, En Abdul Khalil was appointed as an INED of Prudential Assurance Malaysia Berhad (“PAMB”) and subsequently as Chairman of PAMB on 1 January 2017. En. Abdul Khalil was also an INED of Prudential BSN Takaful Bhd from 17 July 2006 until the end of his tenure on 13 July 2017. En Abdul Khalil was appointed as an Independent Director of Mizuho Bank (Malaysia) Berhad on 11 November 2019.

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Noorur Rahman Abbas Ali Abid
Independent Non-Executive Director
(67 years of age – Bahraini)

Mr Noorur Rahman Abbas Ali Abid (“Mr Abid”) is a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales.

Mr Abid has more than 40 years’ experience in the profession, across Europe, Middle East and Africa of which the last 25 years have been in various leadership roles as Assurance Leader for Ernst & Young Middle East and North Africa (“MENA”) region and Audit Partner for clients ranging from investment companies, private equity houses, commercial banks, Islamic banks, government ministries, regulators, commercial entities and manufacturing industries. He retired in June 2012.

He previously served as the Chairman of Auditing Standards Committee and the Deputy Chairman of Accounting and Auditing Standards Board of Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”). He is currently a member of the Board of Trustees of this organisation.

Mr Abid received the World Islamic Banking Conference Industry Leadership Award in 2012 in recognition of his contribution to the Islamic Banking industry.

He is currently the Independent Board Member, Chairman of Board Audit and Compliance Committee and Member of Nominations and Remuneration Committee of Kuwait Finance House K.S.C.P. (“KFHK”) and also a Board Member of Kuwait Finance House (Bahrain) B.S.C. and Dr Soliman Fakeeh Hospital in Jeddah. He is also an Independent Director and Chairman of the Audit Committee and the Human Resources Committee of Meezan Bank, the largest Islamic Bank in Pakistan.

Mr Abid was appointed as the Independent Non-Executive Director of Kuwait Finance House (Malaysia) Berhad on 1 August 2017.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Meetings

During the financial year ended 31 December 2019, seven (7) Board meetings were held and attended by the directors. In the said Board meetings, strategic matters as well as reports on the progress of the Bank's business operations, budgets, evaluation of business propositions and corporate proposals, reviewing of the Bank's significant policies and other matters were tabled for deliberation, approval and endorsement by the members of the Board.

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

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

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Muad S M M AIOsaimi (Chairman)	7/7	100%
Khalid Sufat	7/7	100%
Ahmad S. Al Kharji	6/7	86%
Mohammad Nasser AlFouzan	7/7	100%
Md Adnan Md Zain #	4/4	100%
Abdul Khalil Abdul Hamid	7/7	100%
Noorur Rahman Abbas Ali Abid	7/7	100%
Khalid Mahmood Bhaimia^	3/4	75%

Notes:

Resigned with effect from 31 May 2019

^ Resigned with effect from 24 April 2019

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Committees

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

Board Audit Committee

The Board Audit Committee ("BAC") composition during the financial year consists of two (2) INEDs and one (1) NINED and the members are as follows:

Noorur Rahman Abbas Ali Abid – Chairman

Khalid Sufat - Member

Mohammad Nasser AlFouzan – Member

Six (6) BAC meetings were held during the financial year.

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

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

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Noorur Rahman Abbas Ali Abid (Chairman)	6/6	100%
Khalid Sufat	6/6	100%
Mohammad Nasser AlFouzan	6/6	100%

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Risk Management Committee

The Board Risk Management Committee ("BRMC") consists of two (2) INEDs and one (1) NINED.

Six (6) BRMC meetings were held during the financial year. The members during the financial year were as follows:

Abdul Khalil Abdul Hamid - Chairman

Mohammad Nasser AlFouzan - Member

Noorur Rahman Abbas Ali Abid - Member (Appointed as a Member on 1 June 2019)

Md Adnan Md Zain – Member (Resigned with effect from 31 May 2019)

Khalid Mahmood Bhaimia - Member (Resigned with effect from 24 April 2019)

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational, technology, legal, compliance and other emerging risks as well as to ensure that the risk identification and mitigation is in place and functioning. The BRMC also oversees the formulation of risk strategies on an on-going basis and addresses issues arising from the changes in both the external business environment and internal operating conditions. The BRMC further approves the Annual Compliance Plan, framework and policies, provides oversight on overall technology related matters, review and approve outsourcing matters and recommend other risk related matters to the Board for approval. The Risk Management function is overseen by the Executive Vice President, Risk Management, who reports to BRMC.

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

Name of Directors	No of Meetings Meetings Attended	Total Percentage of Attendance (%)
Abdul Khalil Abdul Hamid (Chairman)	6/6	100%
Mohammad Nasser AlFouzan	6/6	100%
Md Adnan Md Zain#	2/2	100%
Khalid Mahmood Bhaimia^	2/2	100%
Noorur Rahman Abbas Ali Abid*	4/4	100%

Note:

Resigned with effect from 31 May 2019

^ Resigned with effect from 24 April 2019

* Appointed with effect from 1 June 2019

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Nominating And Remuneration Committee

The Board Nominating And Remuneration Committee ("BNRC") currently consists of two (2) INEDs and one (1) NINED. Ten (10) BNRC meetings were held during the financial year. The members during the financial year were as follows:

Noorur Rahman Abbas Ali Abid - Member (Appointed as Chairman on 1 January 2020)
Mohammad Nasser AlFouzan - Member
Khalid Sufat - Member (Appointed as Chairman with effect on 1 June 2019 and ceased as Chairman and Member on 1 January 2020)
Abdul Khalil Abdul Hamid - Member (Appointed as Member with effect on 1 June 2019)
Khalid Mahmood Bhaimia - Member (Resigned with effect from 24 April 2019)
Md Adnan Md Zain - Chairman (Resigned with effect from 31 May 2019)

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

- (a) to provide a formal and transparent procedure for the appointment of directors, Chief Executive Officer, key senior management officers and members of Shariah Committee as well as assessment of the effectiveness of individual directors, the Board as a whole, Shariah Committee Members and the performance of the Chief Executive Officer and key senior management officers.
- (b) to provide a formal and transparent procedure for developing remuneration policy for directors, Chief Executive Officer, Shariah Committee members and key senior management officers as well as to ensure that the Bank's compensation packages are competitive and consistent with the Bank's culture, objectives and strategies.

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

Name of Directors	No of Attended	Total Percentage of Attendance (%)
Md Adnan Md Zain - Chairman#	4/4	100%
Khalid Sufat@	10/10	100%
Mohammad Nasser AlFouzan	10/10	100%
Noorur Rahman Abbas Ali Abid^	4/4	100%
Khalid Mahmood Bhaimia*	3/4	75%
Abdul Khalil Abdul Hamid^^	6/6	100%

Note:

Resigned with effect from 31 May 2019

@ Appointed as Chairman on 1 June 2019 and ceased as Chairman and Member on 1 January 2020

^ Appointed as Chairman on 1 January 2020

* Resigned with effect from 24 April 2019

^^ Appointed as a Member on 1 June 2019

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Credit Committee

The BCC consists of two (2) INEDs and One (1) NINED. Six (6) BCC meetings were held during the financial year. The members during the financial year were as follows:

Khalid Sufat - Chairman (Appointed on 1 June 2019)

Abdul Khalil Abdul Hamid – Member

Noorur Rahman Abbas Ali Abid - Member (Appointed as a Member on 1 June 2019)

Khalid Mahmood Bhaimia - Member (Resigned with effect from 24 April 2019)

Md Adnan Md Zain – Chairman (Resigned with effect from 31 May 2019)

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

- (a) to veto/no objection/modify terms/concur the Bank's credit and treasury investment (inclusive of investment in funds) as well as recovery proposals/actions as per the Approval Authority Matrix For Financing & Investment Activities, subject always to adherence to the Golden Rule, where applicable;
- (b) to review and ensure appropriate actions are being taken for recovery of accounts graded '5' or worse (corporate and commercial accounts), other impaired accounts, early care accounts and accounts transferred to PSIA; and
- (c) to approve waiver, write-off, write down and haircuts transactions in accordance with the Approval Authority Matrix For Corporate & Retail Banking Recovery and Write-Off, Write Down and Haircut Transactions Policy.

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

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Md Adnan Md Zain (Chairman)#	3/3	100%
Khalid Sufat - Chairman*	3/3	100%
Abdul Khalil Abdul Hamid	6/6	100%
Khalid Mahmood Bhaimia^	3/3	100%
Noorur Rahman Abbas Ali Abid@	3/3	100%

Note:

Resigned with effect from 31 May 2019

* Appointed as a Chairman on 1 June 2019

^ Resigned with effect from 24 April 2019

@ Appointed as a Member on 1 June 2019

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Corporate Governance Committee

The Board Corporate Governance Committee ("BCGC") currently consists of two (2) INEDs and one (1) NIED. Two (2) BCGC meetings were held during the financial year. The Chairmanship of the BCGC is reserved for the Board Chairman. The members are as follows:

Muad S M M AIOsaimi – Chairman

Abdul Khalil Abdul Hamid - Member

Ahmad S A A AlKharji - Member (Appointed as a Member on 1 June 2019)

Md Adnan Md Zain - Member (Resigned with effect from 31 May 2019)

Khalid Sufat - Member (Ceased as a Member on 1 June 2019)

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

The attendance of each Director in office at the end of the financial year at the aforesaid BCGC meetings is set out below:-

Name of Directors	No of Meetings Attended	Total Percentage of Attendance (%)
Muad S M M AIOsaimi (Chairman)	2/2	100%
Md Adnan Md Zain#	2/2	100%
Abdul Khalil Abdul Hamid	2/2	100%
Khalid Sufat^	2/2	100%
Ahmad S A A AlKharji@	1/1	100%

Note:

Resigned with effect from 31 May 2019

^ Ceased as a Member on 1 June 2019

@ Appointed as a Member on 1 June 2019

Board Remuneration

A summary of the total remuneration of the Directors, in aggregate with categorization into appropriate Board Committees for the financial year ended 31 December 2019 is disclosed under Note 36 of the Audited Financial Statements.

Board Training

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:-

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid	24 January 2019	Briefing on Value-Based Intermediation	<ul style="list-style-type: none"> - To describe an overview of value-based intermediation. - To discuss on issues and challenges. - To examine the opportunities and strategies.
		12-13 March 2019	Cohort 5: CIIF's Chartered & Fellowship Masterclass	The objective of the Masterclass is to provide candidates for Chartered and Fellow membership the mindset, principles and practices required in the Leadership of Islamic Finance Institutions. As the CIIF is a professional qualifications body, the programme will accommodate a global approach to ethics .
		14 March 2019	1st Distinguished Board Leadership Series - Reading The Signs: The Next Financial Crisis And Potential Impact On Asia	Dialogue on what can the global and regional socio-economic, political and market-based trends tell us about the next financial crisis and its possible impact on Asia? What are some of the key indicators or trends that boards of financial institutions should pay special attention to?

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	26 March 2019	FIDE Forum Dinner Talk – Digital Assets: Global Trends, Legal Requirements and Opportunities for Financial Institutions	Discussion on:- - What constitutes digital assets? - What has been the trend and development for digital assets locally, regionally & globally? - What are the key implications of these developments in the financial services sector? - What are compliance and regulatory implications that impact fiduciary responsibilities?
8 April 2019		BNM-FIDE Forum Dialogue with the Deputy Governor on the Draft Risk Management In Technology (RMiT) Policy	Dialogue on the draft Risk Management in Technology. Provide platform for FIDE FORUM Members to engage directly with BNM and discuss matters that concern them and provide feedback with respect to the content of the draft policy.	
3 May 2019		CG Watch: How Does Malaysia Rank?	Presentation of findings of CG Watch 2018 report. It will explore Malaysia's corporate governance ranking in relation to 12 other markets in the Asia Pacific region.	

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	14 June 2019	2019 SEACEN Policy Summit	The objective of this SEACEN Policy Summit on Central Bank Leadership in Combating Cyber Risk was to bring together senior central bank/monetary authority officials, private sector representatives, chief information security officers (CISOs), and academics with regional and global thought-leaders to discuss pressing issues relating to cybersecurity, identify challenges and possible solutions and foster networks that will help put central banks and monetary authorities in the vanguard against these looming threats.
		17 June 2019	Financial Industry Conference: Shifting Tides : Future of Finance	Delve into three key themes: - Financing for the future - Regulation 2.0 - Culture and Ethics

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	1 August 2019	FIDE FORUM: ISRA Programme - Value Based Intermediation: Directors' Role	This session will seek to answer, among others the following key questions: - How is VBI defined? How does it differ from other well established concepts [e.g. ethical finance, ESG, socially responsible investment (SRI), United Nations Sustainable Development Goals? - What are BNM's expectations pertaining to VBI? - How can VBI be practically implemented in financial institutions (FIs) - How can the Board lead the strategic discussion on VBI implementation in their respective FIs?

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	6 August 2019	e-Vite ACI Breakfast Roundtable 2019 on Governance and Business Continuity Management	Roundtable discussion on:- - Governance Revelations from Inquest Reports - Business Continuity Management Counting the Costs benefits: A Critical Perspective.
		19 September 2019	BNM-FIDE Forum Dialogue: Key Aspects of Fintech and Regulation	To discuss on the following:- - Key trends on how digital innovation is reshaping the financial services industry going forward and its implications on Malaysian financial institutions. - Focus areas in harnessing the benefits of innovation and “Red flags” where board oversight can be better exercised. - Imperative role of the board in facilitating sustainable innovation and growing digital capacity in their respective organisations.

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	4 October 2019	4th Distinguished Board Leadership Series: Digital to The Core	Discussion among others on the following:- - What is meant by “Digital to the core” in financial services? - The journey to become a virtual financial institution (bank & insurance company) from the perspectives of, among others, people, culture, processes and technology - Key similarities and differences between Digital and Traditional FIs - Key success factors and lessons learned - Use-case and demo of financial technology solutions
		31 October 2019	2019 IMF World Economic Outlook	- Global Prospects and Policies - Reigniting Growth in Low-Income and Emerging Market Economies: What Role Can Structural Reforms Play

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
1	Abdul Khalil Abdul Hamid (Cont'd.)	21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities “Act Or Resign”	- Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009
2	Khalid Sufat	24 January 2019	Briefing on Value-Based Intermediation	- To describe an overview of value-based intermediation. - To discuss on issue and challenges. - To examine the opportunities and strategies.
		26 March 2019	FIDE Forum Dinner Talk – Digital Assets: Global Trends, Legal Requirements and Opportunities for Financial Institutions	Discussion on:- - What constitutes digital assets? - What has been the trend and development for digital assets locally, regionally & globally? - What are the key implications of these developments in the financial services sector? - What are compliance and regulatory implications that impact fiduciary responsibilities?

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	Khalid Sufat (Cont'd.)	23 April 2019	2nd Distinguished Board Leadership Series : Rethinking Strategy	<ul style="list-style-type: none"> - To delve into what it means to be strategically smart in today's environment - To look at some of the major changes underway in the financial services sector and derive lessons from banking industry's digital leaders.
		18 June 2019	BNM: FIDE FORUM Masterclass on Cybersecurity: Unseen Threats	<p>Discussion on:-</p> <ul style="list-style-type: none"> - What are the cybersecurity threats that may have been overlooked by FIs? - What are the issues that keep Directors and CEOs awake at night with regard to cybersecurity? - How can Board provide strategic leadership in overseeing the cybersecurity readiness of their respective FIs? What key questions should Directors be asking their Management in this regard?

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	Khalid Sufat (Cont'd.)	10-11 July 2019	Islamic Finance for Board of Directors (IF4BoD)	<ul style="list-style-type: none">- Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business.- Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential.- Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	Khalid Sufat (Cont'd.)	4 October 2019	4th Distinguished Board Leadership Series: Digital to The Core	Discussion among others on the following:- - What is meant by “Digital to the core” in financial services? - The journey to become a virtual financial institution (bank & insurance company) from the perspectives of, among others, people, culture, processes and technology - Key similarities and differences between Digital and Traditional FIs - Key success factors and lessons learned - Use-case and demo of financial technology solutions

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
2	Khalid Sufat (Cont'd.)	22 - 23 October 2019	MIA International Accountants Conference - "Trust and Sustainability"	Enhancing delegates competency in resolving trust deficit that afflicts the accountancy profession by embracing new technologies such as Artificial Intelligence, Block Chian, Cybersecurity, data analytics and robotics. Upskill delegates on digitalisation transformation and strategies in order to promote sustainable business and going concern.
		21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities "Act Or Resign"	- Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	Noorur Rahman Abid	24 January 2019	Briefing on Value-Based Intermediation	<ul style="list-style-type: none"> - To describe an overview of value-based intermediation. - To discuss on issue and challenges. - To examine the opportunities and strategies.
		2 May 2019	Security Awareness Training Programme	Information security awareness.
		10 June 2019	International Financial Reporting Standards in the Light of Risk Management	<ul style="list-style-type: none"> - Updates on FATF & MENA FATF - Risk Assessment Criteria for High Risk Customers. - Screening and Monitoring Politically Exposed Persons ("PEPs"). - How regulators see a high risk customer. - Recent trends and updates on regional and global sanctions. - Fin Tech – Crypto Currency updates.

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	Noorur Rahman Abid (Cont'd.)	9-10 October 2019	Islamic Finance for Board of Directors (IF4BoD)	<ul style="list-style-type: none">- Enhance Director's appreciation on the dynamics of Shariah principles in shaping different offerings of Islamic banking business.- Equip Directors with practical understanding on the value propositions of Islamic finance and its specificities vis-à-vis conventional banking with the aim of enhancing business potential.- Provide Directors with diverse perspectives from within and beyond the Islamic banking community on contemporary issues in the industry.

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	Noorur Rahman Abid (Cont'd.)	18 October 2019	AML/ICFT Annual Training For Directors	<ul style="list-style-type: none"> - The scope and scale of the Money Laundering problem in Malaysia - The evolving nature of Money Laundering cases being prosecuted in Malaysia - Latest updates to the National Risk Assessment (NRA) in Malaysia & specific product risk highlighted for Banks in Malaysia. - BNM Technical Notes on Politically Exposed Persons (PEP's) issued encountered. Global issues affecting Financial Institutions - Structures used to obscure beneficial ownership & the role of Tax Havens: Insights from the Panama/Paradise Papers. - Money Laundering in the Digital age: The use of cryptocurrencies.
		7 November 2019	CBK Instructions on Shariah Control Governance in Islamic Banks	CBK Instructions on Shariah Control Governance on Islamic Banks

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Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
3	Noorur Rahman Abid (Cont'd.)	21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities "Act Or Resign"	Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009
4	Muad S M M AIOsaimi	24 January 2019	Briefing on Value-Based Intermediation	<ul style="list-style-type: none"> - To describe an overview of value-based intermediation. - To discuss on issue and challenges. - To examine the opportunities and strategies.
		10 June 2019	International Financial Reporting Standards in the Light of Risk Management	<ul style="list-style-type: none"> - Updates on FATF & MENA FATF. - Risk Assessment Criteria for High Risk Customers. - Screening and Monitoring Politically Exposed Persons ("PEPs"). - How regulators see a high risk customer. - Recent trends and updates on regional and global sanctions. - Fin Tech – Crypto Currency updates.

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
4	Muad S M M AIOsaim (Cont'd.)	7 November 2019	CBK Instructions on Shariah Control Governance in Islamic Banks	CBK Instructions on Shariah Control Governance on Islamic Banks
		21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities "Act Or Resign"	Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009
5	Ahmad S. AlKharji	24 January 2019	Briefing on Value-Based Intermediation	- To describe an overview of value-based intermediation. - To discuss on issue and challenges. - To examine the opportunities and strategies.
		10 September 2019	PCI DSS	Information security awareness
		21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities "Act Or Resign"	Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009

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

Board Training (Cont'd.)

Training programmes / workshops attended by Directors in the year 2019 were as follows:- (Cont'd.)

NO	NAME OF DIRECTOR	DATE	TITLE	OBJECTIVE
5	Ahmad S. AlKharji (Cont'd.)	24 January 2019	Briefing on Value-Based Intermediation	<ul style="list-style-type: none"> - To describe an overview of value-based intermediation. - To discuss on issue and challenges. -To examine the opportunities and strategies.
		21 November 2019	Enhancing Corporate Governance by Understanding Legal Liabilities "Act Or Resign"	Training on Section 17A of the Malaysian Anti-Corruption Commission Act 2009

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

Remuneration

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

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

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

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

Components of Remunerations

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

- a) Fixed Pay – consists of base salary and fixed allowances. It compensates for the respective level of expertise, skills and responsibility required for fulfilling a specific job, determined by the job grade. It is also taking into consideration of market competitive within the Financial Services sector.
- b) Variable Remuneration – payable periodically by cash through specified time-line and objectives set by the management for achievement that enforcing pay-for-performance culture of the Bank.
- c) Benefits – is part of total remuneration that provide employees with paid time off, medical and financial protection, financing product at preferential rates etc.

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

Remuneration (Cont'd.)

Measurement of Performance

The measurement of the Bank's performance will focus on the Bank's strategy and its annual priorities in the balance scorecard such as financial, risk-related and non-financial drivers for sustainability of the organization. Financial measures on the profitability, cost & asset management, stakeholder return, business growth etc. Risk-related and non-financial drivers measures on mandatory compliance with Audit, Shariah and risk, key strategic initiatives, customer care/ stakeholder management and people-related measures. The business and financial KPIs are developed around the risk allowed by the Bank. Key measures on Risk for the Bank include the Risk Profile with approved indicators, Credit Quality and Asset Quality. These are tracked closely by the Bank. These key measurements are cascaded to individual staff in the Bank. To remain independent, the control functions such as Audit, Compliance, Risk and Shariah do not carry any financial KPIs (Key Performance Indicator).

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

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

Variable Remuneration

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

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

The yearly performance assessment and remuneration for the identified Key Responsible Persons (KRPs) or Senior Officers in the Bank has to be approved by the Board upon recommendation by BNRC. Currently we have 14 of such Senior Officers or KRPs. These individuals are also the Bank's Material Risk Takers (MRT). Beside the Senior Officers, the Bank has also identified 25 Other Material Risk Takers (OMRT) which can materially commit or control significant amounts of the Bank's resources and among the most highly remunerated officers in the Bank. The remuneration of these Material Risk Takers have to be approved by the Board.

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

Remuneration (Cont'd.)

Variable Remuneration (Cont'd.)

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

The individual remunerations are premised on the achievement of the KPIs and determined by the pre-approved bonus matrix, stated in the approved Reward Policy. For longer term performance and remuneration adjustment, the MRT are participants of the Deferred Bonus Scheme which was approved by the Board. It is designed to avoid conflicts of interest; protect the clients' interests; and ensure there is no encouraging of excessive risk-taking. Guided by local to global benchmarks as reference, the deferred amount and period were designed to be practical to ensure it doesn't affect attraction and retention. Clawback and Forfeiture features were fair and transparent for both the Bank and employees. This will discourage employees from not complying with the rules leading to a reduction or cancellation of the variable remuneration of the year for the relevant employees. Deferral mechanism is the same across all material risk takers except for the CEO, who would have a different mechanism. Other policy statements surrounding clawback and forfeiture include: Material restatement of financial results, Fraud and gross negligence or misconduct, Material violation of the principle of risk taking, Resignation or cessation of employment and Inaccuracy of financial performance.

(ii) Key Internal Control Processes

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

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

Internal Audit Function

Internal Audit function operates under a charter from the BAC that gives it unrestricted access to review all activities of the Bank and its subsidiaries. The Chief Internal Auditor functionally reports to the BAC. The internal auditing function covers the Bank and its subsidiaries to ensure consistency in the governance, risk management, internal controls systems and the application of policies and procedures.

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

Internal Audit Function (cont'd.)

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

Internal Audit also performs Shariah governance and operational reviews, investigations, special reviews and also participates in key system development activities and project committees to advise on governance and internal control measures. Internal Audit plays an active role in ensuring compliance with the requirements of Regulatory Authorities. Internal Audit also works collaboratively with the External Auditor, Risk Management and Compliance function to avoid duplication of effort.

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

Management reports

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

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

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management

Audited information according to MFRS 7 and MFRS 101

Risk management disclosures provided in line with the requirements of the Malaysian Financial Reporting Standard ("MFRS") 7 Financial Instruments: Disclosures, and disclosures on capital management as required by MFRS 101 Presentation of Financial Statements (Revised) form part of the financial statements audited by the Bank's independent auditors Ernst & Young PLT.

The roles and responsibilities of the BRMC are to oversee the Bank's activities in managing credit, market, operational and other risks and to ensure that the risk management process is robust and functions effectively.

Highlights of major achievements

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

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

- Reviewed comprehensiveness of all takaful coverages subscribed by the Bank to ensure the Bank's interest is adequately safeguarded.
- Assess the Bank's information technology and cyber security implementation against the standards issued by the Regulators.
- Enhanced the anti-money laundering system to be more efficient in detecting and capturing potential money laundering activities as well as conducting the required screening on existing and potential customers against entities suspected to be involved in terrorism as issued by United Nations Security Council ("UNSC") and Kementerian Dalam Negeri.
- Strengthening Risk Management Division during the course of the year with the establishment of Independent Credit Review and Technology & Cybersecurity Department. In addition, 3 years Risk Management Plan had been developed to instill sound and holistic risk management & responsibility culture.

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

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(iii) Risk Management (Cont'd.)

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

Three Lines of Defence Concept

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

Credit Risk Management

The Bank defines credit risk as the risk of potential loss arising from a customer defaulting on its obligation to the Bank. The Corporate segment continues to contribute the major share of the Bank's financing and investment assets with 65% while the consumer financing segment contributed 35% of the Bank's total financing and investment assets in 2019.

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

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

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

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(iii) Risk Management (Cont'd.)

Credit Risk Management (Cont'd.)

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

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

Market Risk Management

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

The market risk exposure of the Group is identified into two types:

(i) Traded Market Risk

Primarily the rate of return risk and credit spread risk, exists in the Group's trading book positions held for the purpose of benefiting from short-term price movements. These trading book positions are mainly originated by the treasury operations.

(ii) Non-Traded Market Risk

Rate of return risk and foreign exchange risk arising mainly from the retail and commercial banking assets and liabilities, as well as financial investments designated as available-for-sale and held-to-maturity.

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

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(iii) Risk Management (Cont'd.)

Liquidity Risk Management

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

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

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

Operational Risk Management ("ORM")

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

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

A clear delegation of authority had been approved and implemented in order to provide clear job responsibility. This authority is regularly reviewed in order to align it with the latest structure of the Bank.

The Bank also continuously reviews and evolves its technology practices and processes in order to ensure acceptable standards are in place and adhered to.

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

Regulatory & Anti-Money Laundering Compliance ("RAC")

Under the Bank's Compliance Policy, the line management plays an important role in cultivating a compliance culture within the organisation. The Bank has appointed Business Unit Compliance Officers ("BUCOs") at divisional / departmental levels who are responsible to identify applicable regulatory requirements at their respective divisions / departments and to keep RAC informed on an ongoing basis of the quality of compliance, compliance deficiencies, gaps in work processes and the status of any corrective actions.

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Regulatory & Anti-Money Laundering Compliance ("RAC") (Cont'd)

As a fully licensed Islamic Bank, the Bank has a legal obligation to deter money laundering and counter financing of terrorism within the ambit of the Anti-Money Laundering, Anti-Terrorism Financing & Proceeds of Unlawful Activities (AMLATPFUA) 2001. As such, the Bank is at the forefront of the Government and BNM's continuous initiatives in the prevention of the use of the banking system at any point for money laundering or terrorist financing activities.

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

- Implemented a dedicated anti-money laundering ("AML") system since 15 July 2008. The system has enabled the Bank to effectively conduct ongoing monitoring on customer transactions through a dedicated Management Information System ("MIS") for prompt detection and reporting of suspicious transactions;
- Established Know Your Customer ("KYC") policy and procedures to address the establishment of new business relationship with customers;
- Constant review of the AML system to optimise detection of potential money laundering activities and incorporate regular screening exercise for entities suspected involved in terrorism as issued by United Nations Security Council ("UNSC") and Office of Foreign Assets Control (OFAC) US;
- Constantly updating record keeping procedures in accordance with the statutory requirements;
- Conduct regularly AML/CFT training sessions to ensure high level of staff awareness on the matters;
- Regular update to the Management, BRMC and the Bank's Chairman on AMLCFT trend of the Bank.

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

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives

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

Pillar 1

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

- Credit Risk Charge – Standardised Approach
- Market Risk Charge – Standardised Approach
- Operational Risk Charge – Basic Indicator Approach

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

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

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

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

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

Pillar 3

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

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2 STATEMENT OF CORPORATE GOVERNANCE (Cont'd.)

(iii) Risk Management (Cont'd.)

Capital Adequacy Framework Initiatives (Cont'd.)

Pillar 3 (Cont'd.)

Stress Test

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

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

The preparation of the stress test involves risk management teams, business units, and the Group. The stress test results are computed based on predefined scenarios which are as follows:

- Economic Recession Scenario;
- Generalised Credit Quality Deterioration and Asset Price Devaluation Scenario; and
- Severe Liquidity Stress and Run on the Bank.

The stress test reports are presented to the Senior Management and Board level committees and submitted to BNM on a semi-annually basis.

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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiaries are the provisions of offshore banking and nominees services.

During the financial year, the Bank's subsidiary involved in offshore banking surrendered its licence to the Labuan Financial Services Authority ("LFSA") and is in the process of closing business.

Other information relating to the subsidiaries are disclosed in Note 14 of the financial statements.

RESULTS

	Group RM'000	Bank RM'000
Profit before zakat and taxation from continuing operations	29,070	53,669
Profit before zakat and taxation from discontinued operations	2,003	-
Taxation	<u>(110,096)</u>	<u>(110,045)</u>
Net loss for the year	<u>(79,023)</u>	<u>(56,376)</u>
Profit attributable to:		
Owners of the parent	(79,023)	(56,376)
Minority interests	<u>-</u>	<u>-</u>
	<u>(79,023)</u>	<u>(56,376)</u>

In the opinion of the directors, the results of the operations of the Group and the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in the financial statements.

DIVIDENDS

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

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DIRECTORS

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

Muad S M M AIOsaimi
Mohammad Nasser AIFouzan
Khalid Sufat
Abdul Khalil Abdul Hamid
Ahmad S A A AIKharji
Noorur Rahman Abbas Ali Abid
Khalid Mahmood Bhaimia (Resigned with effect from 24 April 2019)
Md Adnan Md Zain (Resigned with effect from 31 May 2019)

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

Kuwait Finance House (Labuan) Bhd
Mohammad Nasser AIFouzan
Noorur Rahman Abbas Ali Abid (Appointed on 19 June 2019)
Md Adnan Md Zain (Resigned with effect from 31 May 2019)

KFH Nominees (Tempatan) Sdn Bhd
Mexdelina Hussein
Mohd Hazran Abd Hadi

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party, whereby directors might acquire benefits by means of the acquisition of shares in, or debenture of the Bank or any other body corporate.

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 36 of the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which the director is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, none of the directors held shares in the Bank and its related corporations during the financial year ended 31 December 2019.

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ISSUE OF SHARES

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

RESERVES, PROVISIONS AND ALLOWANCES

There were no material transfers to or from reserves or provisions or allowances during the year other than as those disclosed in Notes 4, 5, 8, 10, 22, 25, 29 of the financial statements and the statements of changes in equity.

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

In preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in Guidelines on Financial Reporting for Islamic Banking Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and income statements of the Group and of the Bank were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

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OTHER STATUTORY INFORMATION (Cont'd.)

- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations as and when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Bank for the financial year in which this report is made.

BUSINESS PLAN FOR 2020

The Bank will continue to focus on achieving sustainable growth across its franchises, improving asset quality and driving down costs. The core business strategies will remain unchanged and the Bank will continue to organically grow its business through its identified target markets, offering innovative products and deepening size of wallet.

The 2020 plan is centered on four strategic thrusts, financial performance, customer experience, process excellence and leadership. In order to support these initiatives, the Bank will continue to focus on improving asset quality and returns, staff competency and efficiency by improving and upgrading the core infrastructure and internal processes. Cost optimisation remains a core theme for 2020 to drive higher productivity and improve the overall performance of the Bank.

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

OUTLOOK FOR 2020

The Malaysian economy is expected to expand at relatively moderate pace between 4.5% to 4.8% in 2020, from 4.7% forecasted in 2019, despite the continued uncertainty and external headwinds given the uncertainties around global growth and economic activities. Private consumption and investment will remain the main drivers of economic growth in 2020.

Nevertheless, the monetary policy is expected to remain supportive of economic growth whilst ensuring price stability in 2020. Inflation dynamics are also expected to favour a more accommodative monetary policy stance for Malaysia going into 2020.

The ongoing trade tension is expected to disrupt global trade growth which will also affect the Malaysian economy. The challenging global economic environment has prompted Malaysia to rely more on domestic demand to prop up growth. Despite a challenging external environment, the Malaysian economy is likely to remain positive in 2020.

RATING BY EXTERNAL RATING AGENCY

Rating Agency	Date	Current Rating	Outlook
Malaysian Rating Corporation Berhad (MARC)	December 2019	AA+ / MARC-1	Stable

ZAKAT OBLIGATIONS

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

SUBSEQUENT EVENT

Details of subsequent events are disclosed in Note 45 to the financial statements.

AUDITORS

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

Auditors' remuneration are disclosed in Notes 33 and 35 (vi) to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 February 2020.



Muad S M M AIOsaimi
Director



Noorur Rahman Abbas Ali Abid
Director

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

We, Muad S M M AIOsaimi and Noorur Rahman Abbas Ali Abid, being two of the directors of Kuwait Finance House (Malaysia) Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 56 to 269 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 February 2020.



Muad S M M AIOsaimi
Director



Noorur Rahman Abbas Ali Abid
Director

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATUTORY DECLARATION

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

I, Mohd Hazran Abd Hadi, being the acting Chief Executive Officer primarily responsible for the financial management of Kuwait Finance House (Malaysia) Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 56 to 269, are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared
by the abovenamed
at Kuala Lumpur, in the Federal Territory
on 6 February 2020

Mohd Hazran Abd Hadi

BEFORE ME



Lot 6, Arked Star, 23-G,
Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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REPORT OF SHARIAH COMMITTEE

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

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

Assalamualaikum Warahmatullahi Wabarakatuh.

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

- (a) Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae (Chairman)
- (b) Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam (Member)
- (c) Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi (Member)
- (d) Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali (Member)
- (e) Sheikh Isa Abdulla Yusuf Dowaishan (Member)

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

- (a) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- (b) To evaluate and endorse sample of contracts and agreements of the Bank's transactions;
- (c) To clarify Shariah rulings in relation to the Bank's transactions as observed by the Committee based on what was referred to them by the Board of Directors, the Chairmain or the Shariah Division;
- (d) To present Shariah's views to the Board of Directors in relation to any matter raised in regards to the transactions of the Bank;

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REPORT OF SHARIAH COMMITTEE

- (e) To confirm that the Bank's transactions and contracts are in compliance with Shariah via reports submitted by the Shariah Advisor/Shariah Division to the Shariah Committee on a periodic basis, explaining the activities and the implementation of the fatwa and rulings issued by the Shariah Committee. The Shariah Committee shall rectify any shortcomings to ensure its conformity to Shariah.
- (f) To provide written Shariah opinion. The Shariah Committee is required to record any opinion given. In particular, the Shariah Committee shall prepare written Shariah opinions in the following circumstances:
 - (i) when the Bank makes reference to the Shariah Advisory Council ("SAC") of Bank Negara Malaysia for advice; and
 - (ii) when the Bank submits applications to Bank Negara Malaysia for the approval of new products in accordance with guidelines on product approval issued by Bank Negara Malaysia.
- (g) To review annual financial statements of the Bank.

To achieve this compliance assurance, the Shariah Committee held 7 meetings and issued 17 notes, in which we have reviewed and approved the policies, products and the contracts relating to the transactions and applications undertaken by Kuwait Finance House (Malaysia) Berhad ("the Bank") and its subsidiaries ("the Group") during the year ended 31 December 2019.

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

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

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REPORT OF SHARIAH COMMITTEE

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

- (a) the contracts, transactions and dealings entered into by Kuwait Finance House (Malaysia) Berhad and the Group during the year ended 31 December 2019 that we have reviewed are in compliance with Shariah rules, principles, resolutions and recommendations of KFHMB's Shariah Committee;
- (b) the allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) all earnings that have been realised from sources or by means prohibited by Shariah rules and principles, have been put aside in a separate account for channeling to charitable causes; and
- (d) the calculation of Zakat is in compliance with Shariah rules and principles;
- (e) any known non compliance with Shariah and action taken to remedy such non compliance has been addressed adequately.

This opinion is rendered based on what has been presented to us by the Management of Kuwait Finance House (Malaysia) Berhad and its Shariah Division.

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

Wassalamualaikum Wa Rahmatullahi Wabarakatuh.

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

Signature:

Date: 6 FEB 2020

Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam
Member

Signature:

Date: - 6 FEB 2020

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REPORT OF SHARIAH COMMITTEE

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



Date: 6 FEB 2020

Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali
Member
Signature:



Date: 6 FEB 2020

Sheikh Isa Abdulla Yusuf Dowaisan
Member
Signature:



Date: 6 FEB 2020

Kuala Lumpur, Malaysia

200401033666 (672174-T)

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kuwait Finance House (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 56 to 269.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditor's report thereon

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

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**Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (cont'd.)
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Information other than the financial statements and auditors' report thereon (cont'd.)

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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**Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (cont'd.)
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Auditors' responsibilities for the audit of financial statements (cont'd.)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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**Independent auditors' report to the member of
Kuwait Finance House (Malaysia) Berhad (cont'd.)
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Auditors' responsibilities for the audit of financial statements (cont'd.)

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

Other matters

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



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

Kuala Lumpur, Malaysia
6 February 2020



Muhammad Syarizal Bin Abdul Rahim
No. 03157/01/2021 J
Chartered Accountant

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENT OF FINANCIAL POSITION

	Note	Group	
		2019 RM'000	2018 RM'000
ASSETS			
Cash and short-term funds	4	61,870	135,339
Placements of investment accounts with Bank Negara Malaysia	5	6,820	5,755
Gold depository	6	84,677	96,409
Financial assets at FVTPL	7	219	1,059
Debt instruments at FVOCI	8	3,647,186	2,889,238
Equity instruments at FVOCI	9	18	18
Financing, advances and other receivables	10	4,786,413	5,592,272
Other assets	11	129,394	133,425
Hedging financial instruments	12	5,190	3,780
Statutory deposit with Bank Negara Malaysia	13	184,624	211,800
Right of use assets	15	82,546	-
Property and equipment	16	22,826	21,580
Intangible assets	17	19,500	22,318
Deferred tax assets	18	45,181	181,806
TOTAL ASSETS		9,076,464	9,294,799
LIABILITIES			
Deposits from customers	19	5,121,638	4,578,999
Investment accounts of customers	21	6,820	5,755
Deposits and placements of banks and other financial institutions	20	2,053,750	2,906,741
Hedging financial instruments	12	7,626	4,506
Lease liabilities	15	84,112	-
Other liabilities	22	85,161	101,247
TOTAL LIABILITIES		7,359,107	7,597,248
SHAREHOLDER'S EQUITY			
Share capital	24	1,425,272	1,425,272
Reserves	25	292,085	272,279
TOTAL SHAREHOLDER'S EQUITY		1,717,357	1,697,551
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY			
		9,076,464	9,294,799

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(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION (CONT'D.)

	Note	Group	
		2019 RM'000	2018 RM'000
COMMITMENTS AND CONTINGENCIES	40	1,935,549	2,159,680
CAPITAL ADEQUACY			
CET 1/Tier 1 capital ratio	42	30.446%	25.419%
Total capital ratio	42	31.600%	26.582%
NET ASSETS PER SHARE (RM)		1.20	1.19

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

	Note	Bank	
		2019 RM'000	2018 RM'000
ASSETS			
Cash and short-term funds	4	61,870	135,339
Placements of investment accounts with Bank Negara Malaysia	5	6,820	5,755
Gold depository	6	84,677	96,409
Financial assets at FVTPL	7	219	1,059
Debt instruments at FVOCI	8	3,647,186	2,876,991
Equity instruments at FVOCI	9	18	18
Financing, advances and other receivables	10	4,786,413	5,592,272
Other assets	11	129,374	133,302
Hedging financial instruments	12	5,190	3,780
Statutory deposit with Bank Negara Malaysia	13	184,624	211,800
Investment in subsidiaries	14	10,200	10,200
Right of use assets	15	82,546	-
Property and equipment	16	22,826	21,554
Intangible assets	17	19,500	21,926
Deferred tax assets	18	45,181	181,806
TOTAL ASSETS		9,086,644	9,292,211
LIABILITIES			
Deposits from customers	19	5,138,082	4,475,640
Investment accounts of customers	21	6,820	5,755
Deposits and placements of banks and other financial institutions	20	2,053,750	3,036,586
Hedging financial instruments	12	7,626	4,506
Lease liabilities	15	84,112	-
Other liabilities	22	84,859	101,046
TOTAL LIABILITIES		7,375,249	7,623,533
SHAREHOLDER'S EQUITY			
Share capital	24	1,425,272	1,425,272
Reserves	25	286,123	243,406
TOTAL SHAREHOLDER'S EQUITY		1,711,395	1,668,678
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,086,644	9,292,211

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STATEMENT OF FINANCIAL POSITION (CONT'D.)

	Bank	
Note	2019 RM'000	2018 RM'000
COMMITMENTS AND CONTINGENCIES		
40	1,935,549	2,159,680
CAPITAL ADEQUACY		
CET 1/Tier 1 capital ratio	30.114%	24.794%
Total capital ratio	31.267%	25.960%
NET ASSETS PER SHARE (RM)	1.20	1.17

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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INCOME STATEMENTS

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Continuing Operations					
Operating revenue	26	473,953	451,169	498,552	451,049
Income derived from investment of depositors' funds and others	27	338,314	366,868	338,314	366,868
Income derived from investment of investment account funds	31	170	226	170	226
Income derived from investment of shareholder's equity	28	135,469	84,075	160,068	83,955
Total gross income		473,953	451,169	498,552	451,049
Credit loss (charge)/writeback on financial assets	29	(27,063)	32,846	(27,063)	32,846
Total distributable income		446,890	484,015	471,489	483,895
Income attributable to the depositors	30	(248,636)	(238,092)	(248,636)	(238,067)
Profit distributed to investment account holders	31	(101)	(134)	(101)	(134)
Total net income		198,153	245,789	222,752	245,694
Personnel expenses	32	(87,928)	(107,972)	(87,928)	(107,972)
Other overheads and expenditures	33	(77,551)	(83,746)	(77,551)	(83,746)
Finance cost	34	(3,604)	(25,871)	(3,604)	(25,871)
Profit before zakat and taxation		29,070	28,200	53,669	28,105
Taxation	37	(110,045)	(11,242)	(110,045)	(11,242)
(Loss)/profit after zakat and taxation		(80,975)	16,958	(56,376)	16,863

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INCOME STATEMENTS (CONT'D.)

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Discontinued Operations</u>					
Profit after zakat and taxation for the year from discontinued operations	35	1,952	3,950	-	-
Net (loss)/profit for the year		(79,023)	20,908	(56,376)	16,863
Attributable to:					
- Equity holder of the Bank		(79,023)	20,908	(56,376)	16,863
(Loss)/earning per share (sen)					
- Basic/Diluted	38	(5.54)	1.47		

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

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD

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STATEMENTS OF COMPREHENSIVE INCOME

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net (loss)/profit for the year	(79,023)	20,908	(56,376)	16,863
Other comprehensive income/(loss):				
Items that may be reclassified subsequently to profit or loss:				
Debt securities at FVOCI:				
- Net unrealised gain	119,776	9,804	119,773	9,812
- Net realised loss/(gain) reclassified to the income statements	282	(172)	100	(172)
- Changes in allowance for expected credit losses	5,795	16,005	5,800	16,364
Exchange differences on translation of foreign operations:				
- Net (loss)/gain taken to equity	(444)	812	-	-
Income tax relating to components of other comprehensive income (Note 18)	(26,580)	(3,727)	(26,580)	(3,727)
Other comprehensive income for the year, net of tax	98,829	22,722	99,093	22,277
Total comprehensive income for the year	19,806	43,630	42,717	39,140
Total comprehensive income for the year attributable to equity holder of the Bank	19,806	43,630	42,717	39,140

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

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STATEMENTS OF CHANGES IN EQUITY

	Non-distributable				Distributable		Total RM'000
	Share Capital RM'000	Statutory Reserve RM'000	Exchange Fluctuation Reserve RM'000	Available- For-Sale Reserve RM'000	FVOCI Reserve RM'000	Retained Earnings RM'000	
Group							
At 1 January 2019	1,425,272	170,648	3,990	-	18,527	79,114	1,697,551
Total comprehensive (loss)/income	-	-	(444)	-	99,273	(79,023)	19,806
At 31 December 2019	1,425,272	170,648	3,546	-	117,800	91	1,717,357
At 1 January 2018							
- As previously stated	1,425,272	162,216	3,178	(6,825)	-	66,650	1,650,491
- Effect of MFRS 9 adoption	-	-	-	6,825	(3,383)	(12)	3,430
As at 1 January 2018, as restated	1,425,272	162,216	3,178	-	(3,383)	66,638	1,653,921
Total comprehensive income	-	-	812	-	21,910	20,908	43,630
Transfer to statutory reserve	-	8,432	-	-	-	(8,432)	-
At 31 December 2018	1,425,272	170,648	3,990	-	18,527	79,114	1,697,551
Bank							
At 1 January 2019	1,425,272	170,648	-	-	18,707	54,051	1,668,678
Total comprehensive income/(loss)	-	-	-	-	99,093	(56,376)	42,717
At 31 December 2019	1,425,272	170,648	-	-	117,800	(2,325)	1,711,395
At 1 January 2018							
- As previously stated	1,425,272	162,216	-	(6,648)	-	45,620	1,626,460
- Effect of MFRS 9 adoption	-	-	-	6,648	(3,570)	-	3,078
As at 1 January 2018, as restated	1,425,272	162,216	-	-	(3,570)	45,620	1,629,538
Total comprehensive income	-	-	-	-	22,277	16,863	39,140
Transfer to statutory reserve	-	8,432	-	-	-	(8,432)	-
At 31 December 2018	1,425,272	170,648	-	-	18,707	54,051	1,668,678

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

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before zakat and taxation				
- Continuing operations	29,070	28,200	53,669	28,105
- Discontinued operations	2,003	3,970	-	-
	31,073	32,170	53,669	28,105
Adjustments for:				
Impairment allowances/(writeback) on financing, advances and other receivables (Note 29)	33,674	(27,130)	33,674	(27,130)
Amortisation of premium less accretion of discounts (Notes 27 and 28)	6,341	5,745	6,341	5,745
Subordinated Murabahah Tawarruq (Note 34)	-	25,871	-	25,871
Depreciation of right of use assets (Note 33)	13,879	-	13,879	-
Depreciation of property and equipment (Note 33 and 35)	3,777	2,721	3,757	2,707
Amortisation of intangible assets (Note 33 and 35)	6,006	4,635	5,605	4,517
Property and equipment written off (Note 16, 17 and 33)	318	-	318	-
Gain on disposal of property and equipment (Note 28)	(334)	(13)	(334)	(13)
Net gains on sale of financial assets at FVOCI (Notes 27,28 and 35)	(4,080)	(172)	(4,080)	(172)
Net gains on sale of financial assets at FVTPL (Notes 27 and 28)	(1)	(340)	(1)	(340)
Impairment allowance on financial assets at FVOCI (Note 29 and 35)	5,795	16,005	5,800	16,364
Unrealised gain on foreign translations (Note 28 and 35)	(964)	(3,362)	(687)	(3,166)
Unrealised loss on revaluation of securities held-for-trading, and Ijarah rental swap (net) (Note 28)	-	1,498	-	1,498
Operating profit before working capital changes	95,484	57,628	117,941	53,986
(Increase)/decrease in operating assets	842,348	165,459	842,247	165,448
Placements of investment accounts with Bank Negara Malaysia	(1,065)	189,797	(1,065)	189,797
Financing, advances and other receivables	772,185	45,356	772,185	45,356
Other assets	44,052	(71,494)	43,951	(71,505)
Statutory deposit with Bank Negara Malaysia	27,176	1,800	27,176	1,800
Increase/(decrease) in operating liabilities	(344,515)	79,931	(350,941)	83,148
Deposits from customers	543,706	(120,179)	663,507	58,721
Investment accounts of customers	1,065	(2,463)	1,065	(2,463)
Deposits and placements of banks and other financial institutions	(852,991)	643,838	(982,836)	451,695
Other liabilities	(36,295)	(441,265)	(32,677)	(424,805)

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STATEMENTS OF CASH FLOWS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (Cont'd.)				
Cash generated from operations	593,317	303,018	609,247	302,582
Profit expense on lease liabilities (Note 34)	(3,604)	-	(3,604)	-
Tax paid	(20)	-	-	-
Net cash generated from operating activities	589,693	303,018	605,643	302,582
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from purchases of securities	(645,126)	(608,212)	(657,540)	(617,830)
Proceeds from disposal of property and equipment	349	17	349	17
Purchase of property and equipment (Note 16)	(7,541)	(17,704)	(7,541)	(17,561)
Purchase of intangible assets (Note 17)	(1,013)	(1,034)	(1,002)	(748)
Net cash used in investing activities	(653,331)	(626,933)	(665,734)	(636,122)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of principal portion of lease liabilities (Note 15)	(12,313)	-	(12,313)	-
Net cash used in financing activities	(12,313)	-	(12,313)	-
Net decrease in cash and cash equivalents	(75,951)	(323,915)	(72,404)	(333,540)
Cash and cash equivalents at beginning of year	141,094	461,019	141,094	474,634
Exchange differences on translation of opening balances	3,547	3,990	-	-
Cash and cash equivalents at end of year	68,690	141,094	68,690	141,094
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 4)	61,870	135,339	61,870	135,339
Placements of investment accounts with Bank Negara Malaysia (Note 5)	6,820	5,755	6,820	5,755
Cash and cash equivalents	68,690	141,094	68,690	141,094

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in the provisions of Islamic banking business as allowed under the Islamic Financial Services Act, 2013. The principal activities of the subsidiaries are the provisions of offshore banking and nominees services. During the financial year, the Bank's subsidiary involved in offshore banking commenced member's voluntary liquidation.

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 6 February 2020.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements of the Group and of the Bank have been prepared, except for cashflow information using the accrual basis of accounting. The summary of significant accounting policies are disclosed in Note 3.3.

The Group and the Bank present the statements of financial position in order of liquidity. An analysis regarding the recovery of settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 47(b).

Certain qualitative disclosures under MFRS 7 Financial Instruments: Disclosures about the nature and extent of risks and capital management disclosures under MFRS 101 Presentation of Financial Statements (Revised) have been included in the audited parts of the "Risk Management" section in the Statement of Corporate Governance.

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

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3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in Accounting Policies

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

On 1 January 2019, the Group and the Bank adopted the following new and amended MFRSs for financial periods beginning on or after 1 January 2019.

Description	Effective for financial periods beginning on or after
MFRS 16 Leases	1 January 2019
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

The adoption of the MFRSs and amendments to MFRSs above did not have any material impact on the financial statements of the Group and Bank in the current financial year, except for the adoption of MFRS16.

(a) MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group and the Bank has adopted MFRS 16 as issued by MASB in April 2016 with a date of transition of 1 January 2019, 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 MFRS 16 in previous periods.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 16 Leases (Cont'd.)

As permitted by the transitional provisions of MFRS 16, 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.

At inception, the Group and the Bank opted for Modified Retrospective Approach whereby the Day 1 opening balance for Right of Use Assets is the same as the Day 1 opening balance for Lease Liability. The Group and the Bank elects to use the exemptions allowed by the standard on lease contracts for which the lease term ends within 12 months as at the date of initial application and lease contracts for which the underlying assets is of low value.

The adoption of MFRS 16 has resulted in changes in the accounting policies for recognition and measurement of right-of-use ("ROU") assets and lease liabilities in the financial statements. Set out below are disclosures relating to the impact of the adoption of MFRS 16 on the Group and the Bank.

On 1 January 2019, the opening balance for both the ROU assets and lease liabilities are RM96.4 million. Breakdown by class of underlying asset as at 1 January 2019 are as follows:

Assets Class	Group and Bank Lease Obligation RM'000
Motor vehicles	872
Office equipments	397
Buildings	95,156
	<u>96,425</u>

MFRS 16 requires separate presentation of the profit expense on the lease liability and the depreciation charge for the ROU asset in the lessee's income statement. The profit expense on the lease liability is a component of finance costs, which MFRS 101 requires to be presented separately in the income statement.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.1 Changes in Accounting Policies (Cont'd.)

(a) MFRS 16 Leases (Cont'd.)

The annual depreciation and profit expense amount calculated as at 31 December 2019 are RM13.9 million and RM3.6 million respectively.

Assets Class	Depreciation	
	Expense RM'000	Profit Expense RM'000
Motor vehicles	314	30
Office equipments	116	14
Buildings	13,449	3,560
	<u>13,879</u>	<u>3,604</u>

In the statements of cash flows, a lessee is required to classify cash payments for the principal portion of the lease liability within financing activities. Cash payments for the profit portion of the lease liability are classified by applying the requirements in MFRS 107 for profit paid. Furthermore, short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified within operating activities.

3.2 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
MFRS 3 Definition of a Business (Amendments to MFRS 3)	1 January 2020
Interest Rate benchmark Reform (Amendments to MFRS 9, MFRS 139, and MFRS 7)	1 January 2020
MFRS 101 Definition of Material (Amendments to MFRS 101)	1 January 2020
MFRS 108 Definition of Material (Amendments to MFRS 108)	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021

The adoption of these standards and interpretations when they become effective is not expected to have any material impact on the financial statements of the Group and the Bank.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.3 Summary of Significant Accounting Policies

(a) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

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

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

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

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

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

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

(ii) Basis of Consolidation

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

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

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

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

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

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

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets

(i) Recognition and initial measurement

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

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

(ii) Classification

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

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as 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 profit on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as 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 profit on the principal amount outstanding.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual 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 Group and the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(ii) Classification (Cont'd.)

Assessment whether contractual cash flows are solely payments of principal and profit ("SPPP")

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

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

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

Reclassifications

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

(iii) Derecognition

A financial asset is derecognised when the contractual right to receive the cash flows from the asset has expired.

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.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(iv) Modifications of financial assets

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

(v) Impairment

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (cont'd.)

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

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

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (cont'd.)

Measurement of ECL

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

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

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 derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (cont'd.)

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 Group or the Bank on terms that the Group or 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 Group or the Bank considers the following factors:

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(b) Financial Assets (Cont'd.)

(v) Impairment (cont'd.)

Presentation of allowance for ECL in the statements of financial position

Loss allowances for ECL are presented in the statements 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 FVOCI 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 Group or 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 Group or the Bank's procedures for recovery of amounts due.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(c) Financial liabilities

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

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

(d) Provision for Liabilities

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

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

(e) Fair value measurement

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group does not have any non-financial instruments that are measured at fair value as at reporting date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 44.

(f) Leases

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

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

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

The Bank recognises Lease Liabilities to make lease payments and Right-Of-Use Assets representing the right to use the underlying assets.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Leases (Cont'd.)

(i) Right-of-Use Assets

The Bank measures the Right-of-Use Assets at cost:

- (a) Less any accumulated depreciation and accumulated impairment losses; and
- (b) Adjusted for the measurement of the Lease Liability.

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

Right-of-Use Assets are depreciated on a straight line basis over the lease term.

(ii) Lease Liabilities

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(f) Leases (Cont'd.)

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

Lease for the offshore subsidiary is not accounted under MFRS 16 as the subsidiary is under member's voluntary liquidation as at 31 December 2019. The existing lease of the subsidiary expires on 31 January 2020.

(iv) Presentation in the Statements of Cash Flows

The Bank discloses the cash payment for leases as follows:

- (a) Cash payments for the principal portion of the lease liability are presented within financing activities.
- (b) Cash payments for profit expense portion of the lease liabilities are presented as Finance Cost
- (c) Lease payments for short-term leases and leases of low-value assets not recognised on the statements of financial position are presented within operating activities.

(g) Property and Equipment, and Depreciation

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(g) Property and Equipment, and Depreciation (Cont'd.)

* Computer hardware includes:

Data Centre Structure	15 years
Computer equipment	3 - 4 years
Automated Teller Machine (ATM)	7 years
Core banking system	8 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

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

(h) Computer software

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

(i) Other Assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the reporting date.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(j) Musyarakah Capital Investment and Musyarakah Financing

The Group and 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. Musyarakah capital investment is carried at fair value. Under the principle of Musyarakah, the Group and the Bank and their partners shall contribute a portion of capital and the proportion of profit to be distributed between the partners must be mutually pre-agreed upon inception of the contract. In view of the Group and the Bank acting as financiers to the project, Musyarakah financing is carried as financing receivable in the financial statements of the Group and of the Bank. The profit on Musyarakah financing is recognised over the term of the contract based on estimated internal rate of return of the project.

(k) Provision for Liabilities

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

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

(l) Income Tax

(i) Current tax

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(I) Income Tax (Cont'd.)

(ii) Deferred tax

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

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

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

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(l) Income Tax (Cont'd.)

(ii) Deferred tax (Cont'd.)

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

(m) Revenue Recognition

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

(i) Finance Income Recognition

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

Murabahah

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

Ijarah Muntahia Bittamlik/ Al-Ijarah Thumma Al-Bai'

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

Customers' accounts are classified as impaired where repayments are in arrears for more than three months from the first day of default for financing and one month after maturity date for trade bills and other instruments of similar nature.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(m) Revenue Recognition (Cont'd.)

(ii) Fee and Other Income Recognition

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

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

(n) Profit Expense Recognition

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

(o) Effective Profit Method

Profit income and expense are recognised in income statement using the effective profit 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 profit 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 profit rate is calculated using estimated future cash flows including expected credit losses.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

Amortised cost and gross carrying amount

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

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

(p) Presentation of profit income and expense

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

- profit on financial assets and financial liabilities measured at amortised cost calculated on an effective profit basis;
- profit on debt instruments measured at FVOCI calculated on an effective profit basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of profit rate risk.

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

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

(q) Foreign Currencies

(i) Functional and Presentational Currency

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(q) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions

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

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

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

(iii) Foreign Operations

The results and financial position of the subsidiaries that have functional currencies different from the presentation currency ("RM") of the consolidated financial statements are translated into RM as follows:

- (a) Assets and liabilities for each statement of financial position presented are translated at the closing rates prevailing at the reporting date;
- (b) Income and expenses for each income statement are translated at month-end exchange rates, which approximates the exchange rates at the dates of the transactions; and
- (c) All resulting exchange differences are taken to the foreign currency translation reserve in other comprehensive income.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(r) Derivatives and Hedging Activities

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

(i) Foreign Exchange Contracts

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

(ii) Profit Rate and Foreign Currency Swaps

These financial instruments are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from a change in the fair value of these financial instruments is recognised in income statements unless they are part of a hedging relationship which qualifies for hedge accounting.

(iii) Hedge documentation, effectiveness assessment, and discontinuation

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(iv) Fair value hedge

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

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

The list of the fair value for all derivatives and fair value hedge entered by the Group and the Bank is disclosed in Note 12.

(s) Financial Guarantees and Financing Commitments

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

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

For other financing commitments, the Group and the Bank recognise loss allowance. Those are included in Note 10 of the financial statements.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(t) Employee Benefits

(i) Short-Term Benefits

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

(ii) Defined Contribution Plan

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

(u) Zakat

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

(v) Impairment of Non-Financial Assets

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(v) Impairment of Non-Financial Assets (cont'd.)

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

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

(w) Cash and Cash Equivalents

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

(x) Financial Risk Management Objective and Policies

The Group's and the Bank's financial risk management policy seek to ensure that adequate financial resources are available for the development of the Group's and the Bank's business whilst managing its profit rate risks (both fair value and cash flow), liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks as disclosed in the Statement of Corporate Governance.

(y) Investment Accounts

The KFH Mudharabah Plus Account-i (the "Account(s)") is a demand investment account which is classified under the Unrestricted Investment Account ("URIA") where the customer provides the Bank with mandate to make the ultimate investment decision without specifying any particular restrictions or conditions. The KFH Mudharabah Plus Account-i is classified under the "Investment Account" classification of Islamic Financial Services Act 2013.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

(y) Investment Accounts

The reference to "Mudharabah" shall mean the Islamic contract of Mudharabah on an unrestricted profit sharing between the Customer(s) as owner of the capital ("Rabbul Mal") and the Bank as the entrepreneur ("Mudharib"), whereby the Customer(s) shall place a specified sum of money with the Bank, and the Bank is entrusted to utilise the capital for investment and business relating to Shariah compliant investment and business without any specification and intervention from the Customer(s), to generate income which will be distributed according to the profit sharing ratio ("PSR").

(z) Gold Depository

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

3.4 Significant Accounting Estimates and Judgments

(a) Significant Accounting Estimates

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

(i) Incremental Borrowing Rate

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

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

3.4 Significant Accounting Estimates and Judgments

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

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

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

(iii) Deferred tax and income taxes

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

(b) Significant Accounting Judgments

This note provides an overview of the areas that involve a higher degree of judgement or complexity, 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) Determination of lease term of contracts with renewal and termination options

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

(ii) 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 amortised cost. The Bank follows the guidance of MFRS 9 on classifying its investments.

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3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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

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

(iii) Measurement of the expected credit loss allowance

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

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

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

(iv) Business models and SPPP as significant judgments

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

(v) Deferred tax and income taxes

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

The Bank applies significant judgement in forecasting future taxable profit up to year 2025 which allows the Bank to recognise deferred tax asset on unutilised tax losses.

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4 CASH AND SHORT-TERM FUNDS

Cash and balances with banks and other financial institutions
Money at call and interbank placements with remaining maturity less than one month

Less : ECL Allowance

Group and Bank	
2019 RM'000	2018 RM'000
58,120	120,155
3,831	15,996
61,951	136,151
(81)	(812)
61,870	135,339

4.1 Impairment allowance for cash and short term funds

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

	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	61,951	-	-	61,951
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	61,951	-	-	61,951

	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	136,151	-	-	136,151
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	136,151	-	-	136,151

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4 CASH AND SHORT-TERM FUNDS

4.1 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:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2019 Group and Bank				
Gross carrying as at 1 January	136,151	-	-	136,151
Net remeasurement of outstanding balance	(247,725)	-	-	(247,725)
New financial assets originated or purchased	475,541	-	-	475,541
Financial assets that have matured	(302,016)	-	-	(302,016)
Gross carrying amount as at 31 December 2019	61,951	-	-	61,951

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2019 Group and Bank				
ECL allowance as at 1 January 2019	812	-	-	812
Writeback made during the year (Note 29)	(731)	-	-	(731)
ECL allowance as at 31 December 2019	81	-	-	81
Net carrying amount (after ECL)	61,870	-	-	61,870

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4 CASH AND SHORT-TERM FUNDS

4.1 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: (Cont'd.)

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2018				
Group and Bank				
Gross carrying amount as at 1 January 2018	429,575	-	-	429,575
Net remeasurement of outstanding balance	(153,618)	-	-	(153,618)
New financial assets originated	4,558	-	-	4,558
Financial assets that have matured	(144,364)	-	-	(144,364)
Gross carrying amount as at 31 December 2018	136,151	-	-	136,151

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2018				
Group and Bank				
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	2,724	-	-	2,724
ECL allowance as at 1 January 2018, as restated	2,724	-	-	2,724
Writeback made during the year (Note 29)	(1,912)	-	-	(1,912)
ECL allowance as at 31 December 2018	812	-	-	812
Net carrying amount (after ECL)	135,339	-	-	135,339

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5 PLACEMENTS OF INVESTMENT ACCOUNTS WITH BANK NEGARA MALAYSIA

Bank Negara Malaysia ^

Group and Bank	
2019	2018
RM'000	RM'000
6,820	5,755

^ The placement with Bank Negara Malaysia are funded by investment accounts of customers as disclosed in Note 21.

6 GOLD DEPOSITORY

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

7 FINANCIAL ASSETS AT FVTPL

At fair value
Collective Investment Scheme

Group and Bank	
2019	2018
RM'000	RM'000
219	1,059

8 DEBT INSTRUMENTS MEASURED AT FVOCI

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

Group	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	3,647,186	-	-	3,647,186
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,647,186	-	-	3,647,186

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

<u>Group</u>	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,889,238	-	-	2,889,238
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	2,889,238	-	-	2,889,238

<u>Bank</u>	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	3,647,186	-	-	3,647,186
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	3,647,186	-	-	3,647,186

<u>Bank</u>	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	2,876,991	-	-	2,876,991
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	2,876,991	-	-	2,876,991

<u>Group</u>	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value amount as at 31 December 2019	3,647,186	-	-	3,647,186

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

<u>Group</u>	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2019	19,505	-	-	19,505
Allowance made during the year (Note 29 and 35)	5,795	-	-	5,795
ECL allowance as at 31 December 2019	25,300	-	-	25,300

<u>Group</u>	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value amount as at 31 December 2018	2,889,238	-	-	2,889,238

<u>Group</u>	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	3,500	-	-	3,500
ECL allowance as at 1 January, as restated	3,500	-	-	3,500
Allowance made during the year (Note 29 and 35)	16,005	-	-	16,005
ECL allowance as at 31 December 2018	19,505	-	-	19,505

<u>Bank</u>	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value amount as at 31 December 2019	3,647,186	-	-	3,647,186

<u>Bank</u>	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2019	19,500	-	-	19,500
Allowance made during the year (Note 29)	5,800	-	-	5,800
ECL allowance as at 31 December 2019	25,300	-	-	25,300

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

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

Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Fair value amount as at 31 December 2018	2,876,991	-	-	2,876,991

Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	3,136	-	-	3,136
ECL allowance as at 1 January, as restated	3,136	-	-	3,136
Allowance made during the year (Note 29)	16,364	-	-	16,364
ECL allowance as at 31 December 2018	19,500	-	-	19,500

9 EQUITY INSTRUMENTS MEASURED AT FVOCI

The table below shows the fair value of the Bank's equity instruments measured at FVOCI.

	Group and Bank	
	2019 RM'000	2018 RM'000
Musarakah Capital Investment	18	18
	18	18

The Bank grants Musarakah 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 Musarakah capital investment which is carried at fair value. The Bank's participation in the entities involved is limited to safeguarding its interest under the Musarakah financing.

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10 FINANCING, ADVANCES AND OTHER RECEIVABLES

	Group and Bank	
	2019 RM'000	2018 RM'000
(i) At amortised cost		
Term financing		
- House financing	1,134,160	1,107,677
- Personal financing	1,124,529	1,168,414
- Cashline financing	9,401	9,702
- Syndicated financing	125,408	241,462
- Hire purchase receivables	725,036	775,243
- Other term financing	1,896,856	2,501,276
Credit card	144	266
Staff financing	26,612	22,751
	5,042,146	5,826,791
Less: Impairment allowances		
- Stage 1 Financing	(79,727)	(70,970)
- Stage 2 Financing	(15,930)	(15,681)
- Stage 3 Financing	(156,413)	(145,125)
Net financing and advances to customers	4,790,076	5,595,015
Less: Impairment allowances		
- Stage 1 Undrawn	(1,615)	(765)
- Stage 1 Trade facilities	(1,838)	(1,838)
- Stage 2 Trade facilities	(210)	(140)
Net financing, advances and other receivables	4,786,413	5,592,272
(ii) By contract		
Ijarah Muntahia Bittamlik/AI-Ijarah Thumma Al-Bai' (lease ended with ownership)	2,143,284	2,290,390
Murabahah (cost-plus)	2,832,442	3,448,334
Mudharabah (profit sharing)	43,705	43,705
Qard (benevolent financing) (Note 10(x))	1,540	1,375
Musyarakah (profit and loss sharing)	20,056	41,686
Istisna'	975	1,035
Ujrah	144	266
	5,042,146	5,826,791

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

	Group and Bank	
	2019 RM'000	2018 RM'000
(iii) By type of customer		
Domestic business enterprises		
- Small medium enterprises	342,311	474,457
- Others	1,672,384	2,252,739
Individuals	3,027,451	3,096,703
Domestic non-bank financial institutions	-	2,892
	5,042,146	5,826,791
(iv) By residual contractual maturity		
Maturity within one year	1,755,059	2,313,351
More than one year to three years	76,068	107,006
More than three years to five years	320,119	378,512
More than five years	2,890,900	3,027,922
	5,042,146	5,826,791
(v) By geographical distribution		
Malaysia	5,037,237	5,820,106
Middle East	3,552	3,884
Other countries	1,357	2,801
	5,042,146	5,826,791
(vi) By profit rate sensitivity		
Fixed rate		
- House financing	3,047	3,977
- Hire purchase receivables	725,036	775,243
- Syndicated financing	125,408	241,462
- Term financing	1,036,857	1,004,567
Variable		
- House financing	1,131,505	1,104,027
- Term financing	2,020,293	2,697,515
	5,042,146	5,826,791

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

	Group and Bank	
	2019 RM'000	2018 RM'000
(vii) By sector		
Construction	386,105	606,867
Electricity, gas and water	100,142	111,710
Finance, insurance and business services	98,203	116,038
Household	3,027,451	3,095,326
Manufacturing	213,772	376,298
Mining and quarrying	166	104
Agriculture, hunting, forestry & fishing	205,394	310,657
Real Estate	407,930	528,265
Transports, storage and communication	127,315	149,340
Wholesale & retail trade and restaurants & hotels	454,907	497,634
Others	20,761	34,552
	5,042,146	5,826,791
(viii) By economic purpose		
Purchase of transport vehicles	729,911	779,041
Purchase of landed properties		
- residential	1,158,623	1,140,608
- non-residential	264,281	373,659
Purchase of fixed assets	5,964	18,572
Working capital	1,391,529	1,767,087
Construction	139,658	168,964
Personal use	1,145,537	1,193,098
Other purposes	206,643	385,762
	5,042,146	5,826,791

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

(ix) Financing by type and shariah contract

	Group and Bank							Total
	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	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2019								
House financing	1,123,350	80	-	9,755	-	975	-	1,134,160
Personal financing	-	1,123,411	-	-	1,118	-	-	1,124,529
Syndicated financing	-	125,408	-	-	-	-	-	125,408
Cashline financing	-	9,401	-	-	-	-	-	9,401
Hire purchase receivables	725,036	-	-	-	-	-	-	725,036
Other term financing	273,863	1,569,161	43,705	10,127	-	-	-	1,896,856
Staff financing	21,035	4,981	-	174	422	-	-	26,612
Credit card	-	-	-	-	-	-	144	144
	2,143,284	2,832,442	43,705	20,056	1,540	975	144	5,042,146

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

(ix) Financing by type and shariah contract (Cont'd.)

	Group and Bank							Total
	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	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2018								
House financing	1,090,568	74	-	16,000	-	1,035	-	1,107,677
Personal financing	-	1,167,721	-	-	1,013	-	-	1,168,734
Syndicated financing	45,711	195,751	-	-	-	-	-	241,462
Cashline financing	-	9,702	-	-	-	-	-	9,702
Hire purchase receivables	775,243	-	-	-	-	-	-	775,243
Other term financing	361,876	2,069,874	43,705	25,500	-	-	-	2,500,955
Staff financing	16,992	5,212	-	186	362	-	-	22,752
Credit card							266	266
	2,290,390	3,448,334	43,705	41,686	1,375	1,035	266	5,826,791

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

	Group and Bank	
	2019 RM'000	2018 RM'000
(x) Purpose and Source of Qard financing		
As at 1 January	1,375	931
Source of Qard fund:	1,326	1,464
- Depositors' Fund	1,062	1,193
- Shareholders' Fund	264	271
Uses of Qard fund:	(1,161)	(1,020)
- Financing for asset purchase	(930)	(831)
- Staff Benevolent	(231)	(189)
As at 31 December (Note 10(ii))	1,540	1,375
(xi) Movements in impaired financing, advances and other receivables		
At 1 January	267,288	418,478
- Impaired during the year	119,508	67,393
- Reclassified to performing during the year	(5,637)	(13,451)
- Amount recovered	(67,273)	(123,358)
- Amount written off	(13,323)	(81,774)
Reinstatement of previously written down accounts	863	-
At 31 December	301,426	267,288
Ratio of net impaired financing, advances and other receivables to gross financing, advances and other receivables less Stage 3 impairment	2.97%	2.15%
(xii) Movements in impairment allowances on financing, advances and other receivables		
Stage 1 and 2 impairment		
Collective allowance as at 1 January 2018, as previously stated	-	122,222
Effect on MFRS 9 adoption	-	(42,672)
As at 1 January	89,394	79,550
Allowance made during the year (Note 29)	9,926	9,844
At 31 December	99,320	89,394
As % of total gross financing, advances and other receivables less Stage 3 impairment	2.03%	1.57%

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

	Group and Bank	
	2019 RM'000	2018 RM'000
(xii) Movements in impairment allowances on financing, advances and other receivables (cont'd.)		
Stage 3 impairment		
At 1 January	145,125	263,873
Allowance made/(writeback) during the year (Note 29)	23,748	(36,974)
<i>Allowance charged during the year</i>	72,088	57,842
<i>Allowance written-back during the year</i>	(48,340)	(94,816)
Amount written off	(13,323)	(81,774)
Reinstatement of previously written down accounts	863	-
At 31 December	156,413	145,125
(xiii) Impaired financing by sector		
Finance, insurance and business services	7,624	8,954
Household	38,668	20,743
Manufacturing	83,110	113,524
Real Estate	161,270	111,833
Wholesale & retail trade and restaurants & hotels	10,754	12,234
	301,426	267,288

(xiv) Impairment allowance for financing, advances and other receivables

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	4,481,840	-	-	4,481,840
Past due but not impaired	-	258,880	-	258,880
Individually impaired	-	-	301,426	301,426
Total	4,481,840	258,880	301,426	5,042,146

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

(xiv) Impairment allowance for financing, advances and other receivables (Cont'd.)

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	5,423,140	-	-	5,423,140
Past due but not impaired	-	136,363	-	136,363
Individually impaired	-	-	267,288	267,288
Total	5,423,140	136,363	267,288	5,826,791

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2019	5,423,140	136,363	267,288	5,826,791
Transfer to 12-month ECL	30,341	(29,388)	(953)	-
Transfer to lifetime ECL not credit impaired	(64,479)	65,796	(1,317)	-
Transfer to lifetime ECL credit impaired	(13,158)	(12,529)	25,687	-
Net remeasurement of outstanding balance	(196,332)	143,986	261,239	208,893
New financial assets originated	1,984,967	-	-	1,984,967
Financial assets that have matured	(2,682,640)	(45,347)	(237,195)	(2,965,182)
Write-offs	-	-	(13,323)	(13,323)
Gross carrying amount as at 31 December 2019	4,481,839	258,881	301,426	5,042,146

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

(xiv) Impairment allowance for financing, advances and other receivables (Cont'd.)

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2019	73,573	15,821	145,125	234,519
Transfer to 12-month ECL	2,260	(1,712)	(548)	-
Transfer to lifetime ECL not credit impaired	(743)	918	(175)	-
Transfer to lifetime ECL credit impaired	(175)	(722)	897	-
Allowance made during the year	8,265	1,835	23,574	33,674
Reinstatement of previously written down accounts	-	-	863	863
Write-offs	-	-	(13,323)	(13,323)
ECL allowance as at 31 December 2019	83,180	16,140	156,413	255,733
Net carrying amount (after ECL)	4,398,659	242,741	145,013	4,786,413

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	5,386,012	178,252	418,478	5,982,742
Transfer from/(to) 12-month ECL	40,576	(32,313)	(8,263)	-
Transfer (to)/from lifetime ECL not credit impaired	(46,356)	49,832	(3,476)	-
Transfer (to)/from lifetime ECL credit impaired	(11,302)	(12,562)	23,864	-
New financial assets originated/ (financial assets repaid)	54,210	(46,846)	(81,541)	(74,177)
Write-offs	-	-	(81,774)	(81,774)
Gross carrying amount as at 31 December 2018	5,423,140	136,363	267,288	5,826,791

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

(xiv) Impairment allowance for financing, advances and other receivables (Cont'd.)

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 : (Cont'd.)

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effect of MFRS 9 adoption	73,582	5,968	263,873	343,423
ECL allowance as at 1 January 2018, as restated	73,582	5,968	263,873	343,423
Transfer to 12-month ECL	4,479	(2,739)	(1,740)	-
Transfer to lifetime ECL not credit impaired	(618)	1,345	(727)	-
Transfer to lifetime ECL credit impaired	(183)	(303)	486	-
Allowance/(writeback) made during the year	(3,687)	11,550	(34,993)	(27,130)
Write-offs	-	-	(81,774)	(81,774)
ECL allowance as at 31 December 2018	73,573	15,821	145,125	234,519
Net carrying amount (after ECL)	5,349,567	120,542	122,163	5,592,272

11. OTHER ASSETS

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits and prepayments		8,084	8,555	8,064	8,425
Amount due from subsidiaries	(i)	-	-	-	4
Amount due from other related parties parties	(i)	116,991	120,752	116,991	120,752
Fee receivable		276	1	276	1
Sundry debtors		4,043	4,117	4,043	4,120
		129,394	133,425	129,374	133,302

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

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12 HEDGING FINANCIAL INSTRUMENTS

Group and Bank	Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2019			
Forward foreign exchange related contracts	1,205,223	5,190	7,626
- in connection with fair value hedges	635,527	755	3,191
- other derivatives without a hedging relationship	569,696	4,435	4,435
Total	1,205,223	5,190	7,626
2018			
Forward foreign exchange related contracts	979,817	3,780	4,506
- in connection with fair value hedges	409,780	1,253	1,976
- other derivatives without a hedging relationship	570,037	2,527	2,530
Total	979,817	3,780	4,506

The Bank's derivatives designated for fair value hedges consists of forward foreign exchange related contracts that are used to protect against exposures to variability in foreign currency exchange rates. This hedging strategy is applied towards interbank borrowings and corporate customer deposits. The changes in the fair value of the forward foreign exchange contract and interbank borrowings or corporate customer deposits are recognised in the income statements. The measurement of the hedged item results in a net loss of RM1,740,421 recorded in unrealised gain/loss on revaluation of foreign exchange as at 31 December 2019 (2018: RM2,009,708).

13 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

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

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14 INVESTMENT IN SUBSIDIARIES

Unquoted shares, at cost
- in Malaysia

Bank	
2019	2018
RM'000	RM'000
10,200	10,200
10,200	10,200

Details of the subsidiaries are as follows:

Company	Principal Activities	Country of Incorporation	Equity interest held (%)	
			2019	2018
Kuwait Finance House (Labuan) Berhad (under member's voluntary liquidation as at 31 December 2019)	Offshore banking Offshore banking	Malaysia	100	100
KFH Nominees (Tempatan) Sdn. Bhd.	Nominee ee services	Malaysia	100	100

15 RIGHT OF USE OF ASSETS AND LEASE LIABILITIES

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

As at 1 January 2019
Depreciation expense
As at 31 December 2019

Group and Bank			
Buildings	Office Equipments	Motor Vehicles	Total
RM'000	RM'000	RM'000	RM'000
95,156	397	872	96,425
(13,449)	(116)	(314)	(13,879)
81,707	281	558	82,546

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

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

	Group and Bank			
	Buildings	Office Equipments	Motor Vehicles	Total
	RM'000	RM'000	RM'000	RM'000
As at 1 January 2019	95,156	397	872	96,425
Accretion of profit	3,560	14	30	3,604
Payment	(15,460)	(125)	(332)	(15,917)
As at 31 December 2019	83,256	286	570	84,112

The following are the amounts recognised in profit or loss:

	Group and Bank
	RM'000
Depreciation expense of right-of-use assets	13,879
Profit expense on lease liabilities	3,604
Total amount recognised in profit or loss	17,483

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group and Bank
	RM'000
Operating lease commitments as at 31 December 2018	112,952
Weighted average incremental borrowing rate as at 1 January 2019	4.07%
Discounted operating lease commitments as at 1 January 2019	96,545
Less :	
Commitments relating to short-term leases	(171)
Commitments with updated lease rates in 2019	53
Low value commitments	(2)
Lease liabilities as at 1 January 2019	96,425

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16 PROPERTY AND EQUIPMENT

	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
Group 2019							
<u>Cost</u>							
At 1 January	29,231	10,467	12,885	37,246	2,602	10,636	103,067
Additions	37	55	49	1,578	-	5,822	7,541
Disposals	-	-	(3)	(1,117)	(1,975)	-	(3,095)
Write-offs	-	(5)	(26)	-	-	(273)	(304)
Transfers	-	-	-	900	-	(3,122)	(2,222)
Exchange difference	(2)	(6)	(6)	(2)	-	(6)	(22)
At 31 December	29,266	10,511	12,899	38,605	627	13,057	104,965
<u>Accumulated depreciation</u>							
At 1 January	26,879	10,314	12,816	29,218	2,260	-	81,487
Charge for the year (Note 33 and 35)	545	58	44	3,006	124	-	3,777
Disposals	-	-	(3)	(1,102)	(1,974)	-	(3,079)
Write-offs	-	(5)	(26)	-	-	-	(31)
Exchange difference	-	(5)	(5)	(5)	-	-	(15)
At 31 December	27,424	10,362	12,826	31,117	410	-	82,139
<u>Net book value</u>							
At 31 December	1,842	149	73	7,488	217	13,057	22,826
Bank 2019							
<u>Cost</u>							
At 1 January	29,147	10,432	12,857	37,125	2,602	10,630	102,793
Additions	37	55	49	1,578	-	5,822	7,541
Disposals	-	-	(3)	(1,117)	(1,975)	-	(3,095)
Write-offs	-	(5)	(26)	-	-	(273)	(304)
Transfers	-	-	-	900	-	(3,122)	(2,222)
At 31 December	29,184	10,482	12,877	38,486	627	13,057	104,713
<u>Accumulated depreciation</u>							
At 1 January	26,794	10,288	12,792	29,105	2,260	-	81,239
Charge for the year (Note 33 and 35)	545	52	38	2,998	124	-	3,757
Disposals	-	-	(3)	(1,102)	(1,973)	-	(3,078)
Write-offs	-	(5)	(26)	-	-	-	(31)
At 31 December	27,339	10,335	12,801	31,001	411	-	81,887
<u>Net book value</u>							
At 31 December	1,845	147	76	7,485	216	13,057	22,826

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16 PROPERTY AND EQUIPMENT (Cont'd.)

Group 2018	Renovation RM'000	Furniture & fittings RM'000	Office equipment RM'000	Computer hardware RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost</u>							
At 1 January	28,010	11,668	13,014	29,990	2,602	18,539	103,823
Additions	140	144	35	405	-	16,980	17,704
Disposals	(1,136)	(1,345)	(164)	(138)	-	-	(2,783)
Transfers	2,216	-	-	6,988	-	(24,883)	(15,679)
Exchange difference	1	-	-	1	-	-	2
At 31 December	29,231	10,467	12,885	37,246	2,602	10,636	103,067
<u>Accumulated depreciation</u>							
At 1 January	27,740	11,556	12,848	27,295	2,103	-	81,542
Charge for the year (Note 33 and 35)	273	105	128	2,058	157	-	2,721
Disposals	(1,136)	(1,347)	(160)	(138)	-	-	(2,781)
Exchange difference	2	-	-	3	-	-	5
At 31 December	26,879	10,314	12,816	29,218	2,260	-	81,487
<u>Net book value</u>							
At 31 December	2,352	153	69	8,028	342	10,636	21,580
Bank 2018							
<u>Cost</u>							
At 1 January	27,386	11,585	12,926	29,732	2,602	18,305	102,536
Additions	140	144	27	405	-	16,845	17,561
Disposals	(595)	(1,297)	(96)	-	-	-	(1,988)
Transfers	2,216	-	-	6,988	-	(24,520)	(15,316)
At 31 December	29,147	10,432	12,857	37,125	2,602	10,630	102,793
<u>Accumulated depreciation</u>							
At 1 January	27,115	11,482	12,760	27,056	2,103	-	80,516
Charge for the year (Note 33 and 35)	273	103	125	2,049	157	-	2,707
Disposals	(594)	(1,297)	(93)	-	-	-	(1,984)
At 31 December	26,794	10,288	12,792	29,105	2,260	-	81,239
<u>Net book value</u>							
At 31 December	2,353	144	65	8,020	342	10,630	21,554

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17 INTANGIBLE ASSETS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Computer software				
<u>Cost</u>				
At 1 January	88,967	72,603	87,103	71,039
Additions	1,013	1,034	1,002	748
Disposal	-	(19)	-	-
Write off	(576)	-	(576)	-
Transfers from property and equipment	2,222	15,679	2,222	15,316
Exchange difference	(19)	(330)	-	-
At 31 December	91,607	88,967	89,751	87,103
<u>Accumulated amortisation</u>				
At 1 January	66,649	62,002	65,177	60,660
Amortisation for the year (Note 33 and 35)	6,006	4,635	5,605	4,517
Disposal	-	(19)	-	-
Write off	(531)	-	(531)	-
Exchange difference	(17)	31	-	-
At 31 December	72,107	66,649	70,251	65,177
<u>Carrying amount</u>				
At 31 December	19,500	22,318	19,500	21,926

18 DEFERRED TAXATION

	Group and Bank	
	2019 RM'000	2018 RM'000
At 1 January	181,806	196,775
Recognised in other comprehensive income	(26,580)	(3,727)
Recognised in profit and loss (Note 37)	(110,045)	(11,242)
At 31 December	45,181	181,806
Presented after appropriate offsetting as follows:		
Deferred tax assets	76,362	187,510
Deferred tax liabilities	(31,181)	(5,704)
Deferred tax assets (net)	45,181	181,806

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18 DEFERRED TAXATION (Cont'd.)

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

Deferred tax assets of the Group and Bank:	Unrealised loss on securities FVOCI RM'000	Unutilised tax losses RM'000	Other temporary differences RM'000	Total RM'000
2019				
At 1 January	-	175,282	12,228	187,510
Recognised in profit or loss	-	(135,908)	24,760	(111,148)
At 31 December	-	39,374	36,988	76,362
2018				
At 1 January	2,078	188,774	7,754	198,606
Recognised in profit or loss	-	(13,492)	4,474	(9,018)
Recognised in other comprehensive income	(2,078)	-	-	(2,078)
At 31 December	-	175,282	12,228	187,510

Deferred tax liabilities of the Group and Bank:	Unrealised gain on securities FVOCI RM'000	Accelerated capital allowances RM'000	Total RM'000
2019			
At 1 January	1,649	4,055	5,704
Recognised in profit or loss	-	(1,103)	(1,103)
Recognised in comprehensive income	26,580	-	26,580
At 31 December	28,229	2,952	31,181
2018			
At 1 January	-	1,831	1,831
Recognised in profit or loss	-	2,224	2,224
Recognised in comprehensive income	1,649	-	1,649
At 31 December	1,649	4,055	5,704

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18 DEFERRED TAXATION (Cont'd.)

Unutilised tax losses

At the reporting date, the Group and the Bank have recognised deferred tax asset on the following temporary difference:

	Group	
	2019 RM'000	2018 RM'000
Unutilised tax losses	164,058	730,342
	164,058	730,342

The deferred tax assets have been recognised as at 31 December 2019 as the directors are of the view that it is probable for the Group to realise the deferred tax asset.

In evaluating the ability to realise the deferred tax assets, the Group relies principally on forecasted taxable income using historical and projected future operating results and the reversal of existing temporary differences within six years horizon.

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

	Group	
	2019 RM'000	2018 RM'000
Unutilised tax losses	637,900	141,770
	637,900	141,770

The unutilised tax losses above are available for offset against future taxable profits of the Bank and the subsidiaries respectively up to year of assessment 2025.

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

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19 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
(i) By type of deposit				
Qard				
- Demand deposits	302,251	517,846	319,165	426,712
- Gold deposits	84,341	96,341	84,341	96,341
Wakalah	471	12,226	-	-
Murabahah				
- Term placement	4,632,527	3,845,469	4,632,527	3,845,469
- Savings deposits	102,048	107,117	102,049	107,118
	5,121,638	4,578,999	5,138,082	4,475,640
(ii) By type of customer				
Business enterprises	2,733,778	1,907,774	2,663,864	1,726,484
Individuals	364,479	371,946	364,479	371,946
Subsidiaries	-	-	86,357	77,930
Government and statutory bodies	1,591,688	1,659,101	1,591,689	1,659,101
Others	431,693	640,178	431,693	640,179
	5,121,638	4,578,999	5,138,082	4,475,640
(iii) By contractual maturity				
Due within six months	3,353,049	3,719,085	3,372,017	3,615,726
More than six months to one year	1,479,201	634,221	1,507,828	634,221
More than one year to three years	289,388	225,693	258,237	225,693
	5,121,638	4,578,999	5,138,082	4,475,640

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20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>Murabahah</u>				
Licensed Islamic banks	70,560	255,850	70,560	255,850
Other financial institutions	1,983,190	2,650,891	1,983,190	2,780,736
	2,053,750	2,906,741	2,053,750	3,036,586

21 INVESTMENT ACCOUNTS

	Group and Bank	
	2019 RM'000	2018 RM'000
As at 1 January	5,755	8,218
Net placement/(withdrawal) during the year	964	(2,597)
Income from investment	170	226
Profit distributed to mudarib	(69)	(92)
As at 31 December	6,820	5,755
Investment asset: Wadiah placement with BNM (Note 5)	6,820	5,755

Profit Sharing Ratio, Rate of Return and Performance Incentive Fee

	Investment account holder			
	Average profit sharing ratio		Average rate of return	
	Group and Bank			
	2019 (%)	2018 (%)	2019 (%)	2018 (%)
Unrestricted investment accounts:				
Less than 3 months	60	60	1.84	1.90

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21 INVESTMENT ACCOUNTS (Cont'd.)

	Group and Bank	
	2019 RM'000	2018 RM'000
Business enterprises	3,126	1,197
Individuals	3,561	2,846
Other enterprises	133	1,712
	6,820	5,755

22 OTHER LIABILITIES

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Sundry creditors	(i)	40,490	59,903	40,465	59,817
Accrued restoration cost		5,595	5,600	5,595	5,600
Other provisions and accruals		37,940	32,552	37,663	32,437
Undistributed charity	(ii)	1,136	3,192	1,136	3,192
		85,161	101,247	84,859	101,046

(i) Included in sundry creditors is an amount payable to holding company of RM4.7 million (2018: RM4.6 million) arising from revenue streams of Specific Profit Sharing Investment Accounts ("SPSIA").

(ii) Sources and uses of charity funds:

	Group and Bank	
	2019 RM'000	2018 RM'000
Sources of charity funds:		
Undistributed charity funds as at 1 January	3,192	2,760
Penalty charges on late payment	1,836	664
Total sources of funds during the year	5,028	3,424
Uses of charity funds:		
Compensation of recovery costs	(3,836)	-
Contribution to non profit organisations	(20)	(85)
Aid to needy family	(36)	(147)
Total uses of funds during the year	(3,892)	(232)
Undistributed charity funds as at 31 December	1,136	3,192

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23 PROVISION FOR ZAKAT

In 2019, zakat is calculated based on opening reserve method of Kuwait Finance House (Malaysia) and paid by Kuwait Finance House K.S.C who is the main shareholder of the Bank.

24 SHARE CAPITAL

	Number of ordinary shares at RM1.00 each		Amount	
	2019 Units'000	2018 Units'000	2019 RM'000	2018 RM'000
Issued and fully paid:				
At 1 January/ At 31 December	1,425,272	1,425,272	1,425,272	1,425,272

25 RESERVES

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-distributable					
Statutory reserve	(i)	170,648	170,648	170,648	170,648
Exchange fluctuation	(ii)	3,546	3,990	-	-
FVOCI reserve	(iii)	117,800	18,527	117,800	18,707
		291,994	193,165	288,448	189,355
Distributable					
Retained earnings		91	79,114	(2,325)	54,051
		292,085	272,279	286,123	243,406

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

(i) Statutory reserve

The statutory reserve is maintained in compliance with Capital Funds for Islamic Banks Guideline issued on 1 July 2013 and is not distributable as cash dividends.

(ii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries.

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25 RESERVES (Cont'd.)

(iii) FVOCI Reserve

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

Movements of the FVOCI reserve are as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At 1 January				
- As previously stated	-	(6,825)	-	(6,648)
- Effect of MFRS 9 adoption	-	3,442	-	3,078
At 1 January	18,527	(3,383)	18,707	(3,570)
Net unrealised gain on financial assets at FVOCI	93,196	6,077	93,193	6,085
Net realised loss/(gain) on financial assets at FVOCI reclassified to the income statements	282	(172)	100	(172)
Changes in allowances for expected credit losses	5,795	16,005	5,800	16,364
At 31 December	117,800	18,527	117,800	18,707

26. OPERATING REVENUE

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

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

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27 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group and Bank	
	2019 RM'000	2018 RM'000
<u>Continuing Operations</u>		
Finance income from financing, advances and other receivables	236,428	265,976
Finance income from impaired financing	3,469	2,477
Finance income from securities		
- Financial assets at FVTPL	-	9
- Financial assets at FVOCI	101,482	92,646
Money-at-call and deposits with financial institutions	2,497	7,677
	343,876	368,785
Amortisation of premium less accretion of discount	(4,643)	(4,690)
Total finance income and hibah	339,233	364,095
Gain arising from sale of securities		
- Financial assets at FVTPL	1	277
- Financial assets at FVOCI	2,872	140
Foreign exchange (loss)/gain - realised	(3,792)	1,186
Gain on Ijarah rental swap obligations	-	1,170
	338,314	366,868

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28 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S EQUITY

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Continuing Operations				
Finance income from financing, advances and other receivables	83,221	59,822	83,221	59,822
Finance income from impaired financing	1,240	551	1,240	551
Finance income from securities				
- Financial assets at FVTPL	-	2	-	2
- Financial assets at FVOCI	36,835	20,824	36,835	20,824
Money-at-call and deposits with financial institutions	779	1,711	779	1,711
	122,075	82,910	122,075	82,910
Amortisation of premium less accretion of discount	(1,698)	(1,055)	(1,698)	(1,055)
Total finance income and hibah	120,377	81,855	120,377	81,855
Fee income				
- Commissions	3,709	5,644	3,709	5,644
- Other fee income	7,265	6,124	7,144	6,004
Gain arising from sale of securities				
- Financial assets at FVTPL	-	63	-	63
- Financial assets at FVOCI	1,207	32	1,207	32
Unrealised loss on revaluation of securities held-for-trading and Ijarah rental swap (net)	-	(1,498)	-	(1,498)
Fair value loss from financial assets at FVTPL	-	(6,705)	-	(6,705)
Foreign exchange related contract gain/(loss)				
- Realised	1,770	(5,001)	1,770	(5,001)
- Unrealised	687	3,166	687	3,166
Gain on Ijarah rental swap obligations	-	262	-	262
Gain on disposal of property and equipment	334	13	334	13
Gross dividend from subsidiary	-	-	24,720	-
Management fee	120	120	120	120
	135,469	84,075	160,068	83,955

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29 CREDIT LOSS (CHARGE)/WRITEBACK

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

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2019 Group				
Cash and short terms funds	731	-	-	731
Financing and advances to customers	(9,606)	(320)	(23,748)	(33,674)
Bad debt recovered	-	-	11,680	11,680
Debt instruments measured at FVOCI	(5,800)	-	-	(5,800)
Total impairment charge	(14,675)	(320)	(12,068)	(27,063)

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2018 Group				
Cash and short terms funds	1,912	-	-	1,912
Deposits and placements with banks and other financial institutions	712	-	-	712
Financing and advances to customers	9	(9,853)	36,974	27,130
Bad debt recovered	-	-	19,456	19,456
Debt instruments measured at FVOCI	(16,364)	-	-	(16,364)
Total impairment (charge)/writeback	(13,731)	(9,853)	56,430	32,846

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29 CREDIT LOSS (CHARGE)/WRITEBACK (Cont'd.)

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2019				
Bank				
Cash and short terms funds	731	-	-	731
Financing and advances to customers	(9,606)	(320)	(23,748)	(33,674)
Bad debt recovered	-	-	11,680	11,680
Debt instruments measured at FVOCI	(5,800)	-	-	(5,800)
Total impairment charge	(14,675)	(320)	(12,068)	(27,063)

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2018				
Bank				
Cash and short terms funds	1,912	-	-	1,912
Deposits and placements with banks and other financial institutions	712	-	-	712
Financing and advances to customers	9	(9,853)	36,974	27,130
Bad debt recovered	-	-	19,456	19,456
Debt instruments measured at FVOCI	(16,364)	-	-	(16,364)
Total impairment (charge)/writeback	(13,731)	(9,853)	56,430	32,846

30 INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Continuing Operations				
Deposits from customers				
- Murabahah	151,357	144,013	151,357	144,013
Deposits and placements of banks and other financial institutions				
- Murabahah and wakalah	96,740	92,963	96,740	92,938
- Others	539	1,116	539	1,116
	248,636	238,092	248,636	238,067

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31 PROFIT DISTRIBUTED TO INVESTMENT ACCOUNT HOLDERS

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

Group and Bank	
2019	2018
RM'000	RM'000
170	226
(69)	(92)
101	134

32 PERSONNEL EXPENSES

Continuing Operations

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	52,571	60,142	52,571	60,142
Social security costs	355	397	355	397
Pension costs - defined contribution plan	10,411	11,115	10,411	11,115
Other staff related costs	24,591	36,318	24,591	36,318
	87,928	107,972	87,928	107,972

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

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Chief Executive Officer (January 2019 to December 2019)

Name	Position	Salary and other remuneration*	Bonus	Employees Provident Fund	Benefit in kinds	Total
2019		RM'000	RM'000	RM'000	RM'000	RM'000
David Raymond Power	Chief Executive Officer	669	-	-	59	728
Md.Adnan Bin Md.Zain	Chief Executive Officer	401	-	16	7	424
	Total	1,070	-	16	66	1,152
2018		RM'000	RM'000	RM'000	RM'000	RM'000
David Raymond Power	Chief Executive Officer	2,890	2,500	-	208	5,598
	Total	2,890	2,500	-	208	5,598

* includes leave encashment, gratuity, income tax, home passage and housing allowances.

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

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33 OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Promotion				
Advertisement and publicity	1,395	2,167	1,395	2,167
Establishment				
Rental	555	15,809	554	15,807
Depreciation of property and equipment (Note 16)	3,757	2,707	3,757	2,707
Amortisation of intangible assets (Note 17)	5,605	4,517	5,605	4,517
IT expenses	10,251	10,139	10,251	10,139
Hire of equipment	351	485	351	485
Depreciation of right of use assets	13,879	-	13,879	-
	35,793	35,824	35,792	35,822
General expenses				
Auditors remuneration				
- Statutory audit:	442	333	442	333
- Non-audit services:	378	626	378	626
- Review engagements and regulatory-related services	347	557	347	557
- Other services	31	69	31	69
Professional fees	4,897	2,463	4,897	2,463
Directors' remuneration (Note 36)	2,430	2,694	2,430	2,694
Shariah Committee's remuneration (Note 36)	780	782	780	782
Communication expenses	2,412	2,340	2,412	2,340
Other fees	13,058	15,771	13,058	15,771
Write-off of property and equipment	318	-	318	-
Others	17,043	22,913	17,044	22,915
	41,758	47,922	41,759	47,924
Total overheads and expenditures	77,551	83,746	77,551	83,746

34 FINANCE COST

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Subordinated Murabahah Tawarruq	-	25,871	-	25,871
Profit expenses on lease liabilities	3,604	-	3,604	-
	3,604	25,871	3,604	25,871

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34 FINANCE COST

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 is unsecured effective from 31 May 2007 and forms part of the Bank's Tier-2 capital. The profit rate charged on the principal is at a fixed rate of 8.25% starting from 7 February 2017 with a revolving maturity of 3 months. The facility was fully repaid on 7 October 2018.

35 DISCONTINUED OPERATIONS

During the financial year, the Bank's subsidiary involved in offshore banking commenced member's voluntary liquidation. As at 31 December 2019, KFH Labuan was classified as discontinued operations. The result of KFH Labuan for the year are presented below :

		2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	(i)	6,795	4,276
Income derived from investment of shareholder's equity	(ii)	2,288	2,251
Total gross income		9,083	6,527
Credit loss writeback on financial assets	(iii)	5	359
Total distributable income		9,088	6,886
Income attributable to the depositors	(iv)	(5,045)	(1,292)
Total net income		4,043	5,594
Personnel expenses	(v)	(413)	(611)
Other overheads and expenditures	(vi)	(1,627)	(1,013)
Profit before zakat and taxation		2,003	3,970
Taxation		(51)	(20)
Net profit after zakat and taxation		1,952	3,950

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35 DISCONTINUED OPERATIONS (Cont'd.)

(i) Income Derived from Investment of Depositors' Funds and Others

	2019 RM'000	2018 RM'000
Securities		
- Financial assets at FVOCI	129	194
Money-at-call and deposits with financial institutions	5,835	3,066
Total finance income and hibah	5,964	3,260
Gain arising from sale of securities		
- Financial assets at FVOCI	1	-
Foreign exchange gain - realised	830	1,016
	6,795	4,276

(ii) Income Derived from Investment of Shareholders' Equity

	2019 RM'000	2018 RM'000
Securities		
- Financial assets at FVOCI	27	35
Money-at-call and deposits with financial institutions	1,207	546
Total finance income and hibah	1,234	581
Fee income		
- Fund management fee	-	781
Foreign exchange related contract gain		
- Realised	172	181
- Unrealised	277	196
Other income	605	512
	2,288	2,251

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35 DISCONTINUED OPERATIONS (Cont'd.)

(iii) Credit loss writeback on financial assets

2019

Debt instruments measured at FVOCI
Total impairment writeback

Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
5	-	-	5
5	-	-	5

2018

Debt instruments measured at FVOCI
Total impairment writeback

Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
359	-	-	359
359	-	-	359

(iv) INCOME ATTRIBUTABLE TO DEPOSITORS

Deposits from customers
- Murabahah
- Wakalah

Deposits and placements of banks and other financial institutions
- Murabahah and wakalah

2019 RM'000	2018 RM'000
798	282
4,247	985
-	25
5,045	1,292

(v) PERSONNEL EXPENSES

Salaries and wages
Social security costs
Pension costs - defined contribution plan
Other staff related costs

2019 RM'000	2018 RM'000
243	349
2	3
51	70
117	189
413	611

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35 DISCONTINUED OPERATIONS (Cont'd.)

(vi) OTHER OVERHEADS AND EXPENDITURES

	2019 RM'000	2018 RM'000
Promotion		
Advertisement and publicity	1	9
Establishment		
Rental	57	68
Depreciation of property and equipment	20	14
Amortisation of intangible assets	401	118
Hire of equipment	2	2
	481	211
	2019 RM'000	2018 RM'000
General expenses		
Auditors remuneration		
- Statutory audit:	19	18
Professional fees	134	17
Directors' remuneration (Note 36)	10	20
Communication expenses	64	76
Others	919	671
	1,146	802
Total overheads and expenditures	1,627	1,013

(vii) The net cash flows attributable to the discontinued operation are as follows:

	2019 RM'000	2018 RM'000
Cash flows from operating activities	(15,951)	436
Cash flows from investing activities	12,403	9,189
	(3,548)	9,625

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36 DIRECTORS' AND SHARIAH COMMITTEE'S REMUNERATION

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Directors of the Bank				
Fees	1,419	1,553	1,419	1,553
Other remuneration	1,011	1,141	1,011	1,141
	2,430	2,694	2,430	2,694
Directors of subsidiary company				
Fees	10	20	-	-
	10	20	-	-
Total Directors Remuneration*	2,440	2,714	2,430	2,694
Shariah Committee				
Fees	624	624	624	624
Other remuneration	156	158	156	158
Total Shariah Committee Remuneration	780	782	780	782

The number of directors of the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

	Bank	
	Number of directors	
	2019	2018
Directors		
RM1,000 - RM100,000	-	-
RM100,001 - RM150,000	1	-
RM150,001 - RM200,000	1	1
RM200,001 - RM250,000	1	-
RM250,001 - RM300,000	-	1
RM300,001 - RM400,000	3	4
RM400,001 - RM500,000	2	2
Total	8	8

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

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Directors' Remuneration (January 2019 to December 2019)

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

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

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit & Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
2019 Group								
Muad S M M AIOsaimi	Chairman	360	-	-	-	-	60	420
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	60	60	60	-	-	360
Ahmad S A A AIKharji	Non-independent executive director	180	-	-	-	-	35	215
Khalid Sufat	Independent non-executive director	191	64	-	64	37	26	382
Md Adnan Md Zain (Resigned with effect from 31 May 2019)	Independent non-executive director	85	-	26	26	26	27	190
Abdul Khalil Abdul Hamid	Independent non-executive director	191	-	64	37	64	63	419
Noorur Rahman Abbas Ali Abid	Independent non-executive director	185	60	35	25	35	-	340
Khalid Mahmood Bhaimia (Resigned with effect from 24 April 2019)	Independent non-executive director	57	-	19	19	19	-	114
Total		1,429	184	204	231	181	211	2,440

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Directors' Remuneration (January 2019 to December 2019)

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

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

Name of Directors	Position	Board of Directors Fee	Board Audit Committee Fee	Board Risk Management Committee Fee	Board Nominating And Remuneration Committee Fee	Board Credit & Committee Fee	Board Corporate Governance Committee Fee	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018 Group								
Muad S M M AIOsaimi	Chairman	340	-	-	-	-	60	400
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	5	60	60	-	55	360
Ahmad S A A AIKharji	Non-independent executive director	180	3	-	3	-	-	186
Khalid Sufat	Independent non-executive director	180	60	-	60	55	5	360
Md Adnan Md Zain	Independent non-executive director	200	-	60	60	60	60	440
Abdul Khalil Abdul Hamid	Independent non-executive director	180	55	60	3	60	57	415
Noorur Rahman Abbas Ali Abid	Independent non-executive director	180	60	-	60	-	-	300
Khalid Mahmood Bhaimia	Independent non-executive director	133	35	40	40	5	-	253
	Total	1,573	218	220	286	180	237	2,714

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Directors' Remuneration (January 2019 to December 2019)

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

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

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit & Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
2019		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
Muad S M M AIOsaimi	Chairman	360	-	-	-	-	60	420
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	60	60	60	-	-	360
Ahmad S A A AlKharji	Non-independent executive director	180	-	-	-	-	35	215
Khalid Sufat	Independent non-executive director	191	64	-	64	37	26	382
Md Adnan Md Zain (Resigned with effect from 31 May 2019)	Independent non-executive director	80	-	26	26	26	27	185
Abdul Khalil Abdul Hamid	Independent non-executive director	191	-	64	37	64	63	419
Noorur Rahman Abbas Ali Abid	Independent non-executive director	180	60	35	25	35	-	335
Khalid Mahmood Bhaimia (Resigned with effect from 24 April 2019)	Independent non-executive director	57	-	19	19	19	-	114
	Total	1,419	184	204	231	181	211	2,430

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Directors' Remuneration (January 2019 to December 2019)

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

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

Name of Directors	Position	Board of Directors Fee RM'000	Board Audit Committee Fee RM'000	Board Risk Management Committee Fee RM'000	Board Nominating And Remuneration Committee Fee RM'000	Board Credit & Committee Fee RM'000	Board Corporate Governance Committee Fee RM'000	Total RM'000
2018		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
Muad S M M AIOsaimi	Chairman	340	-	-	-	-	60	400
Mohammad Nasser AlFouzan	Non-independent non-executive director	180	5	60	60	-	55	360
Ahmad S A A AlKharji	Non-independent executive director	180	3	-	3	-	-	186
Khalid Sufat	Independent non-executive director	180	60	-	60	55	5	360
Md Adnan Md Zain	Independent non-executive director	180	-	60	60	60	60	420
Abdul Khalil Abdul Hamid	Independent non-executive director	180	55	60	3	60	57	415
Noorur Rahman Abbas Ali Abid	Independent non-executive director	180	60	-	60	-	-	300
Khalid Mahmood Bhaimia	Independent non-executive director	133	35	40	40	5	-	253
	Total	1,553	218	220	286	180	237	2,694

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Directors' Remuneration (January 2019 to December 2019)

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

Name of Shariah Committee Member	Group and Bank		
	TOTAL RM '000	Fee RM '000	Allowances RM '000
2019			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	191	144	47
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	153	120	33
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	148	120	28
Sheikh Isa Abdulla Yusuf Dowaishan	134	120	14
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	154	120	34
	780	624	156
2018			
Sheikh Prof. Dr. Mohammad Abdul Razaq Al-Tabtabae	186	144	42
Sheikh Assoc. Prof. Dr. Anwar Shuaib Abdulsalam	154	120	34
Sheikh Prof. Dr. Mubarak Jaza' Ashban Al-Harbi	147	120	27
Sheikh Isa Abdulla Yusuf Dowaishan	137	120	17
Sheikh Assoc. Prof. Dr. Engku Muhammad Tajuddin Engku Ali	158	120	38
	782	624	158

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37 TAXATION

	Group		Group and Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Malaysian income tax				
- Current year (Discontinued operations) (Note 35)	51	20	-	-
Deferred tax (Note 18):				
- Relating to origination and reversal of temporary differences	16,837	19,182	16,837	19,182
- Under/(over) provision in prior years	93,208	(7,940)	93,208	(7,940)
	110,096	11,262	110,045	11,242

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year. The computation of deferred tax as at 31 December 2019 have reflected these changes.

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

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
- Continuing operations	29,070	28,200	53,669	28,105
- Discontinued operations	2,003	3,970	-	-
Profit before zakat and taxation	31,073	32,170	53,669	28,105
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	7,458	7,721	12,881	6,745
Income subject to different tax rates	(430)	(933)	-	-
Income not subject to tax	(80)	-	(6,013)	-
Expenses not deductible for tax purposes	4,426	10,527	4,455	10,550
Deferred tax assets not recognised on unutilised tax losses	5,514	1,887	5,514	1,887
Under/(over) provision of deferred tax in prior year	93,208	(7,940)	93,208	(7,940)
Tax expense for the year	110,096	11,262	110,045	11,242

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38 (LOSS)/EARNING PER SHARE

Basic and diluted (loss)/earning per share of the Group is calculated by dividing the net (loss)/profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2019	2018
Net (loss)/profit for the year (RM'000)	(79,023)	20,908
Weighted average number of ordinary shares in issue ('000) *	1,425,272	1,425,272
Basic/diluted (loss)/earning per share (sen)	(5.54)	1.47

39 RELATED PARTY TRANSACTIONS

The Directors are of the opinion that all transactions below have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtained in transactions with unrelated parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both.

The related parties of the Group and the Bank are as follows:

Holding Company

Details of holding company are disclosed in Note 46.

Subsidiaries

Details of subsidiaries are disclosed in Note 14.

Subsidiaries of holding company

Subsidiaries of the holding company are Kuveyt Turk Participation Bank, Kuwait Finance House B.S.C, KFH Private Equity Ltd., Baitak Real Estate Investment Company S.S.C, International Turnkey Systems Company K.S.C and E'amar.

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes selected Heads of Divisions.

Directors

The identity of the directors of the Bank, are disclosed in the Director's report.

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

(a) Related party transactions

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2019						
(i) Income						
- Management fees	-	120	-	-	-	-
- Other fee	51	-	-	-	-	-
- Dividend income	-	24,720	-	-	-	-
- Profit income on financing	-	-	-	21	-	-
	51	24,840	-	21	-	-
(ii) Expenditure						
- Profit expense on deposits	17,578	7,042	20	-	-	-
- Other fees	-	-	16,097	-	-	-
	17,578	7,042	16,117	-	-	-

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2019 (Cont'd.)						
(iii) Amount due to related parties						
- Deposits from customers	-	86,357	5,440	840	-	1,237
- Deposits and placements of banks and other Fis	135,077	-	-	-	-	-
- Sundry creditors (Note 22)	4,693	-	-	-	-	-
	139,770	86,357	5,440	840	-	1,237
(iv) Amount due from related parties						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	-	682	-	-
- Other assets	-	-	116,991	-	-	-
	-	-	153,091	682	-	-
(v) Others						
- Purchases of intangible assets	-	-	1,410	-	-	-
	-	-	1,410	-	-	-

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

2018	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
(i) Income						
- Management fees	-	120	-	-	-	-
- Other fee	60	-	-	-	-	-
- Profit income on placements	24	25	-	-	-	-
- Profit income on financing	-	-	1,533	39	-	-
	84	145	1,533	39	-	-
(ii) Expenditure						
- Profit expense on deposits	12,278	3,585	34	-	-	-
- Other fees	-	-	15,272	-	-	-
- Profit expense on Subordinated Murabahah Tawarruq	25,871	-	-	-	-	-
	38,149	3,585	15,306	-	-	-

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

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

	Holding company RM'000	Subsidiaries RM'000	Subsidiaries & Joint Ventures of holding companies RM'000	Key management personnel RM'000	Companies with common directors RM'000	Directors RM'000
2018 (Cont'd.)						
(iii) Amount due to related parties						
- Deposits from customers	-	77,930	5,221	1,170	-	1,017
- Deposits and placements of banks and other Fis	413,700	129,844	-	-	-	-
- Sundry creditors (Note 22)	4,598	-	-	-	-	-
	418,298	207,774	5,221	1,170	-	1,017
(iv) Amount due from related parties						
- Securities	-	-	36,100	-	-	-
- Financing	-	-	-	377	-	-
- Other assets	-	4	120,791	-	-	-
	-	4	156,891	377	-	-
(v) Others						
- Purchases of intangible assets	-	-	4,694	-	-	-
	-	-	4,694	-	-	-

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key management personnel compensation

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Short-term employee benefits				
- Salary and other remuneration	11,032	16,450	11,032	16,450
- Benefits-in-kind	72	372	72	372
	11,104	16,822	11,104	16,822

The total key management personnel compensation includes Chief Executive Officer remuneration of which details are disclosed in Note 32.

(c) Credit transactions and exposures with connected parties

	2019			
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	116,991	1	116,991	-
Off-balance sheet exposures	600	1	600	-
	117,591	2	117,591	-
Total exposure to connected parties as % capital base			7.1%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.3%	0.0%

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39 RELATED PARTY TRANSACTIONS (Cont'd.)

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

	2018			
	Total outstanding value RM'000	Total number of accounts	Total exposure * RM'000	Total non- performing credit exposure RM'000
Financing, credit facility and leasing (except guarantee)	121,153	3	121,241	-
Off-balance sheet exposures	600	1	600	-
	121,753	4	121,841	-
Total exposure to connected parties as % capital base			8.0%	0.0%
Total exposure to connected parties as % of total outstanding credit exposures			1.4%	0.0%

* Included total outstanding and unutilised limit.

The credit exposure above are derived based on para 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties.

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility of planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

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40 COMMITMENTS AND CONTINGENCIES

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

	2019			2018		
	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	52,860	52,409	51,524	53,458	53,145	52,548
Transaction related contingencies	112,849	54,908	42,925	165,383	80,959	67,517
Trade related contingencies	11,749	2,269	1,386	59,250	11,848	8,895
Irrevocable commitments to extend credit						
- maturity less than one year	412,592	70,748	66,601	374,270	67,460	66,250
- maturity more than one year	156,759	74,397	69,868	194,106	93,666	66,857
Foreign exchange related contracts *						
- less than one year	1,048,499	10,458	2,955	1,050,115	10,308	3,814
- one year to five years	140,241	3,386	995	263,098	7,079	2,364
	1,935,549	268,575	236,254	2,159,680	324,465	268,245
		Note 42 (d)	Note 42 (d)		Note 42 (d)	Note 42 (d)

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

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

	Group and Bank	
	2019	2018
	RM'000	RM'000
Financial guarantees	52,860	53,458
Letters of credit	124,598	224,633
Other undrawn commitments	569,351	568,376
Total commitment	746,809	846,467
Less : ECL allowance	(3,663)	(2,743)
	<u>743,146</u>	<u>843,724</u>

The credit equivalent and risk-weighted amounts are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks ("CAFIB").

Market risk

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

Credit risk

Credit risk is the risk that a counterparty will be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2019, the amount of credit risk in the Group and in the Bank, measured in terms of the cost to replace the profitable contracts, was RM5,189,642 (2018: RM3,779,539). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

Impairment losses on guarantees and other commitments

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

Financial guarantees

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	52,260	600	-	52,860
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	52,260	600	-	52,860

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	53,458	-	-	53,458
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	53,458	-	-	53,458

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2019	53,058	400	-	53,458
Net remeasurement of outstanding balance	51,422	600	-	52,022
New financial assets originated	2,126	-	-	2,126
Financial assets that have matured/expired	(54,346)	(400)	-	(54,746)
Gross carrying amount as at 31 December 2019	52,260	600	-	52,860

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Financial guarantees (Cont'd.)

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:
(Cont'd.)

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2019	1,834	140	-	1,974
Net remeasurement of outstanding balance	(682)	210	-	(472)
New financial assets originated	24	-	-	24
Financial assets that have matured/expired	(935)	(140)	-	(1,075)
ECL allowance as at 31 December 2019	241	210	-	451
Net carrying amount (after ECL)	52,019	390	-	52,409

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	2,287	-	-	2,287
Net remeasurement of outstanding balance	731	400	-	1,131
New financial assets originated	62,259	-	-	62,259
Financial assets that have matured/expired	(12,219)	-	-	(12,219)
Gross carrying amount as at 31 December 2018	53,058	400	-	53,458

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Financial guarantees (Cont'd.)

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	294	-	-	294
ECL allowance as at 1 January 2018, as stated	294			294
Net remeasurement of loss allowance	81	-	-	81
New financial assets originated	1,548	140	-	1,688
Financial assets that have matured/expired	(89)	-	-	(89)
ECL allowance as at 31 December 2018	1,834	140	-	1,974
Net carrying amount (after ECL)	51,224	260	-	51,484

Letters of credit

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	124,598	-	-	124,598
Past due but not impaired	-	-	-	-
Total	124,598	-	-	124,598

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	224,633	-	-	224,633
Past due but not impaired	-	-	-	-
Total	224,633	-	-	224,633

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Letters of credit (Cont'd.)

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2019	224,633	-	-	224,633
Net remeasurement of outstanding balance	(52,534)	-	-	(52,534)
New financial assets originated	11,749	-	-	11,749
Financial assets that have matured	(59,250)	-	-	(59,250)
Gross carrying amount as at 31 December 2019	124,598	-	-	124,598

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2019	3	-	-	3
Net remeasurement of loss allowance	1,516	-	-	1,516
New financial assets originated	80	-	-	80
Financial assets that have matured/expired	(3)	-	-	(3)
ECL allowance as at 31 December 2019	1,596	-	-	1,596
Net carrying amount (after ECL)	123,002	-	-	123,002

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Letters of credit (Cont'd.)

An analysis of changes in the outstanding exposures and the corresponding ECLs are, as follows:
(Cont'd.)

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2018	119,141	-	-	119,141
Net remeasurement of outstanding balance	(4,672)	-	-	(4,672)
New financial assets originated	110,164	-	-	110,164
Gross carrying amount as at 31 December 2019	224,633	-	-	224,633

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	24	-	-	24
ECL allowance as at 1 January 2018, as restated	24	-	-	24
Net remeasurement of loss allowance	(21)	-	-	(21)
New financial assets originated	3	-	-	3
Financial assets that have matured/expired	(3)	-	-	(3)
ECL allowance as at 31 December 2018	3	-	-	3
Net carrying amount (after ECL)	224,630	-	-	224,630

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Other undrawn commitments

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

Group and Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	565,042	4,272	37	569,351
Past due but not impaired	-	-	-	-
Individually impaired	-	-	-	-
Total	565,042	4,272	37	569,351

Group and Bank	2018			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Internal rating grade :				
Performing	545,006	23,370	-	568,376
Past due but not impaired	-	-	-	-
Total	545,006	23,370	-	568,376

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	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Gross carrying amount as at 1 January 2019	545,006	23,370	-	568,376
Transfer to 12-month ECL	587	(587)	-	-
Transfer to lifetime ECL not credit impaired	(253)	253	-	-
Transfer to lifetime ECL credit impaired	-	-	-	-
Net remeasurement of outstanding balance	(19,955)	3,611	-	(16,344)
New financial assets originated	541,981	-	-	541,981
Financial assets that have matured/expired	(502,286)	(22,376)	-	(524,662)
Gross carrying amount as at 31 December 2019	565,080	4,271	-	569,351

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Other undrawn commitments (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECLs in relation to other undrawn commitments is as follows (cont'd.):

Group and Bank	2019			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2019	765	-	-	765
New financial assets originated	1,616	-	-	1,616
New financial assets that have matured/expired	(765)	-	-	(765)
ECL allowance as at 31 December 2019	1,616	-	-	1,616
Net carrying amount (after ECL)	563,464	4,271	-	567,735

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount as at 1 January 2018	443,437	3,224	-	446,661
Net remeasurement of outstanding balance	316	22,829	-	23,145
New financial assets originated	907,202	-	-	907,202
Financial assets that have matured/expired	(805,949)	(2,683)	-	(808,632)
Gross carrying amount as at 31 December 2018	545,006	23,370	-	568,376

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40 COMMITMENTS AND CONTINGENCIES (Cont'd.)

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

Other undrawn commitments (cont'd.)

An analysis of changes in the gross carrying amount and the corresponding ECLs in relation to other undrawn commitments is as follows (cont'd.):

Group and Bank	2018			
	Stage 1	Stage 2	Stage 3	Total
	RM'000	RM'000	RM'000	RM'000
ECL allowance as at 1 January 2018, as previously stated	-	-	-	-
Effects of MFRS 9 adoption	1,336	49	-	1,385
ECL allowance as at 1 January 2018, as restated	1,336	49	-	1,385
Net remeasurement of loss allowance	-	(49)	-	(49)
New financial assets originated	766	-	-	766
Financial assets that have matured/expired	(1,336)	-	-	(1,336)
ECL allowance as at 31 December 2018	766	-	-	766
Net carrying amount (after ECL)	544,240	23,370	-	567,610

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41 CAPITAL COMMITMENTS

Capital expenditure :
Authorised and contracted for

- computer hardware
- computer software
- capital renovation

Authorised but not contracted for

- computer software

Group and Bank	
2019	2018
RM'000	RM'000
398	9,115
1,908	19,107
51	51
17,679	12,175
20,036	40,448

42 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 as at 31 December, are as follows:

	Group		Bank	
	2019	2018	2019	2018
CET 1/ Tier 1 capital ratio				
Credit risk	32.970%	27.293%	32.647%	26.583%
Credit, market, operational and large exposure risks	30.446%	25.419%	30.114%	24.794%
Total capital ratio/ Risk-weighted capital ratio				
Credit risk	34.220%	28.542%	33.897%	27.833%
Credit, market, operational and large exposure risks	31.600%	26.582%	31.267%	25.960%

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42 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<u>CET 1/Tier I capital</u>				
Paid-up share capital	1,425,272	1,425,272	1,425,272	1,425,272
Statutory reserve	170,648	170,648	170,648	170,648
Other reserves	70,309	82,126	64,602	53,258
	1,666,229	1,678,046	1,660,522	1,649,178
Less: Deferred tax assets (net)	(45,181)	(181,806)	(45,181)	(181,806)
Less: Investment in subsidiaries	-	-	(10,200)	(10,200)
Total CET 1/ Tier I capital	1,621,048	1,496,240	1,605,141	1,457,172
<u>Tier II capital</u>				
Collective impairment on financing	61,459	68,461	61,459	68,520
Total Tier II capital	61,459	68,461	61,459	68,520
Capital base	1,682,507	1,564,701	1,666,600	1,525,692

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Computation of Total Risk-Weighted Assets ("RWA")				
Total credit RWA	4,916,709	5,482,162	4,916,689	5,481,618
Total market RWA	2,271	3,407	2,271	3,407
Total operational RWA	405,372	400,645	411,281	392,040
Large exposure risk RWA for equity holdings	8	8	8	8
Total Risk-Weighted Assets (ii)	5,324,360	5,886,222	5,330,249	5,877,073
Computation of Capital Ratios				
Core capital (iii)	1,621,048	1,496,240	1,605,141	1,457,172
Capital base (i)	1,682,507	1,564,701	1,666,600	1,525,692
CET 1/Tier 1 capital ratio	30.446%	25.419%	30.114%	24.794%
Total capital ratio	31.600%	26.582%	31.267%	25.960%

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42 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2019					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,335,749	1,335,749	41,621	41,621	3,330
Banks, Development Financial Institutions & MDBs	58,349	58,349	17,458	17,458	1,397
Corporates	4,136,705	4,136,705	1,748,146	1,748,146	139,852
Regulatory Retail	1,890,224	1,890,224	1,692,105	1,692,105	135,368
Residential Mortgages	1,056,790	1,056,790	555,943	555,943	44,475
Higher Risk Assets ¹	237	237	355	355	28
Other Assets	350,934	350,934	254,266	254,266	20,341
Defaulted Exposures ²	296,424	296,424	370,561	370,561	29,645
	9,125,412	9,125,412	4,680,455	4,680,455	374,436
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	13,844	13,844	3,951	3,951	316
Off-balance sheet exposures other than OTC hedging financial instruments	254,731	254,731	232,303	232,303	18,584
	268,575	268,575	236,254	236,254	18,900
Total On and Off-Balance Sheet Exposures	9,393,987	9,393,987	4,916,709	4,916,709	393,336

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42 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019 (Cont'd.)						
(ii) Large Exposures Risk Requirement		18	18	8	8	1
	Long Position	Short Position				
(iii) Market Risk						
Foreign Currency Risk ⁴	1,483	1,935	(451)	2,271	2,271	182
			(451)	2,271	2,271	182
(iv) Operational Risk				405,372	405,372	32,430
(v) Total RWA and Capital Requirements				5,324,360	5,324,360	425,949

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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42 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,203,707	1,203,707	43,443	43,443	3,475
Banks, Development Financial Institutions & MDBs	140,906	140,906	42,039	42,039	3,363
Corporates	4,342,305	4,342,305	2,669,765	2,669,765	213,581
Regulatory Retail	2,013,133	2,013,133	1,507,468	1,507,468	120,597
Residential Mortgages	1,018,422	1,018,422	573,282	573,282	45,863
Higher Risk Assets ¹	1,077	1,077	1,615	1,615	129
Other Assets	287,321	287,321	177,325	177,325	14,186
Defaulted Exposures ²	172,232	172,232	198,980	198,980	15,918
	9,179,103	9,179,103	5,213,917	5,213,917	417,112
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	17,388	17,388	6,178	6,178	494
Off-balance sheet exposures other than OTC hedging financial instruments	307,077	307,077	262,067	262,067	20,965
	324,465	324,465	268,245	268,245	21,459
Total On and Off-Balance Sheet Exposures	9,503,568	9,503,568	5,482,162	5,482,162	438,571

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42 CAPITAL ADEQUACY (Cont'd.)

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

Group	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018 (Cont'd.)						
(ii) Large Exposures Risk Requirement		18	18	8	8	1
	Long Position	Short Position				
(iii) Market Risk						
Foreign Currency Risk ⁴	2,262	3,339	(1,077)	3,407	3,407	273
			(1,077)	3,407	3,407	273
(iv) Operational Risk				400,645	400,645	32,052
(v) Total RWA and Capital Requirements				5,886,222	5,886,222	470,897

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2019	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,335,749	1,335,749	41,621	41,621	3,330
Banks, Development Financial Institutions & MDBs	58,349	58,349	17,458	17,458	1,397
Corporates	4,136,705	4,136,705	1,748,146	1,748,146	139,852
Regulatory Retail	1,890,224	1,890,224	1,692,105	1,692,105	135,368
Residential Mortgages	1,056,790	1,056,790	555,943	555,943	44,475
Higher Risk Assets ¹	237	237	355	355	28
Other Assets	350,914	350,914	254,246	254,246	20,340
Defaulted Exposures ²	296,424	296,424	370,561	370,561	29,645
	9,125,392	9,125,392	4,680,435	4,680,435	374,435
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	13,844	13,844	3,951	3,951	316
Off-balance sheet exposures other than OTC hedging financial instruments	254,731	254,731	232,303	232,303	18,584
	268,575	268,575	236,254	236,254	18,900
Total On and Off-Balance Sheet Exposures	9,393,967	9,393,967	4,916,689	4,916,689	393,335

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42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2019 (Cont'd.)						
(ii) Large Exposures Risk Requirement		18	18	8	8	1
	Long	Short				
(iii) Market Risk						
Foreign Currency Risk ⁴	1,483	1,935	(451)	2,271	2,271	182
			(451)	2,271	2,271	182
(iv) Operational Risk				411,281	411,281	32,902
(v) Total RWA and Capital Requirements				5,330,249	5,330,249	426,420

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures	Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
2018	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
(a) On-Balance Sheet Exposures					
Sovereigns/Central Banks	1,191,466	1,191,466	43,443	43,443	3,475
Banks, Development Financial Institutions & MDBs	140,906	140,906	42,039	42,039	3,363
Corporates	4,342,305	4,342,305	2,669,765	2,669,765	213,581
Regulatory Retail	2,013,133	2,013,133	1,507,468	1,507,468	120,597
Residential Mortgages	1,018,422	1,018,422	573,282	573,282	45,863
Higher Risk Assets ¹	1,077	1,077	1,615	1,615	129
Other Assets	286,778	286,778	176,782	176,782	14,143
Defaulted Exposures ²	172,232	172,232	198,979	198,979	15,918
	9,166,319	9,166,319	5,213,373	5,213,373	417,069
(b) Off-Balance Sheet Exposures*					
OTC Hedging Financial Instruments ³	17,388	17,388	6,178	6,178	494
Off-balance sheet exposures other than OTC hedging financial instruments	307,077	307,077	262,067	262,067	20,965
	324,465	324,465	268,245	268,245	21,459
Total On and Off-Balance Sheet Exposures	9,490,784	9,490,784	5,481,618	5,481,618	438,528

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42 CAPITAL ADEQUACY (Cont'd.)

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

Bank	Gross Exposures		Net Exposures **	Risk-Weighted Assets	Total Risk-Weighted Assets After Effects of PSIA	Capital Requirement
	RM'000		RM'000	RM'000	RM'000	RM'000
2018 (Cont'd.)						
(ii) Large Exposures Risk Requirement	18		18	8	8	1
	Long	Short				
(iii) Market Risk						
Benchmark Rate Risk	-	-	-	-	-	-
Foreign Currency Risk ⁴	2,262	3,339	(1,077)	3,407	3,407	273
			(1,077)	3,407	3,407	273
(iv) Operational Risk				392,040	392,040	31,363
(v) Total RWA and Capital Requirements				5,877,073	5,877,073	470,165

Note:

* Credit equivalent of off-balance sheet items

** After netting and credit risk mitigation

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

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

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

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

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42 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019									
Group Risk-Weights									
0%	1,127,645	20,487	1,883,855	3,892	886	-	96,668	3,133,433	-
20%	208,104	14,845	590,812	-	-	-	-	813,761	162,752
35%	-	-	-	-	551,400	-	-	551,400	192,990
50%	-	36,843	155,787	(4)	291,865	-	-	484,491	242,245
75%	-	-	-	790,849	-	-	-	790,849	593,137
100%	-	18	1,815,029	1,108,577	231,100	-	254,266	3,408,990	3,408,990
150%	-	-	167,544	2,921	-	40,598	-	211,063	316,595
	1,335,749	72,193	4,613,027	1,906,235	1,075,251	40,598	350,934	9,393,987	4,916,709

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42 CAPITAL ADEQUACY (Cont'd.)

(e) The breakdown of credit risk disclosure by risk-weights (including deducted exposures) for the current financial year, are as follows: (Cont'd.)

2019 (Cont'd.)	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Bank Risk-Weights									
0%	1,127,645	20,487	1,883,855	3,892	886	-	96,668	3,133,433	-
20%	208,104	14,845	590,812	-	-	-	-	813,761	162,752
35%	-	-	-	-	551,400	-	-	551,400	192,990
50%	-	36,843	155,787	(4)	291,865	-	-	484,491	242,245
75%	-	-	-	790,849	-	-	-	790,849	593,137
100%	-	18	1,815,029	1,108,577	231,100	-	254,246	3,408,970	3,408,970
150%	-	-	167,544	2,921	-	40,598	-	211,063	316,595
	1,335,749	72,193	4,613,027	1,906,235	1,075,251	40,598	350,914	9,393,967	4,916,689

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42 CAPITAL ADEQUACY (Cont'd.)

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

		Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets	
		Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets			Other Assets
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2018										
Group Risk-Weights										
0%		986,490	39,974	1,345,725	3,348	1,209	-	109,996	2,486,742	-
20%		217,217	36,542	357,754	-	-	-	-	611,513	122,303
35%		-	-	-	-	485,899	-	-	485,899	170,065
50%		-	81,738	209,864	-	261,924	-	-	553,526	276,763
75%		-	-	-	2,030,261	-	-	-	2,030,261	1,522,696
100%		-	39	2,761,999	5	286,844	-	177,325	3,226,212	3,226,212
150%		-	-	52,460	3,145	-	53,810	-	109,415	164,123
		1,203,707	158,293	4,727,802	2,036,759	1,035,876	53,810	287,321	9,503,568	5,482,162

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42 CAPITAL ADEQUACY (Cont'd.)

(e) The breakdown of credit risk disclosure by risk-weights (including deducted exposures) for the current financial year, are as follows: (Cont'd.)

2018 (Cont'd.)	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting and Credit Risk Mitigation	Total Risk- Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporate	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Bank Risk-Weights									
0%	974,249	39,974	1,345,725	3,348	1,209	-	109,996	2,474,501	-
20%	217,217	36,542	357,754	-	-	-	-	611,513	122,303
35%	-	-	-	-	485,899	-	-	485,899	170,065
50%	-	81,738	209,864	-	261,924	-	-	553,526	276,763
75%	-	-	-	2,030,261	-	-	-	2,030,261	1,522,696
100%	-	39	2,761,999	5	286,843	-	176,782	3,225,668	3,225,668
150%	-	-	52,460	3,145	-	53,810	-	109,415	164,123
	1,191,466	158,293	4,727,802	2,036,759	1,035,875	53,810	286,778	9,490,783	5,481,618

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42 CAPITAL ADEQUACY (Cont'd.)

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

	Group		Bank	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
2019				
0%	3,133,433	-	3,133,433	-
20%	813,761	162,752	813,761	162,752
35%	551,400	192,990	551,400	192,990
50%	484,491	242,245	484,491	242,245
75%	790,849	593,137	790,849	593,137
100%	3,408,990	3,408,990	3,408,970	3,408,970
150%	211,063	316,595	211,063	316,595
Risk-weighted assets for credit risk	9,393,987	4,916,709	9,393,967	4,916,689
Risk-weighted assets for market risk		2,271		2,271
Risk-weighted assets for operational risk		405,372		411,281
Large exposure risk-weighted assets for equity holdings		8		8
Total risk-weighted assets		5,324,360		5,330,249
2018				
0%	2,486,742	-	2,474,501	-
20%	611,513	122,303	611,513	122,303
35%	485,899	170,065	485,899	170,065
50%	553,526	276,763	553,526	276,763
75%	2,030,261	1,522,696	2,030,261	1,522,696
100%	3,226,212	3,226,212	3,225,668	3,225,668
150%	109,415	164,123	109,415	164,123
Risk-weighted assets for credit risk	9,503,568	5,482,162	9,490,783	5,481,618
Risk-weighted assets for market risk		3,407		3,407
Risk-weighted assets for operational risk		400,645		392,040
Large exposure risk-weighted assets for equity holdings		8		8
Total risk-weighted assets		5,886,222		5,877,073

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42 CAPITAL ADEQUACY (Cont'd.)

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

	2019		2018	
	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000	Risk-Weighted Assets Equivalent RM'000	Capital Required RM'000
Group and Bank				
Foreign Exchange Risk	2,271	182	3,407	273
Total	2,271	182	3,407	273

43 SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

The primary format, the business segment information, is prepared based on internal management reports, which are used by senior management for decision making and performance management. The amounts for each business segment are shown after the allocation of certain centralised cost, funding income and the applicable transfer pricing where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation. All inter-segment transactions are conducted at arm's length basis on normal commercial terms that are not more favourable than those generally available to public.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure comprises additions to property and equipment.

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43 SEGMENT INFORMATION (Cont'd.)

(a) Primary Segment - By Business Segments:

The Group comprises the following main business segments:

(i) Treasury and Capital Market

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

(ii) Corporate and Investment Banking

The corporate and investment banking operations focus on business needs to large corporate customers, primarily public listed companies as well as financial institutions. The products and services offered to customers include direct financing, advisory banking service, equity financing, Islamic securities/sukuk issuance, syndicated financing, mergers and acquisition advisory services and debt restructuring advisory services.

(iii) Commercial Banking

Commercial banking operation provides a full range of financial services to customers, primarily non-public listed companies as well as small and medium sized enterprises. The products and services offered include long and short term financing such as working capital financing, asset financing, project financing as well as trade financing.

(iv) Retail Banking

Retail banking offers a wide range of Shariah compliant products and financial services to individuals and non individuals through a network of branches and KFH Online. Our product offerings include innovative Shariah-based products such as Libshara Account, Gold Account-i, International Commodity Murabahah Deposit-i, Personal Financing-i, Ijarah Automobile Financing-i, Ijarah Home & Property Financing-i, banca and wasiat, as well as basic savings and current accounts which is based on Qardh.

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43 SEGMENT INFORMATION (Cont'd.)

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

Group 2019	Treasury & Capital Markets	Corporate & Investment Banking	Commercial Banking	Retail Banking and others	Elimination	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	122,380	108,370	35,800	216,486	-	483,036
Revenue from other segments	198,314	807	2,413	92,893	(294,427)	-
Total Revenue	320,694	109,177	38,213	309,379	(294,427)	483,036
Segment results	12,108	31,422	15,343	69,798		128,671
Unallocated expenses						(97,598)
Profit before zakat and taxation						31,073
Taxation						(110,096)
Net loss for the year						(79,023)
Other information						
Segment assets	3,691,714	1,484,506	391,237	3,106,281	(95,922)	8,577,816
Unallocated corporate assets						498,648
Total assets						9,076,464
Total liabilities	7,671,535	799,859	420,892	6,887,953	(8,421,132)	7,359,107
Other segment items						
Purchase of property and equipment				7,541		7,541
Purchase of intangible assets				1,013		1,013
Depreciation of property and equipment				3,777		3,777
Amortisation of intangible assets				6,006		6,006
Other non-cash expense other than depreciation	5	436	461	(27,960)	-	(27,058)

(b) Secondary Segment - By Geographical Locations

Group 2019	Operating Revenue	Profit Before Zakat and Taxation	Total Assets
	RM'000	RM'000	RM'000
Malaysia	483,036	31,073	9,076,464

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43 SEGMENT INFORMATION (Cont'd.)

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

Group 2018	Treasury & Capital Markets RM'000	Corporate & Investment Banking RM'000	Commercial Banking RM'000	Retail Banking and others RM'000	Elimination RM'000	Total RM'000
External revenue	117,403	120,144	41,822	178,326	-	457,695
Revenue from other segments	184,344	815	2,683	81,741	(269,583)	-
Total Revenue	301,747	120,959	44,505	260,067	(269,583)	457,695
Segment results	17,581	60,054	43,887	23,296		144,818
Unallocated expenses						(112,648)
Profit before zakat and taxation						32,170
Taxation						(11,262)
Net profit for the year						20,908
Other information						
Segment assets	3,155,078	1,949,351	620,672	3,207,839	(217,591)	8,715,349
Unallocated corporate assets						579,450
Total assets						9,294,799
Total liabilities	5,537,251	1,967,429	459,795	7,072,905	(7,440,132)	7,597,248
Other segment items						
Purchase of property and equipment				17,703		17,703
Purchase of intangible assets				1,034		1,034
Depreciation of property and equipment				2,721		2,721
Amortisation of intangible assets				4,635		4,635
Other non-cash expense other than depreciation	(210)	33,667	29,481	(37,007)	-	25,931

(b) Secondary Segment - By Geographical Locations

Group 2018	Operating Revenue RM'000	Profit Before Zakat and Taxation RM'000	Total Assets RM'000
Malaysia	457,695	32,170	9,294,799

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44 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Group	Level 2	Level 3	Total
	RM'000	RM'000	RM'000
2019			
Financial assets			
Securities held at FVTPL	219	-	219
Debt instruments measured at FVOCI	3,647,186	-	3,647,186
Equity instruments at FVOCI	-	18	18
Financing, advances and other receivables	1,760,739	3,024,764	4,785,503
Hedging financial instruments	5,190	-	5,190
Total	5,413,334	3,024,782	8,438,116
Financial liability			
Deposits from customers	5,080,364	-	5,080,364
Hedging financial instruments	7,626	-	7,626
	5,087,990	-	5,087,990
2018			
Financial assets			
Securities held at FVTPL	1,059	-	1,059
Debt instruments measured at FVOCI	2,889,238	-	2,889,238
Equity instruments at FVOCI	-	18	18
Financing, advances and other receivables	1,774,175	3,816,701	5,590,876
Hedging financial instruments	3,780	-	3,780
Total	4,668,252	3,816,719	8,484,971
Financial liability			
Deposits from customers	4,561,603	-	4,561,603
Hedging financial instruments	4,506	-	4,506
	4,566,109	-	4,566,109

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44 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			
2019			
Financial assets			
Securities held at FVTPL	219	-	219
Debt instruments measured at FVOCI	3,647,186	-	3,647,186
Equity instruments at FVOCI	-	18	18
Financing, advances and other receivables	1,760,739	3,024,764	4,785,503
Hedging financial instruments	5,190	-	5,190
Total	5,413,334	3,024,782	8,438,116
Financial liabilities			
Deposits from customers	5,095,915	-	5,095,915
Hedging financial instruments	7,626	-	7,626
	5,103,541	-	5,103,541
2018			
Financial assets			
Securities held at FVTPL	1,059	-	1,059
Debt instruments measured at FVOCI	2,876,991	-	2,876,991
Equity instruments at FVOCI	-	18	18
Financing, advances and other receivables	1,774,175	3,816,701	5,590,876
Hedging financial instruments	3,780	-	3,780
Total	4,656,005	3,816,719	8,472,724
Financial liabilities			
Deposits from customers	4,457,895	-	4,457,895
Hedging financial instruments	4,506	-	4,506
	4,462,401	-	4,462,401

Description of significant unobservable inputs to valuation:

	Valuation technique	Significant Unobservable inputs	Range (weighted average)
Financing, advances and other receivables	DCF method	Profit rate	5.9% - 6.0%

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44 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			
		2019		2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
Financing, advances and other receivables		4,786,413	4,785,503	5,592,272	5,590,876
		4,786,413	4,785,503	5,592,272	5,590,876
Financial Liabilities					
Deposits from customers		5,121,638	5,080,364	4,578,999	4,561,603
		5,121,638	5,080,364	4,578,999	4,561,603

		Bank			
		2019		2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		RM'000	RM'000	RM'000	RM'000
Financial Assets					
Financing, advances and other receivables		4,786,413	4,785,503	5,592,272	5,590,876
		4,786,413	4,785,503	5,592,272	5,590,876
Financial Liabilities					
Deposits from customers		5,138,082	5,095,915	4,475,640	4,457,895
		5,138,082	5,095,915	4,475,640	4,457,895

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44 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) 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.

(d) Financing, Advances and Other Receivables

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

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

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

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45. EVENTS OCCURRING AFTER THE REPORTING DATE

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

46. HOLDING COMPANY

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

47. FINANCIAL RISK MANAGEMENT

The following section discusses the Bank's risk management policies. The measurement of Expected Credit Loss ("ECL") under MFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of MFRS 9.

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

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

(a) Credit Risk

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

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

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and head of each business unit.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

Expected credit loss ("ECL") measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Note 47(a)(iii) describe how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Note 47(a)(iv) describe how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Note 47(a)(v) describe the inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with MFRS 9 is that it should consider forward-looking information. Note 47(a)(v) describe how the Bank has incorporated this in its ECL models.

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis.

(i) Credit risk grades

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

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

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

Credit rating mapping table

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

Description of the grade	Bank rating	Moody's Rating	PD
High grade	1 to 4	Aaa to Baa3	0.03% to 0.82%
Standard grade	4- to 7-	Ba1 to Caa3	1.14% to 21.58%
Default	=8 or >8	Ca, C	100.00%

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

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

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

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

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

Quantitative criteria:

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

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

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

Quantitative criteria for determining the significant increase in credit risk are summarised in the below table:

Portfolio	Method	
	DPD	Rating degradation
Non- Retail	30	Please refer the below Rating Degradation table
Retail	30	Not Applicable

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

Criteria under Stage 2 highlighted as follows:

		Retail	Non-Retail
	Primary indicators		
1	Rating deterioration since inception	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> 2 Notches down to 5-(internal) or Ba3 (external) and worse
	Secondary indicators		
2	Credit Review / Early Warning indicators ("EWI")	<ul style="list-style-type: none"> EWI Credit Review / Credit committee decision 	<ul style="list-style-type: none"> EWI Credit Review / Credit committee decision
3	Cross Facility contagion	<ul style="list-style-type: none"> Facilities of customers with Non Performing Financing < 50% of their exposure 	<ul style="list-style-type: none"> Facilities of customers with Non Performing Financing < 50% of their exposure
	Backstop		
4	30 Days Past Due ("DPD")	<ul style="list-style-type: none"> Backstop of 30 DPD will be applied to all facilities 	<ul style="list-style-type: none"> Backstop of 30 DPD will be applied to all facilities
5	Rating / Probability of Default ("PD") cut-off	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Internal rating cut off of 7.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

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

		Retail	Non-Retail
	Primary indicators		
1	Rating deterioration since inception	<ul style="list-style-type: none"> Rating deterioration will not be applicable to the retail portfolio 	<ul style="list-style-type: none"> Internal Rating 8.9.10 External Rating from C and worse
2	Obligor Status	<ul style="list-style-type: none"> Bankruptcy 	<ul style="list-style-type: none"> Wound up
	Secondary indicators		
3	Credit Review / Early Warning indicators ("EWI")	<ul style="list-style-type: none"> Credit Review / Credit committee decision 	<ul style="list-style-type: none"> Credit Review / Credit committee decision
4	Restructured	<ul style="list-style-type: none"> All facilities rescheduled & restructured ("R&Rr) due to financial difficulty 	<ul style="list-style-type: none"> All facilities rescheduled & restructured ("R&Rr) due to financial difficulty
	Backstop		
5	90 Days Past Due ("DPD")	<ul style="list-style-type: none"> Backstop of 90 DPD will be applied to all facilities 	<ul style="list-style-type: none"> Backstop of 90 DPD will be applied to all facilities
6	Rating / Probability of Default ("PD") cut-off	<ul style="list-style-type: none"> Rating deterioration will not be applicable to the retail portfolio 	<ul style="list-style-type: none"> Internal rating cut off of 8 or worse.

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

Qualitative criteria:

For Retail portfolios, if the customer meets one or more of the following criteria:

- In short-term forbearance
- Extension to the terms granted
- Previous arrears within the last 12 month

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

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

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

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

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

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

(iv) Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The Bank considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.,)

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

(iv) Definition of default and credit-impaired assets (Cont'd.)

In assessing whether a customer is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

(v) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following

- Probability of Default ("PD");
- Loss Given Default ("LGD");
- Exposure at Default ("EAD");

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the financing.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

(v) Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Cont'd.)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a financing with fixed repayment terms.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

(vi) Forward-looking information incorporated in the ECL models

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the KFH Group Risk expert and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the Organisation for Economic Cooperation and Development ("OECD") and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank relied on Moody's historical industry analysis and has identified the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio.

The key macroeconomic variables used included the following base key indicators for Malaysia which recorded in the 4th quarter for the respective year.

	2018	2019
Gross Domestic Product ("GDP") (RM Billion)	1252.81	1443.96
Kuala Lumpur Stock Exchange Index ("KLSE") (Index)	2133.61	1577.96

Predicted relationships between the key indicators and default loss rates on various portfolios of financial assets have been used in reference to Moody's economic database for the ranges of historical data of 3.25 years (13 Quarters) and forecasted data of 5 years (20 Quarters).

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) Credit Risk (Cont'd.)

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

(vii) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail – Groupings for collective measurement

- Product type (e.g. Auto Financing, Personal Financing, House Financing and Credit Card)

Non-Retail – Groupings for collective measurement

- Industry – External data sourced from study by Moody's
- Collateral type
- Credit Rating band
- Geographical region of risk exposures – external data sourced from study by Moody's

The following exposures are assessed individually:

Retail

- Stage 3 financing includes Auto Financing, Personal Financing, House Financing and Credit Card

Non-Retail

- Stage 1 facilities
- Stage 2 facilities
- Stage 3 facilities

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

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

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

	Total gross maximum exposure	
	Group RM'000	Bank RM'000
2019		
Cash and short-term funds	61,870	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	6,820
Securities FVOCI	3,647,186	3,647,186
Financing, advances and other receivables	4,790,076	4,790,076
Other assets	129,394	129,374
Statutory deposits with Bank Negara Malaysia	184,624	184,624
Hedging financial instruments - Ijarah rental swap	5,190	5,190
Total On-Balance Sheet	8,825,160	8,825,140
Financial guarantees	52,409	52,409
Contingent liabilities	123,002	123,002
Commitments	567,735	567,735
Total Off-Balance Sheet	743,146	743,146
Total On and Off-Balance Sheet	9,568,306	9,568,286
2018		
Cash and short-term funds	135,339	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	5,755
Securities FVOCI	2,889,238	2,876,991
Financing, advances and other receivables	5,595,015	5,595,015
Other assets	133,425	133,302
Statutory deposits with Bank Negara Malaysia	211,800	211,800
Hedging financial instruments	3,780	3,780
Total On-Balance Sheet	8,974,352	8,961,982
Financial guarantees	51,484	51,484
Contingent liabilities	224,630	224,630
Commitments	567,610	567,610
Total Off-Balance Sheet	843,724	843,724
Total On and Off-Balance Sheet	9,818,076	9,805,706

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

2019 Group	Geographical region				Total gross maximum exposure RM'000
	Malaysia	Middle East	Others	Stage 1 & 2 impairment	
	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	25,916	1,939	34,096	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	6,820
Securities FVOCI	3,539,729	107,457	-	-	3,647,186
Financing, advances and other receivables	4,880,824	3,552	1,357	(95,657)	4,790,076
Other assets	32,779	96,615	-	-	129,394
Statutory deposits with Bank Negara Malaysia	184,624	-	-	-	184,624
Hedging financial instruments	5,190	-	-	-	5,190
Total On-Balance Sheet	8,675,882	209,563	35,453	(95,738)	8,825,160
Financial guarantees	52,860	-	-	(451)	52,409
Contingent liabilities	120,019	-	4,579	(1,596)	123,002
Commitments	569,351	-	-	(1,616)	567,735
Total Off-Balance Sheet	742,230	-	4,579	(3,663)	743,146
Total On and Off-Balance Sheet	9,418,112	209,563	40,032	(99,401)	9,568,306

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure RM'000
	Malaysia	Middle East	Others	Stage 1 & 2 impairment	
	RM'000	RM'000	RM'000	RM'000	
2018 Group					
Cash and short-term funds	34,970	1,254	99,927	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	5,755
Securities FVOCI	2,771,768	105,224	12,246	-	2,889,238
Financing, advances and other receivables	5,676,021	3,885	1,760	(86,651)	5,595,015
Other assets	36,810	96,615	-	-	133,425
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	3,780
Total On-Balance Sheet	8,740,904	206,978	113,933	(87,463)	8,974,352
Financial guarantees	53,458	-	-	(1,974)	51,484
Contingent liabilities	224,633	-	-	(3)	224,630
Commitments	568,360	2	14	(766)	567,610
Total Off-Balance Sheet	846,451	2	14	(2,743)	843,724
Total On and Off-Balance Sheet	9,587,355	206,980	113,947	(90,206)	9,818,076

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Stage 1 & 2 Impairment	
	RM'000	RM'000	RM'000	RM'000	
2019					
Bank					
Cash and short-term funds	25,916	1,939	34,096	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	6,820
Securities FVOCI	3,539,729	107,457	-	-	3,647,186
Financing, advances and other receivables	4,880,824	3,552	1,357	(95,657)	4,790,076
Other assets	32,759	96,615	-	-	129,374
Statutory deposits with Bank Negara Malaysia	184,624	-	-	-	184,624
Hedging financial instruments	5,190	-	-	-	5,190
Total On-Balance Sheet	8,675,862	209,563	35,453	(95,738)	8,825,140
Financial guarantees	52,860	-	-	(451)	52,409
Contingent liabilities	120,019	-	4,579	(1,596)	123,002
Commitments	569,351	-	-	(1,616)	567,735
Total Off-Balance Sheet	742,230	-	4,579	(3,663)	743,146
Total On and Off-Balance Sheet	9,418,092	209,563	40,032	(99,401)	9,568,286

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By geographical segment: (Cont'd.)

	Geographical region				Total gross maximum exposure
	Malaysia	Middle East	Others	Stage 1 & 2 impairment	
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
Bank					
Cash and short-term funds	34,970	1,254	99,927	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	5,755
Securities FVOCI	2,771,767	105,224	-	-	2,876,991
Financing, advances and other receivables	5,676,021	3,885	1,760	(86,651)	5,595,015
Other assets	36,687	96,615	-	-	133,302
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	3,780
Total On-Balance Sheet	8,740,780	206,978	101,687	(87,463)	8,961,982
Financial guarantees	53,458	-	-	(1,974)	51,484
Contingent liabilities	224,633	-	-	(3)	224,630
Commitments	568,360	2	14	(766)	567,610
Total Off-Balance Sheet	846,451	2	14	(2,743)	843,724
Total On and Off-Balance Sheet	9,587,231	206,980	101,701	(90,206)	9,805,706

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2019 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Stage 1 & 2 Impairment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	61,951	-	-	-	-	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	-	6,820	-	-	-	-	-	6,820
Securities FVOCI	-	615,024	790,114	442,985	1,175,535	623,528	-	3,647,186
Financing, advances and other receivables	609,634	98,203	719,757	127,315	-	3,330,824	(95,657)	4,790,076
Other assets	-	-	-	-	-	129,394	-	129,394
Statutory deposits with Bank Negara Malaysia	-	184,624	-	-	-	-	-	184,624
Hedging financial instruments	-	5,190	-	-	-	-	-	5,190
Total On-Balance Sheet	609,634	971,812	1,509,871	570,300	1,175,535	4,083,746	(95,738)	8,825,160
Financial guarantees	51,560	-	600	700	-	-	(451)	52,409
Contingent liabilities	3,194	-	34,016	2,830	-	84,558	(1,596)	123,002
Commitments	127,903	-	251,326	27,384	-	162,738	(1,616)	567,735
Total Off-Balance Sheet	182,657	-	285,942	30,914	-	247,296	(3,663)	743,146
Total On and Off-Balance Sheet	792,291	971,812	1,795,813	601,214	1,175,535	4,331,042	(99,401)	9,568,306

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2018 Group	Industry							Total gross maximum exposure RM'000
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others	Stage 1 & 2 Impairment	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short-term funds	-	136,151	-	-	-	-	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	-	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	288,654	780,835	460,769	1,011,862	347,118	-	2,889,238
Financing, advances and other receivables	795,793	113,147	1,076,034	149,340	-	3,547,352	(86,651)	5,595,015
Other assets	-	-	-	-	-	133,425	-	133,425
Statutory deposits with Bank Negara Malaysia	-	211,800	-	-	-	-	-	211,800
Hedging financial instruments	-	3,780	-	-	-	-	-	3,780
Total On-Balance Sheet	795,793	759,287	1,856,869	610,109	1,011,862	4,027,895	(87,463)	8,974,352
Financial guarantees	-	-	-	-	-	53,458	(1,974)	51,484
Contingent liabilities	982	-	72,574	7,830	-	143,247	(3)	224,630
Commitments	179,384	-	209,547	11,104	-	168,341	(766)	567,610
Total Off-Balance Sheet	180,366	-	282,121	18,934	-	365,046	(2,743)	843,724
Total On and Off-Balance Sheet	976,159	759,287	2,138,990	629,043	1,011,862	4,392,941	(90,206)	9,818,076

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2019 Bank	Industry						Stage 1 & 2 Impairment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	61,951	-	-	-	-	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	-	6,820	-	-	-	-	-	6,820
Securities FVOCI	-	615,024	790,114	442,985	1,175,535	623,528	-	3,647,186
Financing, advances and other receivables	609,634	98,203	719,757	127,315	-	3,330,824	(95,657)	4,790,076
Other assets	-	-	-	-	-	129,374	-	129,374
Statutory deposits with Bank Negara Malaysia	-	184,624	-	-	-	-	-	184,624
Hedging financial instruments	-	5,190	-	-	-	-	-	5,190
Total On-Balance Sheet	609,634	971,812	1,509,871	570,300	1,175,535	4,083,726	(95,738)	8,825,140
Financial guarantees	51,560	-	600	700	-	-	(451)	52,409
Contingent liabilities	3,194	-	34,016	2,830	-	84,558	(1,596)	123,002
Commitments	127,903	-	251,326	27,384	-	162,738	(1,616)	567,735
Total Off-Balance Sheet	182,657	-	285,942	30,914	-	247,296	(3,663)	743,146
Total On and Off-Balance Sheet	792,291	971,812	1,795,813	601,214	1,175,535	4,331,022	(99,401)	9,568,286

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By industry sector: (Cont'd.)

2018 Bank	Industry						Stage 1 & 2 Impairment	Total gross maximum exposure
	Trading and manufacturing	Banks and financial institutions	Construction and real estate	Transportation, storage and communication	Government	Others		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
Cash and short-term funds	-	136,151	-	-	-	-	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	-	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	288,654	780,835	460,769	999,615	347,118	-	2,876,991
Financing, advances and other receivables	795,793	113,147	1,076,034	149,340	-	3,547,352	(86,651)	5,595,015
Other assets	-	-	-	-	-	133,302	-	133,302
Statutory deposits with Bank Negara Malaysia	-	211,800	-	-	-	-	-	211,800
Hedging financial instruments	-	3,780	-	-	-	-	-	3,780
Total On-Balance Sheet	795,793	759,287	1,856,869	610,109	999,615	4,027,772	(87,463)	8,961,982
Financial guarantees	-	-	-	-	-	53,458	(1,974)	51,484
Contingent liabilities	982	-	72,574	7,830	-	143,247	(3)	224,630
Commitments	179,384	-	209,547	11,104	-	168,341	(766)	567,610
Total Off-Balance Sheet	180,366	-	282,121	18,934	-	365,046	(2,743)	843,724
Total On and Off-Balance Sheet	976,159	759,287	2,138,990	629,043	999,615	4,392,818	(90,206)	9,805,706

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity:

2019 Group	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
Cash and short-term funds	61,951	-	-	-	-	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	6,820
Securities FVOCI	-	-	1,729,698	1,917,488	-	-	3,647,186
Financing, advances and other receivables	1,628,172	54,896	366,548	2,836,117	-	(95,657)	4,790,076
Other assets	-	-	-	-	129,394	-	129,394
Statutory deposits with Bank Negara Malaysia	-	-	-	-	184,624	-	184,624
Hedging financial instruments	-	-	5,190	-	-	-	5,190
Total On-Balance Sheet	1,696,943	54,896	2,101,436	4,753,605	314,018	(95,738)	8,825,160
Financial guarantees	700	-	52,160	-	-	(451)	52,409
Contingent liabilities	35,932	50,555	38,111	-	-	(1,596)	123,002
Commitments	408,804	23,207	111,704	25,636	-	(1,616)	567,735
Total Off-Balance Sheet	445,436	73,762	201,975	25,636	-	(3,663)	743,146
Total On and Off-Balance Sheet	2,142,379	128,658	2,303,411	4,779,241	314,018	(99,401)	9,568,306

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity (Cont'd.):

2018 Group	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
	RM'000	RM'000	RM'000	RM'000			
Cash and short-term funds	136,151	-	-	-	-	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	35,368	1,296,116	1,557,754	-	-	2,889,238
Financing, advances and other receivables	2,220,203	18,944	437,998	3,004,521	-	(86,651)	5,595,015
Other assets	-	-	-	-	133,425	-	133,425
Statutory deposits with Bank Negara Malaysia	-	-	-	-	211,800	-	211,800
Hedging financial instruments	-	-	3,780	-	-	-	3,780
Total On-Balance Sheet	2,362,109	54,312	1,737,894	4,562,275	345,225	(87,463)	8,974,352
Financial guarantees	900	20	600	51,338	600	(1,974)	51,484
Contingent liabilities	89,179	51,931	59,836	17,415	6,272	(3)	224,630
Commitments	348,451	101,333	29,728	57,344	31,520	(766)	567,610
Total Off-Balance Sheet	438,530	153,284	90,164	126,097	38,392	(2,743)	843,724
Total On and Off-Balance Sheet	2,800,639	207,596	1,828,058	4,688,372	383,617	(90,206)	9,818,076

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity (Cont'd.):

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank							
Cash and short-term funds	61,951	-	-	-	-	(81)	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	6,820
Securities FVOCI	-	-	1,729,698	1,917,488	-	-	3,647,186
Financing, advances and other receivables	1,628,172	54,896	366,548	2,836,117	-	(95,657)	4,790,076
Other assets	-	-	-	-	129,374	-	129,374
Statutory deposits with Bank Negara Malaysia	-	-	-	-	184,624	-	184,624
Hedging financial instruments	-	-	5,190	-	-	-	5,190
Total On-Balance Sheet	1,696,943	54,896	2,101,436	4,753,605	313,998	(95,738)	8,825,140
Financial guarantees	700	-	52,160	-	-	(451)	52,409
Contingent liabilities	35,932	50,555	38,111	-	-	(1,596)	123,002
Commitments	408,804	23,207	111,704	25,636	-	(1,616)	567,735
Total Off-Balance Sheet	445,436	73,762	201,975	25,636	-	(3,663)	743,146
Total On and Off-Balance Sheet	2,142,379	128,658	2,303,411	4,779,241	313,998	(99,401)	9,568,286

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

By residual maturity (Cont'd.):

	Residual Maturity				Not on demand and no maturity date	Stage 1 & 2 Impairment	Total gross maximum exposure
	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years			
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank							
Cash and short-term funds	136,151	-	-	-	-	(812)	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	5,755
Securities FVOCI	-	35,367	1,283,870	1,557,754	-	-	2,876,991
Financing, advances and other receivables	2,220,203	18,944	437,998	3,004,521	-	(86,651)	5,595,015
Other assets	-	-	-	-	133,302	-	133,302
Statutory deposits with Bank Negara Malaysia	-	-	-	-	211,800	-	211,800
Hedging financial instruments	-	-	3,780	-	-	-	3,780
Total On-Balance Sheet	2,362,109	54,311	1,725,648	4,562,275	345,102	(87,463)	8,961,982
Financial guarantees	900	20	600	51,338	600	(1,974)	51,484
Contingent liabilities	89,179	51,931	59,836	17,415	6,272	(3)	224,630
Commitments	348,451	101,333	29,728	57,344	31,520	(766)	567,610
Total Off-Balance Sheet	438,530	153,284	90,164	126,097	38,392	(2,743)	843,724
Total On and Off-Balance Sheet	2,800,639	207,595	1,815,812	4,688,372	383,494	(90,206)	9,805,706

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represents gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the represent the amounts committed or guaranteed, respectively.

Explanation of the terms : 12-month ECL, lifetime ECL and credit-impaired are included in Note 3.3(b)(v).

Group and Bank	31-Dec-19			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Cash & Bank Balances (Less 1 month)				61,951
High Grade	61,951	-	-	61,951
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	81	-	-	81
Carrying amount	61,870	-	-	61,870
Deposit and placement with banks (More 1 month)				6,820
High Grade	6,820	-	-	6,820
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	6,820	-	-	6,820

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

Group and Bank	31-Dec-18			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Cash & Central Bank Balances (Less 1 month)				136,151
High Grade	136,151	-	-	136,151
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	812	-	-	812
Carrying amount	135,339	-	-	135,339
Deposit and placement with banks (More 1 month)				5,755
High Grade	5,755	-	-	5,755
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	5,755	-	-	5,755

Group	31-Dec-19			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				3,647,186
High Grade	3,647,186	-	-	3,647,186
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	25,300	-	-	25,300
Carrying amount	3,621,886	-	-	3,621,886

Group	31-Dec-18			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				2,889,238
High Grade	2,889,238	-	-	2,889,238
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	19,505	-	-	19,505
Carrying amount	2,869,733	-	-	2,869,733

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

Group	31-Dec-19			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				3,647,186
High Grade	3,647,186	-	-	3,647,186
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	25,300	-	-	25,300
Carrying amount	3,621,886	-	-	3,621,886

Group	31-Dec-18			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Investment sukuks - FVOCI				2,876,991
High Grade	2,876,991	-	-	2,876,991
Standard Grade	-	-	-	-
Past due or impaired	-	-	-	-
Loss allowance	19,500	-	-	19,500
Carrying amount	2,857,491	-	-	2,857,491

Group and Bank	31-Dec-19			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Corporate Financing				2,010,908
High Grade	538,797	-	-	538,797
Standard Grade	1,063,868	-	-	1,063,868
Deteriorated rating or	-	146,882	261,361	408,243
Loss allowance	56,151	7,914	133,321	197,386
Carrying amount	1,546,514	138,968	128,040	1,813,522
Retail Financing				3,031,237
High Grade	2,879,175	-	-	2,879,175
Standard Grade	-	-	-	-
Past due or impaired	-	111,998	40,064	152,062
Loss allowance	23,576	8,016	23,092	54,684
Carrying amount	2,855,599	103,982	16,972	2,976,553

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

Group and Bank	31-Dec-18			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Corporate Financing				2,719,788
High Grade	1,259,464	-	-	1,259,464
Standard Grade	1,172,504	-	-	1,172,504
Deteriorated rating or Loss allowance	-	41,275	246,545	287,820
	49,586	9,154	140,129	198,869
Carrying amount	2,382,382	32,121	106,416	2,520,919
Retail Financing				3,107,003
High Grade	2,991,172	-	-	2,991,172
Standard Grade	-	-	-	-
Past due or impaired	-	95,088	20,743	115,831
Loss allowance	21,384	6,527	4,997	32,908
Carrying amount	2,969,788	88,561	15,746	3,074,095

Group and Bank	31-Dec-19			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments (Retail)				27,110
High Grade	26,463	-	-	26,463
Standard Grade	-	-	-	-
Past due or impaired	-	647	-	647
Loss allowance	-	-	-	-
Carrying amount	26,463	647	-	27,110
Undrawn Commitments (Corporate)				542,241
High Grade	413,998	-	-	413,998
Standard Grade	124,581	-	-	124,581
Past due or impaired	-	3,662	-	3,662
Loss allowance	1,615	-	-	1,615
Carrying amount	536,964	3,662	-	540,626
Trade Facilities (Financial Guarantee & Letter of Credit)				177,458
High Grade	175,359	-	-	175,359
Standard Grade	1,499	-	-	1,499
Past due or impaired	-	600	-	600
Loss allowance	1,838	210	-	2,048
Carrying amount	175,020	390	-	175,410

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

Group and Bank	31-Dec-18			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
	RM'000	RM'000	RM'000	RM'000
Undrawn Commitments (Retail)				41,696
High Grade	40,702	-	-	40,702
Standard Grade	-	-	-	-
Past due or impaired	-	994	-	994
Loss allowance	-	-	-	-
Carrying amount	40,702	994	-	41,696
Undrawn Commitments (Corporate)				526,680
High Grade	222,576	-	-	222,576
Standard Grade	281,728	-	-	281,728
Past due or impaired	-	22,376	-	22,376
Loss allowance	765	-	-	765
Carrying amount	503,539	22,376	-	525,915
Trade Facilities (Financial Guarantee & Letter of Credit)				278,091
High Grade	202,501	-	-	202,501
Standard Grade	75,190	-	-	75,190
Past due or impaired	-	400	-	400
Loss allowance	1,837	140	-	1,977
Carrying amount	275,854	260	-	276,114

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

Credit quality per class of financial assets

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

2019 Group	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	61,951	-	-	-	-	61,951
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	6,820
Securities FVOCI	3,647,186	-	-	-	-	3,647,186
Financing, advances and other receivables	1,728,677	2,549,187	445,650	17,206	301,426	5,042,146
Other assets	129,394	-	-	-	-	129,394
Statutory deposits with Bank Negara Malaysia	184,624	-	-	-	-	184,624
Hedging financial instruments	5,190	-	-	-	-	5,190
Total On-Balance Sheet	5,763,842	2,549,187	445,650	17,206	301,426	9,077,311
Financial guarantees	52,860	-	-	-	-	52,860
Contingent liabilities	124,598	-	-	-	-	124,598
Commitments	569,351	-	-	-	-	569,351
Total Off-Balance Sheet	746,809	-	-	-	-	746,809
Total On and Off-Balance Sheet	6,510,651	2,549,187	445,650	17,206	301,426	9,824,120

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

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

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

2018 Group	Performing rated	Performing Unrated	Past due but not impaired	Restructured & rescheduled	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	136,151	-	-	-	-	136,151
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	5,755
Securities FVOCI	2,889,238	-	-	-	-	2,889,238
Financing, advances and other receivables	2,399,525	2,690,356	464,329	5,293	267,288	5,826,791
Other assets	133,425	-	-	-	-	133,425
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	-	3,780
Total On-Balance Sheet	5,779,674	2,690,356	464,329	5,293	267,288	9,206,940
Financial guarantees	53,458	-	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	-	224,633
Commitments	568,376	-	-	-	-	568,376
Total Off-Balance Sheet	846,467	-	-	-	-	846,467
Total On and Off-Balance Sheet	6,626,141	2,690,356	464,329	5,293	267,288	10,053,407

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

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

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

2019 Bank	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	61,951	-	-	-	-	61,951
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	6,820
Securities FVOCI	3,647,186	-	-	-	-	3,647,186
Financing, advances and other receivables	1,728,677	2,549,187	445,650	17,206	301,426	5,042,146
Other assets	129,374	-	-	-	-	129,374
Statutory deposits with Bank Negara Malaysia	184,624	-	-	-	-	184,624
Hedging financial instruments	5,190	-	-	-	-	5,190
Total On-Balance Sheet	5,763,822	2,549,187	445,650	17,206	301,426	9,077,291
Financial guarantees	52,860	-	-	-	-	52,860
Contingent liabilities	124,598	-	-	-	-	124,598
Commitments	569,351	-	-	-	-	569,351
Total Off-Balance Sheet	746,809	-	-	-	-	746,809
Total On and Off-Balance Sheet	6,510,631	2,549,187	445,650	17,206	301,426	9,824,100

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(iii) Credit quality analysis (Cont'd.)

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

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

2018 Bank	Performing rated RM'000	Performing Unrated RM'000	Past due but not impaired RM'000	Restructured & rescheduled RM'000	Impaired RM'000	Total RM'000
Cash and short-term funds	136,151	-	-	-	-	136,151
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	5,755
Securities FVOCI	2,876,991	-	-	-	-	2,876,991
Financing, advances and other receivables	2,399,525	2,690,356	464,329	5,293	267,288	5,826,791
Other assets	133,302	-	-	-	-	133,302
Statutory deposits with Bank Negara Malaysia	211,800	-	-	-	-	211,800
Hedging financial instruments	3,780	-	-	-	-	3,780
Total On-Balance Sheet	5,767,304	2,690,356	464,329	5,293	267,288	9,194,570
Financial guarantees	53,458	-	-	-	-	53,458
Contingent liabilities	224,633	-	-	-	-	224,633
Commitments	568,376	-	-	-	-	568,376
Total Off-Balance Sheet	846,467	-	-	-	-	846,467
Total On and Off-Balance Sheet	6,613,771	2,690,356	464,329	5,293	267,288	10,041,037

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

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

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

2019 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	-
Strong	94
Good	57,944
Satisfactory	601,487
Adequate	707,340
Marginal	188,228
Vulnerable	181,724
Impaired	145,013
Unrated *	3,003,903
	4,885,733
Less: Stage 1 & 2 Impairment	(99,320)
Total Corporate, Commercial and Retail	4,786,413
2018 Group and Bank	Total RM'000
Corporate, Commercial and Retail	
Excellent	-
Very Strong	151
Strong	422,529
Good	958,797
Satisfactory	305,868
Weak	440,479
Special Mention	328,165
Impaired	122,154
Unrated *	3,103,523
	5,681,666
Less: Stage 1 & 2 Impairment	(89,394)
Total Corporate, Commercial and Retail	5,592,272

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2019

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moody's	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA3	A to A3	BBB to BB	B to D			
RAM	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
MARC	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank Securities FVOCI	625,437	398,056	-	-	-	2,623,693	3,647,186

2018

Securities

	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C			
Moody's	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D			
Fitch	AAA to AA3	A to A3	BBB to BB	B to D			
RAM	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	Government - guaranteed	Total
MARC	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group Securities FVOCI	497,266	555,171	-	-	-	1,836,801	2,889,238
Bank Securities FVOCI	485,019	555,171	-	-	-	1,836,801	2,876,991

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

2019

Group and Bank

Financing and advances to customers

Corporate financing

Retail & Consumer financing

Less than 30 days	30 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
8,140	-	-	8,140
325,512	76,152	35,846	437,510
333,652	76,152	35,846	445,650

2018

Group and Bank

Financing and advances to customers

Corporate financing

Retail & Consumer financing

Less than 30 days	30 to 60 days	61 to 90 days	Total
RM'000	RM'000	RM'000	RM'000
56,407	-	50	56,457
314,801	63,634	29,437	407,872
371,208	63,634	29,487	464,329

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(v) Aging analysis of past due but not impaired financing by class of financial assets (Cont'd.)

Impaired and past due financing by geographical regions

2019 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Stage 3 impairment RM'000	Stage 1 & 2 impairment RM'000	Write-off RM'000
Malaysia	301,397	444,377	156,413	99,320	13,323
Middle East	-	320	-	-	-
Others	29	953	-	-	-
Total	301,426	445,650	156,413	99,320	13,323

2018 Group and Bank	Impaired RM'000	Past due but not impaired RM'000	Stage 3 impairment RM'000	Stage 1 & 2 impairment RM'000	Write-off RM'000
Malaysia	267,150	463,655	145,125	89,394	81,774
Others	138	674	-	-	-
Total	267,288	464,329	145,125	89,394	81,774

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(v) Aging analysis of past due but not impaired financing by class of financial assets (Cont'd.)

Impaired and past due financing by industry sector

2019

Group and Bank

Trading and manufacturing
Banks and financial institutions
Construction and real estate
Transportation, storage and
Others

Total

	Impaired	Past due but not impaired	Stage 3 impairment	Stage 1 & 2 impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
	93,864	8,140	59,045		9,378
	-	-	-		2,714
	161,270	698	74,276		-
	-	-	-		-
	46,292	436,812	23,092		1,231
	301,426	445,650	156,413	99,320	13,323

2018

Group and Bank

Trading and manufacturing
Banks and financial institutions
Construction and real estate
Others

Total

	Impaired	Past due but not impaired	Stage 3 impairment	Stage 1 & 2 impairment	Write-off
	RM'000	RM'000	RM'000	RM'000	RM'000
	125,767	17,917	78,139		2,901
	2,892	-	2,892		-
	111,832	39,170	59,098		8,800
	26,797	407,242	4,996		70,073
	267,288	464,329	145,125	89,394	81,774

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) Amounts arising from ECL

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following table explains the changes in the gross carrying amount of non-retail portfolio inclusive of non-retail financing, cash and bank balances, deposits and securities to help explain their significance to the changes in the loss allowances for the same portfolio as discussed above:

Non - Retail	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Gross carrying amount as at 1 January 2019	6,264,612	64,051	246,545	6,575,208
Transfers:				
New financial assets originated	3,523,736	151,145	261,361	3,936,242
Financial assets derecognised during the period other than write-offs	(3,414,070)	(64,049)	(234,453)	(3,712,572)
Changes in Carrying Amount	(346,394)	(647)	-	(347,041)
Write-offs	-	-	(12,092)	(12,092)
Gross carrying amount as at 31 December 2019	6,027,884	150,500	261,361	6,439,745

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) Amounts arising from ECL (Cont'd.)

The following table explains the changes in the gross carrying amount of retail portfolio to help explain their significance to the changes in the loss allowances for the same portfolio as discussed above:

Retail	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Gross carrying amount as at 1 January 2019	2,991,172	95,088	20,743	3,107,003
Transfers:				
Transfer to Stage 1	30,341	(29,388)	(953)	-
Transfer to Stage 2	(64,479)	65,796	(1,317)	-
Transfer to Stage 3	(13,157)	(12,529)	25,686	-
New financial assets	261,761	4,133	1,253	267,147
Financial assets derecognised during the period other than write-offs	(128,836)	(4,073)	(2,742)	(135,651)
Changes in Carrying Amount	(171,164)	(6,381)	(1,375)	(178,920)
Write-offs	-	-	(1,231)	(1,231)
Gross carrying amount as at 31 December 2019	2,905,638	112,646	40,064	3,058,348

The following table further explains the changes in the loss allowance for non-retail portfolio, inclusive of non-retail financing, cash and bank balances, deposits and securities between the beginning and the end of the annual period due to these factors:

Non-Retail	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Loss allowance as at 1 January 2019	72,505	9,294	140,129	221,928
Movements with income statement impact				
New financial assets originated	67,718	8,124	133,321	209,163
Financial assets derecognised during the period	(54,411)	(9,294)	(128,037)	(191,742)
Changes in PDs/LGDs/EADs	(826)	-	-	(826)
Write-offs	-	-	(12,092)	(12,092)
Loss allowance as at 31 December 2019	84,986	8,124	133,321	226,431

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) Amounts arising from ECL (Cont'd.)

The following table further explains change in the loss allowance for retail portfolio between the beginning and the end of the annual period due to these factors:

Retail	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Loss allowance as at 1 January 2019	21,384	6,527	4,997	32,908
Movements with income statement impact				
Transfers:				
Transfer to Stage 1	2,260	(1,712)	(548)	-
Transfer to Stage 2	(743)	918	(175)	-
Transfer to Stage 3	(175)	(722)	897	-
New financial assets originated	4,708	258	1,000	5,966
Financial assets derecognised during the period	(1,288)	(189)	(42)	(1,519)
Changes in PDs/LGDs/EADs	(2,570)	2,936	18,194	18,560
Write-offs	-	-	(1,231)	(1,231)
Loss allowance as at 31 December 2019	23,576	8,016	23,092	54,684

The following table explains the changes in the gross carrying amount of non-retail portfolio inclusive of non-retail financing, cash and bank balances, deposits and securities to help explain their significance to the changes in the loss allowances for the same portfolio as discussed above:

Non - Retail Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Gross carrying amount as at 1 January 2018	6,431,454	102,472	358,508	6,892,434
Transfers:				
Transfer to Stage 3	(525)	(6,249)	6,774	-
New financial assets originated	4,499,277	59,974	226,224	4,785,475
Financial assets derecognised during the period other than write-offs	(4,375,818)	(91,503)	(279,550)	(4,746,871)
Changes in Carrying Amount	(289,776)	(643)	(11,710)	(302,129)
Write-offs	-	-	(53,701)	(53,701)
Gross carrying amount as at 31 December 2018	6,264,612	64,051	246,545	6,575,208

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) Amounts arising from ECL (Cont'd.)

The following table explains the changes in the gross carrying amount of retail portfolio to help explain their significance to the changes in the loss allowances for the same portfolio as discussed above:

Retail Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Gross carrying amount as at 1 January 2018	2,717,906	79,037	61,971	2,858,914
Transfers:				
Transfer to Stage 1	40,576	(32,313)	(8,263)	-
Transfer to Stage 2	(46,356)	49,832	(3,476)	-
Transfer to Stage 3	(10,776)	(6,314)	17,090	-
New financial assets originated	720,792	14,534	5,614	740,940
Financial assets derecognised during the period other than write-offs	(244,873)	(6,689)	(4,134)	(255,696)
Changes in Carrying Amount	(186,097)	(2,999)	(3,861)	(192,957)
Write-offs	-	-	(44,198)	(44,198)
Gross carrying amount as at 31 December 2018	2,991,172	95,088	20,743	3,107,003

The following table further explains the changes in the loss allowance for non-retail portfolio, inclusive of non-retail financing, cash and bank balances, deposits and securities between the beginning and the end of the annual period due to these factors:

Non- Retail Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Loss allowance as at 1 January 2018	91,065	263	228,623	319,951
Movements with income statement impact				
Transfers:				
Transfer to Stage 3	(12)	-	12	-
New financial assets originated	34,268	8,234	129,705	172,207
Financial assets derecognised during the period	(78,872)	(191)	(146,848)	(225,911)
Changes in PDs/LGDs/EADs	26,056	988	(17,662)	9,382
Write-offs	-	-	(53,701)	(53,701)
Loss allowance as at 31 December 2018	72,505	9,294	140,129	221,928

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vi) Amounts arising from ECL (Cont'd.)

The following table further explains the changes in the loss allowance for retail portfolio between the beginning and the end of the annual period due to these factors:

Retail Group	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime	Lifetime ECL	
	RM000	RM000	RM000	RM000
Loss allowance as at 1 January 2018	23,625	5,564	35,249	64,438
Movements with income statement impact				
Transfers:				
Transfer to Stage 1	4,478	(2,738)	(1,740)	-
Transfer to Stage 2	(618)	1,345	(727)	-
Transfer to Stage 3	(171)	(303)	474	-
New financial assets originated	7,576	901	1,857	10,334
Financial assets derecognised during the period	(2,101)	(375)	(1,218)	(3,694)
Changes in PDs/LGDs/EADs	(11,405)	2,133	15,300	6,028
Write-offs	-	-	(44,198)	(44,198)
Loss allowance as at 31 December 2018	21,384	6,527	4,997	32,908

Write off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was RM13,323,462 (2018 : RM81,774,296). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

Modified financial assets

There were no financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL on 2019 and 2018.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

(vii) Carrying amount by class of financial assets whose terms have been

Collateral held and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Margin agreement for derivatives, for which the Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving

Collateral held as security for financial assets other than financing and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. The Bank holds collateral and other credit risk enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Collateral held and other credit enhancements (Cont'd.)

Financing and advances RM'000	Percentage of exposure that is subject to collateral requirements		
	31-Dec-19	31-Dec-18	Principle type of collateral
Financing and advances	4,790,076	5,592,272	
Corporate	59.70%	62.89%	Real Estate, Securities, Cash
Retail	38.02%	35.64%	Real Estate & Cash

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired portfolio:

Mortgage portfolio – LTV	Credit-impaired (Gross carrying amount)	
	31-Dec-19	31-Dec-18
LTV ratio		
Less than 50%	-	-
51–70%	526,471	1,858,669
71–90%	10,479,054	6,821,158
91–100%	10,930,175	8,938,925
More than 100%	-	-
Total	21,935,700	17,618,752

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(a) CREDIT RISK (Cont'd.)

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

Collateral

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

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

The financial effect of collateral (quantification of the extent to which collateral and other enhancements mitigate credit risk) held for financing, advances and other receivables for the Bank is at 67.7% as at 31 December 2019 (2018: 65.3%). The financial effect of collateral held for other financial assets is not significant.

Guidelines on Musyarakah and Mudharabah Contracts for Islamic Banking Institutions

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

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

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47. FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK

Liquidity risk is defined as the exposure to loss as a result of the inability to meet cash flow obligations in a timely and cost-effective manner. It arises when the Bank does not have sufficient maturing assets to cover maturing liabilities that are not rolled-over. The Bank has adopted the BNM's liquidity standard on Liquidity Coverage Ratio, to ensure maintenance of adequate stock of unencumbered high quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank continues to report Net Stable Funding as part of BNM requirements under Observation Period. Ratio under the Basel III observation reporting to BNM.

The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Group are monitored regularly against the established policies, procedures and limits.

Contractual maturity of total assets and liabilities

The tables below provide analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities as at 31 December 2019 and 31 December 2018. The disclosure is made in accordance with the requirement of Financial Reporting for Islamic Banking Institutions.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

2019 Group	Up to	>6 - 12	>1 - 5	Over 5	Not on demand	Total
	6 months	months	years	years	& no maturity date	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	3,750	-	-	-	58,120	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	6,820
Securities FVTPL	-	-	-	-	219	219
Securities FVOCI	-	-	1,729,698	1,917,488	-	3,647,186
Financing, advances and receivables	1,580,370	21,452	669,356	2,515,235	-	4,786,413
Equity instruments at FVOCI	-	-	-	-	18	18
Other assets	-	-	-	-	568,748	568,748
Hedging Financial Instrument Assets	5,190	-	-	-	-	5,190
Total Assets	1,596,130	21,452	2,399,054	4,432,723	627,105	9,076,464
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,816,243	1,620,401	189,574	-	495,420	5,121,638
Deposits and placements of banks and other financial institutions	1,942,511	111,239	-	-	-	2,053,750
Investment accounts of customers	-	-	-	-	6,820	6,820
Hedging Financial Instrument Assets	7,508	118	-	-	-	7,626
Other liabilities	-	-	-	-	169,274	169,274
Total Liabilities	4,766,262	1,731,758	189,574	-	671,514	7,359,108
Shareholder's equity	-	-	-	-	1,717,356	1,717,356
Total Liabilities and Shareholder's equity	4,766,262	1,731,758	189,574	-	2,388,870	9,076,464
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	445,437	73,761	201,975	25,636	-	746,809
Net maturity mismatch	(3,615,569)	(1,784,067)	2,007,505	4,407,087	(1,761,765)	(746,809)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to	>6 - 12	>1 - 5	Over 5	Not on demand	Total
	6 months	months	years	years	& no maturity date	
2018 Group	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Cash and short-term funds	15,184	-	-	-	120,155	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	5,755
Securities FVTPL	-	-	-	-	1,059	1,059
Securities FVOCI	-	35,367	1,296,117	1,557,754	-	2,889,238
Financing, advances and receivables	1,898,009	10,187	729,078	2,954,998	-	5,592,272
Equity instruments at FVOCI	-	-	-	-	18	18
Hedging Financial Instrument Assets	3,655	125	-	-	-	3,780
Other assets	-	-	181,806	-	485,532	667,338
Total Assets	1,922,603	45,679	2,207,001	4,512,752	606,764	9,294,799
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,118,100	656,257	190,497	-	614,145	4,578,999
Deposits and placements of banks and other financial institutions	2,691,725	215,016	-	-	-	2,906,741
Investment accounts of customers	-	-	-	-	5,755	5,755
Hedging Financial Instrument Assets	4,201	305	-	-	-	4,506
Other liabilities	-	-	-	-	101,247	101,247
Total Liabilities	5,814,026	871,578	190,497	-	721,147	7,597,248
Shareholder's equity	-	-	-	-	1,697,551	1,697,551
Total Liabilities and Shareholder's equity	5,814,026	871,578	190,497	-	2,418,698	9,294,799
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	399,718	145,818	68,886	57,415	174,630	846,467
Net maturity mismatch	(4,291,141)	(971,717)	1,947,618	4,455,337	(1,986,564)	(846,467)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to 6 months	>6 - 12 months	>1 - 5 years	Over 5 years	Not on demand & no maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Bank						
ASSETS						
Cash and short-term funds	3,750	-	-	-	58,120	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	6,820
Securities FVTPL	-	-	-	-	219	219
Securities FVOCI	-	-	1,729,698	1,917,488	-	3,647,186
Financing, advances and receivables	1,580,370	21,452	669,356	2,515,235	-	4,786,413
Equity instruments at FVOCI	-	-	-	-	18	18
Hedging Financial Instrument Assets	5,190	-	-	-	-	5,190
Other assets	-	-	-	-	578,928	578,928
Total Assets	1,596,130	21,452	2,399,054	4,432,723	637,285	9,086,644
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	2,815,774	1,620,401	189,574	-	512,333	5,138,082
Deposits and placements of banks and other financial institutions	1,942,511	111,239	-	-	-	2,053,750
Investment accounts of customers	-	-	-	-	6,820	6,820
Hedging Financial Instrument Assets	7,508	118	-	-	-	7,626
Other liabilities	-	-	-	-	168,971	168,971
Total Liabilities	4,765,793	1,731,758	189,574	-	688,124	7,375,249
Shareholder's equity	-	-	-	-	1,711,395	1,711,395
Total Liabilities and Shareholder's equity	4,765,793	1,731,758	189,574	-	2,399,519	9,086,644
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	445,437	73,761	201,975	25,636	-	746,809
Net maturity mismatch	(3,615,100)	(1,784,067)	2,007,505	4,407,087	(1,762,234)	(746,809)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

	Up to	>6 - 12	>1 - 5	Over 5	Not on demand	Total
	6 months	months	years	years	& no maturity date	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018						
Bank						
ASSETS						
Cash and short-term funds	15,184	-	-	-	120,155	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	5,755
Securities FVTPL	-	-	-	-	1,059	1,059
Securities FVOCI	-	35,367	1,283,870	1,557,754	-	2,876,991
Financing, advances and receivables	1,898,261	10,187	728,826	2,954,998	-	5,592,272
Equity instruments at FVOCI	-	-	-	-	18	18
Hedging Financial Instrument Assets	3,655	125	-	-	-	3,780
Other assets	-	-	181,806	-	495,191	676,997
Total Assets	1,922,855	45,679	2,194,502	4,512,752	616,423	9,292,211
LIABILITIES AND SHAREHOLDER'S EQUITY						
Deposits from customers	3,106,206	655,925	190,497	-	523,012	4,475,640
Deposits and placements of banks and other financial institutions	2,821,570	215,016	-	-	-	3,036,586
Investment accounts of customers	-	-	-	-	5,755	5,755
Hedging Financial Instrument Assets	4,201	305	-	-	-	4,506
Other liabilities	-	-	-	-	101,046	101,046
Total Liabilities	5,931,977	871,246	190,497	-	629,813	7,623,533
Shareholder's equity	-	-	-	-	1,668,678	1,668,678
Total Liabilities and Shareholder's equity	5,931,977	871,246	190,497	-	2,298,491	9,292,211
OFF-BALANCE SHEET LIABILITIES						
Commitments & contingencies	399,718	145,818	68,886	57,415	174,630	846,467
Net maturity mismatch	(4,408,840)	(971,385)	1,935,119	4,455,337	(1,856,698)	(846,467)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

Contractual maturity of financial liabilities on an undiscounted basis

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

Group	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Deposits from customers	2,860,671	1,658,896	208,241	-	495,420	5,223,228
Deposit and placements of banks and other financial institutions	1,972,294	113,807	-	-	-	2,086,101
Investment account of customers	-	-	-	-	6,820	6,820
Other liabilities	-	-	-	-	169,274	169,274
Total	4,832,965	1,772,703	208,241	-	671,514	7,485,423
2018						
Deposits from customers	3,168,267	672,158	209,642	-	614,145	4,664,212
Deposit and placements of banks and other financial institutions	2,740,897	220,935	-	-	-	2,961,832
Investment account of customers	-	-	-	-	5,755	5,755
Other liabilities	-	-	-	-	101,247	101,247
Total	5,909,164	893,093	209,642	-	721,147	7,733,046

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

Bank	Up to 6 months	> 6 -12 months	> 1 – 5 years	Over 5 years	Not on demand & no maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Deposits from customers	2,860,194	1,658,896	208,241	-	512,333	5,239,664
Deposit and placements of banks and other financial institutions	1,972,294	113,807	-	-	-	2,086,101
Investment account of customers	-	-	-	-	6,820	6,820
Other liabilities	-	-	-	-	168,971	168,971
Total	4,832,488	1,772,703	208,241	-	688,124	7,501,556
2018						
Deposits from customers	3,157,242	672,157	210,065	-	523,012	4,562,476
Deposit and placements of banks and other financial institutions	2,872,333	220,845	-	-	-	3,093,178
Investment account of customers	-	-	-	-	5,755	5,755
Other liabilities	-	-	-	-	101,046	101,046
Total	6,029,575	893,002	210,065	-	629,813	7,762,455

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(b) LIQUIDITY RISK (Cont'd.)

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

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

(c) MARKET RISK

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

i. Traded Market Risk

Traded Market Risk arising from financial instruments held either with trading intent or to hedge other elements of the Trading Book. Positions held with trading intent are those held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits. These positions attract market risk capital charge. For example, proprietary positions, positions arising from client servicing and market making.

ii. Non-Traded Market Risk

Rate of Return in the Banking Book

Rate of return risk in the banking book refers to the risk of the Bank's earnings and economic value of equity due to the adverse movements in benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

The following tables indicate the effective rate of return at the reporting date and the Group's and the Bank's sensitivity to the rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of financing and advances.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Group 2019	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	3,750	-	-	-	-	58,120	-	61,870	2.41%
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	-	6,820	
Securities FVTPL	-	-	-	-	-	-	219	219	
Securities FVOCI	-	-	-	1,729,698	1,917,488	-	-	3,647,186	4.40%
Financing, advances and receivables	1,001,063	1,798,649	77,549	266,283	1,443,712	199,157	-	4,786,413	5.05%
Equity instruments at FVOCI	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	568,748	-	568,748	
Hedging Financial Instrument Assets	4,446	656	88	-	-	-	-	5,190	
TOTAL ASSETS	1,016,079	1,799,305	77,637	1,995,981	3,361,200	826,043	219	9,076,464	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (continued)

Group	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
2019									
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,384,830	1,060,667	2,131,345	460,455	-	84,341	-	5,121,638	3.18
Deposits and placements of banks and other financial institutions	924,504	922,863	206,383	-	-	-	-	2,053,750	3.09
Investment accounts of customers	6,820	-	-	-	-	-	-	6,820	
Hedging Financial Instrument Liabilities	6,985	41	600	-	-	-	-	7,626	
Other liabilities	-	-	-	-	-	169,274	-	169,274	
Total Liabilities	2,323,139	1,983,571	2,338,328	460,455	-	253,615	-	7,359,108	
Shareholder's equity	-	-	-	-	-	1,717,356	-	1,717,356	
Total Liabilities and Shareholder's equity	2,323,139	1,983,571	2,338,328	460,455	-	1,970,971	-	9,076,464	
On-balance sheet profit sensitivity gap	(1,307,060)	(184,266)	(2,260,691)	1,535,526	3,361,200	(1,144,928)	219	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,307,060)	(184,266)	(2,260,691)	1,535,526	3,361,200	(1,144,928)	219	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Group 2018	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000			
ASSETS									
Cash and short-term funds	15,184	-	-	-	-	120,155	-	135,339	2.55
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	-	5,755	
Securities FVTPL	-	-	-	-	-	-	1,059	1,059	
Securities FVOCI	-	-	35,367	1,296,116	1,557,755	-	-	2,889,238	4.28
Financing, advances and receivables	1,289,206	2,032,387	247,537	218,009	1,768,363	36,770	-	5,592,272	5.42
Equity instruments at FVOCI	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	667,338	-	667,338	
Hedging Financial Instrument Assets	-	2,527	1,253	-	-	-	-	3,780	
TOTAL ASSETS	1,310,145	2,034,914	284,157	1,514,125	3,326,118	824,281	1,059	9,294,799	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Group	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,156,960	1,198,067	1,419,289	190,497	-	614,186	-	4,578,999	3.24
Deposits and placements of banks and other financial institutions	1,275,719	953,306	677,716	-	-	-	-	2,906,741	3.69
Investment accounts of customers	5,755	-	-	-	-	-	-	5,755	
Hedging Financial Instrument Liabilities	1,065	2,692	648	101	-	-	-	4,506	
Other liabilities	-	-	-	-	-	101,247	-	101,247	
Total Liabilities	2,439,499	2,154,065	2,097,653	190,598	-	715,433	-	7,597,248	
Shareholder's equity	-	-	-	-	-	1,697,551	-	1,697,551	
Total Liabilities and Shareholder's equity	2,439,499	2,154,065	2,097,653	190,598	-	2,412,984	-	9,294,799	
On-balance sheet profit sensitivity gap	(1,129,354)	(119,151)	(1,813,496)	1,323,527	3,326,118	(1,588,703)	1,059	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,129,354)	(119,151)	(1,813,496)	1,323,527	3,326,118	(1,588,703)	1,059	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
Bank 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	3,750	-	-	-	-	58,120	-	61,870	2.41
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	-	6,820	
Securities FVTPL	-	-	-	-	-	-	219	219	
Securities FVOCI	-	-	-	1,729,698	1,917,488	-	-	3,647,186	4.40
Financing, advances and receivables	1,001,063	1,798,649	77,549	266,283	1,443,712	199,157	-	4,786,413	5.05
Equity instruments at FVOCI	-	-	-	-	-	18	-	18	
Hedging Financial Instrument Assets	4,446	656	88	-	-	-	-	5,190	
Other assets	-	-	-	-	-	578,928	-	578,928	
TOTAL ASSETS	1,016,079	1,799,305	77,637	1,995,981	3,361,200	836,223	219	9,086,644	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Bank 2019	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,389,942	1,060,667	2,131,345	471,787	-	84,341	-	5,138,082	3.17
Deposits and placements of banks and other financial institutions	924,504	922,863	206,383	-	-	-	-	2,053,750	3.09
Investment accounts of customers	6,820	-	-	-	-	-	-	6,820	
Hedging Financial Instrument Liabilities	6,985	41	600	-	-	-	-	7,626	
Other liabilities	-	-	-	-	-	168,971	-	168,971	
Total Liabilities	2,328,251	1,983,571	2,338,328	471,787	-	253,312	-	7,375,249	
Shareholder's equity	-	-	-	-	-	1,711,395	-	1,711,395	
Total Liabilities and Shareholder's equity	2,328,251	1,983,571	2,338,328	471,787	-	1,964,707	-	9,086,644	
On-balance sheet profit sensitivity gap	(1,312,172)	(184,266)	(2,260,691)	1,524,194	3,361,200	(1,128,484)	219	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,312,172)	(184,266)	(2,260,691)	1,524,194	3,361,200	(1,128,484)	219	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non-profit sensitive			
Bank 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
ASSETS									
Cash and short-term funds	15,184	-	-	-	-	120,155	-	135,339	2.55
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	-	5,755	
Securities FVTPL	-	-	-	-	-	-	1,059	1,059	
Securities FVOCI	-	-	35,367	1,283,870	1,557,754	-	-	2,876,991	4.29
Financing, advances and receivables	1,289,206	2,032,387	247,537	218,009	1,768,363	36,770	-	5,592,272	5.42
Equity instruments at FVOCI	-	-	-	-	-	18	-	18	
Other assets	-	-	-	-	-	676,997	-	676,997	
Hedging Financial Instrument Assets	-	2,527	1,253	-	-	-	-	3,780	
TOTAL ASSETS	1,310,145	2,034,914	284,157	1,501,879	3,326,117	833,940	1,059	9,292,211	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

Bank 2018	Non-trading book						Trading book	Total	Effective profit rate
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 - 5 years	Over 5 years	Non- profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%	
LIABILITIES AND SHAREHOLDER'S EQUITY									
Deposits from customers	1,149,906	1,197,579	1,414,605	190,497	-	523,053	-	4,475,640	3.31
Deposits and placements of banks and other financial institutions	1,380,717	974,000	681,869	-	-	-	-	3,036,586	3.63
Investment accounts of customers	5,755	-	-	-	-	-	-	5,755	
Hedging Financial Instrument Liabilities	1,065	2,692	648	101	-	-	-	4,506	
Other liabilities	-	-	-	-	-	101,046	-	101,046	
Total Liabilities	2,537,443	2,174,271	2,097,122	190,598	-	624,099	-	7,623,533	
Shareholder's equity	-	-	-	-	-	1,668,678	-	1,668,678	
Total Liabilities and Shareholder's equity	2,537,443	2,174,271	2,097,122	190,598	-	2,292,777	-	9,292,211	
On-balance sheet profit sensitivity gap	(1,227,299)	(139,357)	(1,812,965)	1,311,281	3,326,117	(1,458,837)	1,059	-	
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	(1,227,299)	(139,357)	(1,812,965)	1,311,281	3,326,117	(1,458,837)	1,059	-	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

The following table indicates the sensitivity of the earnings and the economic value of equity upward and downward rate shocks.

Profit Rate Risk Sensitivity Analysis

2019	Impact on Position as at Reporting Period (100 basis points) Parallel			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(18,808)	18,808	266,629	(266,629)
USD - United States Dollars	(2,956)	2,956	4,702	(4,702)
Other Currencies	(6)	6	(154)	154
Total	(21,770)	21,770	271,177	(271,177)
Bank				
MYR - Ringgit Malaysia	(18,818)	18,818	266,629	(266,629)
USD - United States Dollars	(2,986)	2,986	4,546	(4,546)
Other Currencies	(20)	20	(162)	162
Total	(21,824)	21,824	271,013	(271,013)

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(c) MARKET RISK (Cont'd.)

ii. Non-Traded Market Risk (Cont'd.)

Rate of Return in the Banking Book (Cont'd.)

2018	Impact on Position as at Reporting Period (100 basis points) Parallel			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	RM'000	RM'000	RM'000	RM'000
Group				
MYR - Ringgit Malaysia	(20,562)	20,562	187,459	(187,459)
USD - United States Dollars	(3,603)	3,603	8,101	(8,101)
Other Currencies	(96)	96	(340)	340
Total	(24,261)	24,261	195,220	(195,220)
Bank				
MYR - Ringgit Malaysia	(20,565)	20,565	187,462	(187,462)
USD - United States Dollars	(4,707)	4,707	7,855	(7,855)
Other Currencies	(96)	96	(340)	340
Total	(25,368)	25,368	194,977	(194,977)

Note:

The earnings and economic values were computed based on the standardised approach adopted by BNM.

The reported amounts do not capture the impact of business growth or of management actions and are based on the balance sheet as at reporting date. In reality, the Assets & Liabilities Management Committee ("ALCO") seeks to proactively change the rate of return risk profile to minimise losses and maximise net revenue. The projection assumes a constant statements of financial position and that all positions run to maturity.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(d) FOREIGN EXCHANGE RISK

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

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

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

Group 2019	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	25,835	9,805	16,479	4,695	835	4,221	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	6,820
Securities FVTPL	-	-	219	-	-	-	219
Securities FVOCI	3,335,923	-	311,263	-	-	-	3,647,186
Financing, advances and receivables	4,653,952	-	132,461	-	-	-	4,786,413
Equity instruments at FVOCI	18	-	-	-	-	-	18
Other assets	573,938	-	-	-	-	-	573,938
Total Assets	8,596,486	9,805	460,422	4,695	835	4,221	9,076,464

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2019 (Cont'd.)	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,509,167	251,205	352,589	4,116	956	3,605	5,121,638
Deposits and placements of banks and other financial institutions	1,541,643	-	512,107	-	-	-	2,053,750
Investment account of customers	6,820	-	-	-	-	-	6,820
Other liabilities	176,900	-	-	-	-	-	176,900
Total Liabilities	6,234,530	251,205	864,696	4,116	956	3,605	7,359,108
Shareholder's equity	1,717,356	-	-	-	-	-	1,717,356
Total Liabilities and Shareholder's equity	7,951,886	251,205	864,696	4,116	956	3,605	9,076,464
On-balance sheet open position	644,600	(241,400)	(404,274)	579	(121)	616	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	644,600	(241,400)	(404,274)	579	(121)	616	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Group 2018	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	123,589	9,115	-	-	-	2,635	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	5,755
Securities FVTPL	-	-	1,059	-	-	-	1,059
Securities FVOCI	2,496,316	-	392,922	-	-	-	2,889,238
Financing, advances and receivables	5,461,591	-	130,681	-	-	-	5,592,272
Equity instruments at FVOCI	18	-	-	-	-	-	18
Other assets	671,118	-	-	-	-	-	671,118
Total Assets	8,758,387	9,115	524,662	-	-	2,635	9,294,799
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,191,875	254,919	128,285	-	-	3,920	4,578,999
Deposits and placements of banks and other financial institution	2,372,661	-	534,080	-	-	-	2,906,741
Investment account of customers	5,755	-	-	-	-	-	5,755
Other liabilities	105,753	-	-	-	-	-	105,753
Total Liabilities	6,676,044	254,919	662,365	-	-	3,920	7,597,248
Shareholder's equity	1,697,551	-	-	-	-	-	1,697,551
Total Liabilities and Shareholder's equity	8,373,595	254,919	662,365	-	-	3,920	9,294,799
On-balance sheet open position	384,792	(245,804)	(137,703)	-	-	(1,285)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	384,792	(245,804)	(137,703)	-	-	(1,285)	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2019	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	25,835	9,805	16,479	4,695	835	4,221	61,870
Placements of investment accounts with Bank Negara Malaysia	6,820	-	-	-	-	-	6,820
Securities FVTPL	-	-	219	-	-	-	219
Securities FVOCI	3,335,923	-	311,263	-	-	-	3,647,186
Financing, advances and receivables	4,653,952	-	132,461	-	-	-	4,786,413
Equity instruments at FVOCI	18	-	-	-	-	-	18
Other assets	584,118	-	-	-	-	-	584,118
Total Assets	8,606,666	9,805	460,422	4,695	835	4,221	9,086,644
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,526,079	251,205	352,121	4,116	956	3,605	5,138,082
Deposits and placements of banks and other financial institutions	1,541,643	-	512,107	-	-	-	2,053,750
Investment account of customers	6,820	-	-	-	-	-	6,820
Other liabilities	176,597	-	-	-	-	-	176,597
Total Liabilities	6,251,139	251,205	864,228	4,116	956	3,605	7,375,249
Shareholder's equity	1,711,395	-	-	-	-	-	1,711,395
Total Liabilities and Shareholder's equity	7,962,534	251,205	864,228	4,116	956	3,605	9,086,644
On-balance sheet open position	644,132	(241,400)	(403,806)	579	(121)	616	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	644,132	(241,400)	(403,806)	579	(121)	616	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Bank 2018	MYR RM'000	SGD RM'000	USD RM'000	EUR RM'000	KWD RM'000	Others RM'000	Total RM'000
ASSETS							
Cash and short-term funds	123,589	9,115	-	-	-	2,635	135,339
Placements of investment accounts with Bank Negara Malaysia	5,755	-	-	-	-	-	5,755
Securities FVTPL	-	-	1,059	-	-	-	1,059
Securities FVOCI	2,496,315	-	380,676	-	-	-	2,876,991
Financing, advances and receivables	5,461,591	-	130,681	-	-	-	5,592,272
Equity instruments at FVOCI	18	-	-	-	-	-	18
Other assets	680,777	-	-	-	-	-	680,777
Total Assets	8,768,045	9,115	512,416	-	-	2,635	9,292,211
LIABILITIES AND SHAREHOLDER'S EQUITY							
Deposits from customers	4,100,719	247,320	123,681	-	-	3,920	4,475,640
Deposits and placements of banks and other financial institutions	2,372,661	7,604	656,321	-	-	-	3,036,586
Investment account of customers	5,755	-	-	-	-	-	5,755
Other liabilities	105,552	-	-	-	-	-	105,552
Total Liabilities	6,584,687	254,924	780,002	-	-	3,920	7,623,533
Shareholder's equity	1,668,678	-	-	-	-	-	1,668,678
Total Liabilities and Shareholder's equity	8,253,365	254,924	780,002	-	-	3,920	9,292,211
On-balance sheet open position	514,680	(245,809)	(267,586)	-	-	(1,285)	-
Off-balance sheet open position	-	-	-	-	-	-	-
Net open position	514,680	(245,809)	(267,586)	-	-	(1,285)	-

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2019. The analysis calculates the effect of a reasonably possible movement of the currencies' exchange rates against Ringgit Malaysia, with all other variables held constant, on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2019		2018	
	Change in exchange rate %	Effect on Income Statements/ Equity RM'000	Change in exchange rate %	Effect on Income Statements/ Equity RM'000
Group				
Singapore Dollar (SGD)	1	(2,414)	1	(2,458)
US Dollar (USD)	1	(4,043)	1	(1,377)
Euro (EUR)	1	6	1	-
Bank				
Singapore Dollar (SGD)	1	(2,414)	1	(2,458)
US Dollar (USD)	1	(4,038)	1	(2,676)
Euro (EUR)	1	6	1	-

(e) Credit Risk Disclosures for portfolios under the Standardised Approach

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

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

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

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

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

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2019

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures	RM '000	RM '000	RM '000	RM '000	RM '000	
Credit exposures (using corporate risk-weights)						
Group Corporates	590,812	107,457	81,870	-	3,832,888	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2019 (Cont'd.)

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000
Credit exposures (using corporate risk-weights)						
Bank						
Corporates		590,812	107,457	81,870	-	3,832,888

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018

Exposure class	Rating of Corporates by approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000
Credit exposures (using corporate risk-weights)						
Group						
Corporates		357,754	166,111	140,551	-	4,063,385
Bank						
Corporates		357,754	166,111	140,551	-	4,063,385

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2019

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group							
Sovereigns/Central Banks		-	1,139,288	-	-	-	196,461
Bank							
Sovereigns/Central Banks		-	1,139,288	-	-	-	196,461

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2019 (Cont'd.)

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group							
Banks, MDBs and FDIs		20,501	25,691	4,821	-	-	21,180
Bank							
Banks, MDBs and FDIs		24,936	21,256	4,821	-	-	21,180

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018

Exposure class	Rating of Sovereigns and Central Banks by approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	
Group							
Sovereigns/Central Banks	12,241	963,075	-	-	-	228,391	
Bank							
Sovereigns/Central Banks	-	963,075	-	-	-	228,391	

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018 (Cont'd.)

Exposure class	Rating of Banking Institutions by approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures		RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Group							
Banks, MDBs and FDIs		37,536	66,141	330	39	-	54,247
Bank							
Banks, MDBs and FDIs		37,536	66,141	330	39	-	54,247

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

2019

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,335,749	924,184	-
Banks, Development Financial Institutions & MDBs	58,349	20,487	-
Corporates	4,136,705	1,761,516	119,607
Regulatory Retail	1,890,224	-	3,892
Residential Mortgages	1,056,790	-	886
Higher Risk Assets ¹	237	-	-
Other Assets	350,934	-	-
Defaulted Exposures ²	296,424	-	2,732
Total On Balance Sheet Exposures	9,125,412	2,706,187	127,117
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	13,844	-	-
Off-balance sheet exposures other than OTC	254,731	-	-
Total Off-Balance Sheet Exposures	268,575	-	-
Total On and Off-Balance Sheet Exposures	9,393,987	2,706,187	127,117

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

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

2018

Group	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,203,707	735,874	-
Banks, Development Financial Institutions & MDBs	140,906	39,974	-
Corporates	4,342,305	1,216,583	126,460
Regulatory Retail	2,013,133	-	3,348
Residential Mortgages	1,018,422	-	1,209
Higher Risk Assets ¹	1,077	-	-
Other Assets	287,321	-	-
Defaulted Exposures ²	172,232	-	2,682
Total On Balance Sheet Exposures	9,179,103	1,992,431	133,699
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	17,388	-	-
Off-balance sheet exposures other than OTC	307,077	-	-
Total Off-Balance Sheet Exposures	324,465	-	-
Total On and Off-Balance Sheet Exposures	9,503,568	1,992,431	133,699

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2019

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,335,749	924,184	-
Banks, Development Financial Institutions & MDBs	58,349	20,487	-
Corporates	4,136,705	1,761,516	119,607
Regulatory Retail	1,890,224	-	3,892
Residential Mortgages	1,056,790	-	886
Higher Risk Assets ¹	237	-	-
Other Assets	350,914	-	-
Defaulted Exposures ²	296,424	-	2,732
Total On-Balance Sheet Exposures	9,125,392	2,706,187	127,117
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	13,844	-	-
Off-balance sheet exposures other than OTC derivatives ⁴	254,731	-	-
Total Off Balance Sheet Exposures	268,575	-	-
Total On and Off-Balance Sheet Exposures	9,393,967	2,706,187	127,117

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

2018

Bank	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
(i) Credit Risk			
(a) On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,191,466	735,874	-
Banks, Development Financial Institutions & MDBs	140,906	39,974	-
Corporates	4,342,305	1,216,583	126,460
Regulatory Retail	2,013,133	-	3,348
Residential Mortgages	1,018,422	-	1,209
Higher Risk Assets ¹	1,077	-	-
Other Assets	286,778	-	-
Defaulted Exposures ²	172,232	-	2,682
Total On-Balance Sheet Exposures	9,166,319	1,992,431	133,699
(b) Off-Balance Sheet Exposures*			
OTC Derivatives ³	17,387	-	-
Off-balance sheet exposures other than OTC derivatives ⁴	307,077	-	-
Total Off Balance Sheet Exposures	324,464	-	-
Total On and Off-Balance Sheet Exposures	9,490,783	1,992,431	133,699

* Credit equivalent of off-balance sheet items

- ¹ Higher risk assets are defined in CAFIB guidelines issued by Bank Negara Malaysia which comprised of i) exposures structured as Musyarakah and Mudharabah contracts and ii) Investment in equity financial instruments that are non-publicly traded.
- ² Defaulted exposures are defined as the Islamic bank considers that an obligor is "unlikely to repay" in full its credit obligations; and the obligor has breached its contractual repayment schedule and is past due for more than 90 days. For events under "unlikeliness to repay", please refer to Appendix 3 paragraph 2 of CAFIB guidelines issued by Bank Negara Malaysia.
- ³ Comprising Promissory Foreign Exchange Contracts.

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

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

Off-Balance Sheet exposures and Counterparty Credit Risk ("CCR") are as follows:

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2019	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	52,860		52,409	51,524
Transaction related contingent items	112,849		54,908	42,925
Short-term self liquidating trade related contingencies	11,749		2,269	1,385
Foreign exchange related contracts				
- One year or less	1,048,499	4,991	10,458	2,955
- Over one year to five years	140,241	199	3,386	995
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	156,759		74,397	69,868
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	412,592		70,748	66,601
	1,935,549	5,190	268,575	236,253

Group and Bank	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
2018	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	53,458		53,145	52,548
Transaction related contingent items	165,383		80,959	67,517
Short-term self liquidating trade related contingencies	59,250		11,847	8,895
Foreign exchange related contracts				
- One year or less	1,050,115	3,780	10,308	3,814
- Over one year to five years	263,098	-	7,079	2,364
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	194,106		93,666	66,857
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	374,270		67,460	66,250
	2,159,680	3,780	324,464	268,245

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47 FINANCIAL RISK MANAGEMENT (Cont'd.)

(h) Equities (Disclosure for banking book positions)

2019

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries			
	10,200	-	
Kuwait Finance House (Labuan) Berhad	10,200		Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-		Capital Deduction
(b) Investment	55,869	(55,650)	329
Intrared Sdn Bhd	36,100	(36,100)	-
Al Faiz Fund 1	19,769	(19,550)	329
(c) Musyarakah Capital Investment	18	-	27

2018

Bank

Equity	Amount	Impairment	Risk-Weighted Assets
	RM'000	RM'000	RM'000
Privately Held			
(a) Subsidiaries			
	10,200	-	
Kuwait Finance House (Labuan) Berhad	10,200		Capital Deduction
KFH Nominees (Tempatan) Sdn. Bhd.	-		Capital Deduction
(b) Investment	56,709	(55,650)	1,589
Intrared Sdn Bhd	36,100	(36,100)	-
Al Faiz Fund 1	20,609	(19,550)	1,589
(c) Musyarakah Capital Investment	18	-	27

48 SHARIAH GOVERNANCE DISCLOSURES

(a) Rectification process of non-Shariah compliant income

There is no shariah non-compliance incidents reported in 2019 and 2018.