

Bank Islam Malaysia Berhad (98127-X)
(Incorporated in Malaysia)
Unaudited Interim Financial Statements

Statements of Financial Position as at 30 September 2018

	Note	Group		Bank	
		30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Assets					
Cash and short-term funds	10	1,367,303	4,185,697	1,356,055	4,185,561
Financial assets held-for-trading	11	-	380,925	-	375,664
Financial assets at fair value through profit or loss	12	957,086	-	951,707	-
Derivative financial assets	13	46,371	68,319	46,371	68,319
Financial assets available-for-sale	14	-	9,252,683	-	9,253,140
Financial assets at fair value through other comprehensive income	15	10,588,899	-	10,589,689	-
Financial assets held-to-maturity	16	-	-	-	-
Financing, advances and others	17	44,256,513	42,113,420	44,256,513	42,113,420
Other financial assets at amortised cost	18	89,689	123,503	52,486	121,062
Statutory deposits with Bank Negara Malaysia		1,525,294	1,407,284	1,525,294	1,407,284
Current tax assets		1,758	1,792	1,737	1,737
Deferred tax assets		71,690	37,288	70,147	37,288
Investments in subsidiaries		-	-	15,525	15,525
Property and equipment		181,780	172,003	181,055	171,240
Total assets		<u>59,086,383</u>	<u>57,742,914</u>	<u>59,046,579</u>	<u>57,750,240</u>
Liabilities and equity					
Deposits from customers	19	45,642,138	46,192,910	45,656,557	46,209,028
Investment accounts of customers	20	4,685,647	4,260,185	4,685,647	4,260,185
Derivative financial liabilities	13	24,444	74,668	24,444	74,668
Bills and acceptance payable		234,656	420,258	234,656	420,258
Recourse obligations on financing sold to Cagamas	21	1,501,187	-	1,501,187	-
Subordinated Sukuk Murabahah	22	1,019,770	1,006,486	1,019,770	1,006,486
Other liabilities	23	775,731	782,299	724,298	773,769
Zakat and taxation		58,385	46,404	58,315	46,340
Total liabilities		<u>53,941,958</u>	<u>52,783,210</u>	<u>53,904,874</u>	<u>52,790,734</u>

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	Note	Group		Bank	
		30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Equity					
Share capital	24	3,012,368	2,869,498	3,012,368	2,869,498
Reserves		2,132,057	2,090,206	2,129,337	2,090,008
Total equity		5,144,425	4,959,704	5,141,705	4,959,506
Total liabilities and equity		59,086,383	57,742,914	59,046,579	57,750,240
Restricted investment accounts managed by the Bank	20	89,532	124,384	89,532	124,384
Total Islamic banking assets owned and managed by the Bank		59,175,915	57,867,298	59,136,111	57,874,624
Commitments and Contingencies	35	14,903,103	13,768,162	14,903,103	13,768,162

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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**Statements of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018**

Group	Note	3 months ended		9 months ended	
		30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Income derived from investment of depositors' funds	25	680,226	579,182	1,916,519	1,749,548
Income derived from investment account funds	26	63,412	63,809	187,985	183,991
Income derived from investment of shareholders' funds	27	122,468	97,835	357,845	306,830
Net allowance for impairment on financing and advances, net of recoveries	28	(26,104)	43,791	(62,025)	10,195
Net allowance for impairment on other financial assets		3	-	89	(243)
Direct expenses		(4,276)	(4,379)	(13,332)	(14,233)
Total distributable income		835,729	780,238	2,387,081	2,236,088
Wakalah fees from restricted investment accounts		146	212	479	2,213
Income attributable to depositors	29	(324,945)	(274,833)	(933,283)	(826,628)
Income attributable to investment account holders	30	(23,533)	(27,685)	(69,253)	(79,991)
Total net income		487,397	477,932	1,385,024	1,331,682
Personnel expenses	31	(150,273)	(138,793)	(427,791)	(409,994)
Other overhead expenses	32	(98,360)	(105,753)	(290,881)	(301,079)
Finance cost on Subordinated Sukuk Murabahah		(13,734)	(9,893)	(40,635)	(29,357)
Profit before zakat and tax		225,030	223,493	625,717	591,252
Zakat		(3,780)	(2,797)	(11,300)	(7,562)
Tax expense		(53,544)	(46,833)	(158,283)	(144,136)
Profit for the period		167,706	173,863	456,134	439,554
Earnings per share (sen)				18.49	18.19

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**Statements of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018 (continued)**

Group	Note	3 months ended		9 months ended	
		30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Profit for the period		<u>167,706</u>	<u>173,863</u>	<u>456,134</u>	<u>439,554</u>
Other comprehensive income/(expense), net of tax:					
Items that are or may be reclassified subsequently to profit or loss					
Currency translation differences in respect of foreign operations		(9,221)	7,624	(8,389)	27,960
Movement in fair value reserve (debt securities) :					
Net change in fair value		81,251	-	45,986	-
Net amount transferred to profit or loss		(19,248)	-	(21,169)	-
Movement in fair value reserve (equity instrument) :					
Net change in fair value		-	-	(1,957)	-
Movement in fair value reserve (available-for- sale) :					
Net change in fair value		-	15,724	-	51,550
Net amount transferred to profit or loss		-	(2,466)	-	(4,747)
Income tax credit relating to components of other comprehensive income		(14,881)	(3,182)	(5,486)	(11,233)
Other comprehensive income for the period, net of tax		<u>37,901</u>	<u>17,700</u>	<u>8,985</u>	<u>63,530</u>
Total comprehensive income for the period		<u>205,607</u>	<u>191,563</u>	<u>465,119</u>	<u>503,084</u>

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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**Statements of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018**

Bank	Note	3 months ended		9 months ended	
		30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Income derived from investment of depositors' funds	25	680,226	579,182	1,916,519	1,749,548
Income derived from investment account funds	26	63,412	63,809	187,985	183,991
Income derived from investment of shareholders' funds	27	110,974	94,498	330,821	298,046
Net allowance for impairment on financing and advances, net of recoveries	28	(26,104)	43,791	(62,025)	10,195
Reversal of impairment on other financial assets		3	-	89	(243)
Direct expenses		(4,276)	(4,379)	(13,332)	(14,233)
Total distributable income		824,235	776,901	2,360,057	2,227,304
Wakalah fees from restricted investment accounts		146	212	479	2,213
Income attributable to depositors	29	(325,024)	(274,892)	(933,490)	(826,804)
Income attributable to investment account holders	30	(23,533)	(27,685)	(69,253)	(79,991)
Total net income		475,824	474,536	1,357,793	1,322,722
Personnel expenses	31	(147,508)	(136,307)	(419,339)	(404,209)
Other overhead expenses	32	(89,934)	(105,277)	(273,532)	(299,096)
Finance cost on Subordinated Sukuk Murabahah		(13,734)	(9,893)	(40,635)	(29,357)
Profit before zakat and tax		224,648	223,059	624,287	590,060
Zakat		(3,750)	(2,792)	(11,250)	(7,544)
Tax expense		(53,506)	(46,803)	(159,745)	(144,075)
Profit for the period		167,392	173,464	453,292	438,441

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**Statements of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018 (continued)**

Bank	Note	3 months ended		9 months ended	
		30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Profit for the period		<u>167,392</u>	<u>173,464</u>	<u>453,292</u>	<u>438,441</u>
Other comprehensive income/(expense), net of tax:					
Items that are or may be reclassified subsequently to profit or loss					
Currency translation differences in respect of foreign operations		(9,235)	7,636	(8,069)	28,011
Movement in fair value reserve (debt securities) :					
Net change in fair value		81,251	-	45,986	-
Net amount transferred to profit or loss		(19,248)	-	(21,169)	-
Movement in fair value reserve (equity instrument) :					
Net change in fair value		-	-	(1,957)	-
Movement in fair value reserve (available-for-sale) :					
Net change in fair value		-	15,724	-	51,550
Net amount transferred to profit or loss		-	(2,466)	-	(4,747)
Income tax credit relating to components of other comprehensive income		(14,881)	(3,182)	(5,486)	(11,233)
Other comprehensive income for the period, net of tax		<u>37,887</u>	<u>17,712</u>	<u>9,305</u>	<u>63,581</u>
Total comprehensive income for the period		<u>205,279</u>	<u>191,176</u>	<u>462,597</u>	<u>502,022</u>

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Consolidated Statement of Changes in Equity for the nine months ended 30 September 2018

Group	Note	← Attributable to equity holders of the Bank →				Total equity RM'000
		← Non-distributable →		Distributable		
		Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	
At 1 January 2018		2,869,498	-	(60,196)	2,150,402	4,959,704
Adjustment on adoption of MFRS 9 (net of tax)	6	-	-	13,190	(143,408)	(130,218)
Restated total equity at 1 January 2018		2,869,498	-	(47,006)	2,006,994	4,829,486
Profit for the period		-	-	-	456,134	456,134
Currency translation difference in respect of foreign operations		-	-	(8,389)	-	(8,389)
Fair value reserve – Net change in fair value		-	-	44,029	-	44,029
– Net amount reclassified to profit or loss		-	-	(21,169)	-	(21,169)
Income tax credit relating to components of other comprehensive income		-	-	(5,486)	-	(5,486)
Total comprehensive income for the period		-	-	8,985	456,134	465,119
Transfer from regulatory reserve to retained earnings		-	-	(54,645)	54,645	-
Dividends paid on ordinary shares	9	-	-	-	(293,050)	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan	24	142,870	-	-	-	142,870
At 30 September 2018		3,012,368	-	(92,666)	2,224,723	5,144,425
At 1 January 2017		2,404,384	264,790	1,193,045	523,247	4,385,466
Profit for the period		-	-	-	439,554	439,554
Currency translation difference in respect of foreign operations		-	-	27,960	-	27,960
Fair value reserve – Net change in fair value		-	-	51,550	-	51,550
– Net amount reclassified to profit or loss		-	-	(4,747)	-	(4,747)
Income tax expense relating to components of other comprehensive income		-	-	(11,233)	-	(11,233)
Total comprehensive income for the period		-	-	63,530	439,554	503,084
Transfer of share premium to share capital		264,790	(264,790)	-	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159	-
Dividends paid on ordinary shares		-	-	-	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan		200,324	-	-	-	200,324
At 30 September 2017		2,869,498	-	(135,584)	2,088,483	4,822,397

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Statement of Changes in Equity for the nine months ended 30 September 2018

Bank	Note	Attributable to equity holders of the Bank			Total equity RM'000
		Share capital RM'000	Share premium RM'000	Other reserves RM'000	
At 1 January 2018		2,869,498	-	(60,337)	4,959,506
Adjustment on adoption of MFRS 9 (net of tax)	6	-	-	13,190	(130,218)
Restated total equity at 1 January 2018		2,869,498	-	(47,147)	4,829,288
Profit for the period		-	-	-	453,292
Currency translation difference in respect of foreign operations		-	-	(8,069)	(8,069)
Fair value reserve – Net change in fair value		-	-	44,029	44,029
– Net amount reclassified to profit or loss		-	-	(21,169)	(21,169)
Income tax credit relating to components of other comprehensive income		-	-	(5,486)	(5,486)
Total comprehensive income for the period		-	-	9,305	462,597
Transfer from regulatory reserve to retained earnings		-	-	(54,645)	54,645
Dividends paid on ordinary shares	9	-	-	-	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan	24	142,870	-	-	142,870
At 30 September 2018		3,012,368	-	(92,487)	2,221,824
At 1 January 2017		2,404,384	264,790	1,192,822	4,385,955
Profit for the period		-	-	-	438,441
Currency translation difference in respect of foreign operations		-	-	28,011	28,011
Fair value reserve – Net change in fair value		-	-	51,550	51,550
– Net amount reclassified to profit or loss		-	-	(4,747)	(4,747)
Income tax expense relating to components of other comprehensive income		-	-	(11,233)	(11,233)
Total comprehensive income for the period		-	-	63,581	438,441
Transfer of share premium to share capital		264,790	(264,790)	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159
Dividends paid on ordinary shares		-	-	-	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan		200,324	-	-	200,324
At 30 September 2017		2,869,498	-	(135,756)	2,088,082

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Condensed Statements of Cash Flow
for the nine months ended 30 September 2018

	Group		Bank	
	9 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and tax	625,717	591,252	624,287	590,060
Adjustment for non-operating and non-cash items	<u>190,702</u>	<u>112,682</u>	<u>190,619</u>	<u>112,616</u>
Operating profit before working capital changes	816,419	703,934	814,906	702,676
Changes in working capital:				
Net changes in operating assets	(2,536,427)	(793,255)	(2,501,665)	(793,318)
Net changes in operating liabilities	<u>1,132,814</u>	<u>(3,692,375)</u>	<u>1,088,218</u>	<u>(3,691,876)</u>
Net cash used in operations	(587,194)	(3,781,696)	(598,541)	(3,782,518)
Zakat and tax paid	(155,725)	(148,140)	(155,575)	(148,058)
Tax refund	<u>60</u>	<u>45</u>	<u>-</u>	<u>-</u>
Net cash used in operating activities	(742,859)	(3,929,791)	(754,116)	(3,930,576)
Net cash (used in)/generated from investing activities	(1,889,614)	844,170	(1,889,789)	844,177
Net cash used in financing activities	<u>(177,531)</u>	<u>(85,724)</u>	<u>(177,531)</u>	<u>(85,724)</u>
Net decrease in cash and cash equivalents	(2,810,004)	(3,171,345)	(2,821,436)	(3,172,123)
Cash and cash equivalents at beginning of the period	4,185,697	4,063,417	4,185,561	4,063,268
Exchange difference on translation	<u>(8,390)</u>	<u>27,962</u>	<u>(8,070)</u>	<u>28,012</u>
Cash and cash equivalents at end of the period	<u>1,367,303</u>	<u>920,034</u>	<u>1,356,055</u>	<u>919,157</u>
Cash and cash equivalents comprise:				
Cash and short-term funds	<u>1,367,303</u>	<u>920,034</u>	<u>1,356,055</u>	<u>919,157</u>

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Notes to the unaudited interim financial statements for the nine months ended 30 September 2018

1. Basis of preparation

The unaudited interim financial statements of the Group and of the Bank for the nine months ended 30 September 2018 have been prepared in accordance with the applicable requirements of MFRS 134: *Interim Financial Reporting* in Malaysia issued by Malaysian Accounting Standards Board (“MASB”), Financial Reporting for Islamic Banking Institution policy document issued by Bank Negara Malaysia (“BNM”), the provisions of the Companies Act 2016 and Shariah requirements.

The unaudited interim financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss and financial assets through other comprehensive income, which have been measured at fair value.

The unaudited interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017. The explanatory notes attached to the unaudited interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2017.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the recent audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRS”), interpretation and amendments to MFRSs:

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2017 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2017 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

The adoption of the new standards, amendments to published standards and interpretation does not have impact on the financial results of the Group and the Bank, except for MFRS 9. The principal effects of the changes in accounting policies arising from adoption of MFRS 9 are disclosed in Note 6.

Capital Adequacy Frameworks for Islamic Banks

The Capital Adequacy Frameworks for Islamic Banks in relation to Basel II - Risk-Weighted Assets and Capital Components were updated and reissued by Bank Negara Malaysia (“BNM”) on 2 February 2018 for application with effect from 1 January 2018.

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1. Basis of preparation (continued)

Capital Adequacy Frameworks for Islamic Banks (continued)

The updates focused mainly on the following changes:

- i) Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9;
- ii) Definition of General Provision and its recognition in Tier II capital;
- iii) Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- iv) Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

2. Auditors' reports on preceding financial period financial statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 was not qualified.

3. Seasonal or cyclical factors

The operations of the Bank were not materially affected by any seasonal or cyclical factors in the nine months ended 30 September 2018.

4. Unusual items

There were no unusual items in the nine months ended 30 September 2018.

5. Changes in accounting estimates

The significant judgements made by management in applying the Group and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of MFRS 9, which are described in Note 6.

6. Changes in accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group and the Bank's consolidated financial statements as at and for the year ended 31 December 2017, except for the impact of adopting MFRS 9 as described below.

The changes in accounting policies are also expected to be reflected in the Group and the Bank's consolidated financial statements as at and for the year ending 31 December 2018.

MFRS 9, Financial Instruments

During the current reporting period, the Group and the Bank adopted the MFRS 9 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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6. Changes in accounting policies (continued)

MFRS 9, *Financial Instruments* (continued)

MFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces MFRS 139 *Financial Instruments: Recognition and Measurement*.

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

The following table summarises the impact, net of tax, of transition to MFRS 9 on the opening balance of reserves and retained earnings.

Group and the Bank	Impact of adopting MFRS 9 on opening balance RM'000
Fair value reserve	
Remeasurement of equity investment at fair value through other comprehensive income (FVOCI)	18,104
Reclassification of fair value gain from financial assets available-for-sale to fair value through profit or loss (FVTPL)	(749)
Related tax	(4,165)
Impact at 1 January 2018	<u>13,190</u>
Retained earnings	
Recognition of expected credit losses under MFRS 9	(189,444)
Reclassification of fair value gain from financial assets available-for-sale to FVTPL	749
Related tax	45,287
Impact at 1 January 2018	<u>(143,408)</u>

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification of financial assets and financial liabilities

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification and measurement of financial liabilities. As such, there is no change on the Group's and the Bank's accounting policies related to financial liabilities. However, the standard eliminates the previous MFRS 139 categories for financial assets of held to maturity, financing and receivables and available for sale.

Under MFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets depends on the Group's and the Bank's business model in which a financial asset is managed and its contractual cash flow characteristics.

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6. Changes in accounting policies (continued)

(i) Classification of financial assets and financial liabilities (continued)

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and profit. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and profit. Financial assets are measured at FVTPL if the assets are held for trading or financial assets that qualify for neither held at amortised cost nor at FVOCI. Equity instruments are normally measured at FVTPL. However, the Group and the Bank have elected irrevocable option at inception to measure changes through FVOCI (without recycling profit or loss upon derecognition).

The impact on classification and measurement to the Bank's financial assets on the initial application of MFRS 9 on 1 January 2018 are summarised below.

Bank	Note	Measurement category		Carrying amount	
		Original classification under MFRS 139	New classification under MFRS 9	Original under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial assets					
Cash and short-term funds		Financing and receivables	Amortised cost	4,185,561	4,185,561
Deposits and placements with banks and other financial institutions		Financing and receivables	Amortised cost	-	-
Financial assets held-for-trading	(a)	FVTPL	FVTPL	375,664	375,664
Derivative financial assets		FVTPL	FVTPL	68,319	68,319
Financial assets available-for-sale (debt instruments)	(b)	Available for sale	FVOCI	9,215,834	9,215,489
Financial assets available-for-sale (equity instruments)	(c)	Available for sale	FVOCI	23,369	41,473
Financial assets available-for-sale	(d)	Available for sale	FVTPL	13,937	13,937
Financial assets held-to-maturity	(e)	Held-to-maturity	Amortised cost	-	-

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6. Changes in accounting policies (continued)

(i) Classification of financial assets and financial liabilities (continued)

Bank	Note	Measurement category		Carrying amount	
		Original classification under MFRS 139	New classification under MFRS 9	Original under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial assets					
Financing, advances and others		Financing and receivables	Amortised cost	42,113,420	41,924,321
Other financial assets		Financing and receivables	Amortised cost	121,062	121,062

There is no disclosure for the Group as the Group's figures are not materially different from the Bank's figures.

- (a) Before the adoption of MFRS 9, certain investment securities were designated as at FVTPL because the Group and the Bank hold related securities at FVTPL and this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under MFRS 9, these assets meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payment of principal and profit on the principal outstanding.
- (b) Debt investment securities are held to meet everyday liquidity needs. The Group and the Bank seek to minimise the costs of managing those liquidity needs and therefore actively manage the return on the portfolio. The return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group and the Bank consider that under MFRS 9, these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset.
- (c) Comprise non-traded equity investments for which the Group and the Bank have elected to designate at FVOCI under MFRS 9. Accordingly, the assets remain to be accounted for at FVOCI with no subsequent recycling of realised gains and losses permitted. Before the adoption of MFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. MFRS 9 has removed this cost exception.
- (d) Comprise investments in unit trust previously classified as available-for-sale under MFRS 139. These investments were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under MFRS 9.
- (e) Certain debt securities are held for long term yield. These securities may be sold, but such sales are not expected to be frequent. The Group and the Bank consider that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified and measured at amortised cost under MFRS 9.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets

MFRS 9 replaces the ‘incurred loss’ model in MFRS 139 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortised cost consist of cash and short-term funds, deposits and placements with banks and other financial institutions, financing, advances and others, other assets and statutory deposits with Bank Negara Malaysia.

At each reporting date, the Group and the Bank first assess individually whether objective evidence of impairment exists for significant financial assets and collectively for financial assets that are not individually significant. If it is determined that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial assets measured at amortised cost and FVOCI, a lifetime ECL will be recognised for impairment loss which has been incurred.

Under collective assessment, the Group and the Bank apply a three-stage approach to measuring ECL on financial assets measured at amortised cost and FVOCI. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon recognition, the portion of lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

iii) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a negative impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and profit is calculated by applying the effective profit rate to the amortised cost (net of provision) rather than the gross carrying amount.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group and the Bank consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s and the Bank’s historical experience, informed credit assessment and including forward-looking information.

The Group and the Bank assume that the credit risk on a financial asset has increased significantly when it is more than 30 days past due. The Group and the Bank also use its internal credit risk grading system and external risk rating to assess deterioration in credit quality of a financial asset.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured 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 and the Bank expect to receive).

ECLs are discounted at the effective profit rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group and the Bank assess whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred.

Impact of the new impairment model

For assets in the scope of the MFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group and the Bank have determined that the application of MFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

	Financing, advances and others RM'000	Debt securities* RM'000	Total RM'000
Allowance for impairment at 31 December 2017 under MFRS 139	572,516	-	572,516
Additional allowance - ECL recognised at 1 January 2018	189,099	345	189,444
Allowance for impairment at 1 January 2018 under MFRS 9	<u>761,615</u>	<u>345</u>	<u>761,960</u>

* Available-for-sale debt securities reclassified as FVOCI at 1 January 2018

7. Sukuk and equity securities

On 20 September 2018, the Bank increased its share capital by RM142,870,000 via the issuance of 43,960,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan, as disclosed in Note 24.

There was no issuance or repayment of Sukuk or share buy-back during the nine months ended 30 September 2018.

8. Significant events during the nine months ended 30 September 2018

There was no other significant event during the nine months ended 30 September 2018.

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9. Dividends

On 4 June 2018, the Bank paid a dividend of approximately 6.09 sen per ordinary share totalling RM150,180,000 for the financial year ended 31 December 2017. The dividend was paid wholly in cash.

On 20 September 2018, the Bank paid an interim dividend of approximately 5.79 sen per ordinary share totalling RM142,870,000 for the financial year ending 31 December 2018. One hundred percent of the interim dividend was subsequently reinvested by the shareholder under the Dividend Reinvestment Plan (Note 24).

10. Cash and short-term funds

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	815,028	921,777	803,780	921,641
Money at call and interbank placements with remaining maturity not exceeding one month	552,275	3,263,920	552,275	3,263,920
	<u>1,367,303</u>	<u>4,185,697</u>	<u>1,356,055</u>	<u>4,185,561</u>

11. Financial assets held-for-trading

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
At fair value				
Malaysian Government				
Investment Issues	-	355,681	-	355,681
Sukuk	-	19,983	-	19,983
Unit trust	-	5,261	-	-
	<u>-</u>	<u>380,925</u>	<u>-</u>	<u>375,664</u>

12. Financial assets at fair value through profit and loss

The Group and the Bank had designated or mandatorily measured the following financial assets at fair value through profit or loss:

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
At fair value				
Malaysian Government				
Investment Issues	607,181	-	607,181	-
Sukuk	120,719	-	120,719	-
Unit trust	119,323	-	113,944	-
Bank Negara Malaysia				
Monetary Notes	109,863	-	109,863	-
	<u>957,086</u>	<u>-</u>	<u>951,707</u>	<u>-</u>

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13. Derivative financial assets/liabilities

The following tables summarise the contractual or underlying principal amounts of derivative financial instruments held at fair value through profit or loss and held for hedging purposes. The principal or contractual amounts of these instruments reflect the volume of transactions outstanding at financial position date, and do not represent amounts at risk.

Trading derivative financial instruments are revalued on a gross position and the unrealised gains or losses are reflected as derivative financial assets and liabilities respectively.

Group and Bank	30.09.2018		
	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Forward contracts	3,341,396	42,624	(22,719)
Profit rate swaps	585,935	3,747	(1,725)
	<u>3,927,331</u>	<u>46,371</u>	<u>(24,444)</u>

Group and Bank	31.12.2017		
	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Forward contracts	3,218,824	63,827	(72,767)
Profit rate swaps	607,992	4,492	(1,901)
	<u>3,826,816</u>	<u>68,319</u>	<u>(74,668)</u>

14. Financial assets available-for-sale

	Group		Bank	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government				
Investment Issues	-	1,525,094	-	1,525,094
Sukuk	-	7,690,740	-	7,690,740
	<u>-</u>	<u>9,215,834</u>	<u>-</u>	<u>9,215,834</u>
At fair value				
Quoted shares				
- outside Malaysia	-	17,612	-	17,612
Quoted unit trust				
- in Malaysia	-	13,937	-	13,937
	<u>-</u>	<u>31,549</u>	<u>-</u>	<u>31,549</u>
At cost				
Unquoted shares in Malaysia [^]	-	23,520	-	23,977
Less: Accumulated impairment loss [^]	-	(18,239)	-	(18,239)
	<u>-</u>	<u>5,281</u>	<u>-</u>	<u>5,738</u>

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14. Financial assets available-for-sale (continued)

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
At cost				
Unquoted shares outside Malaysia	-	329	-	329
Less: Impairment loss	-	(310)	-	(310)
	<u>-</u>	<u>19</u>	<u>-</u>	<u>19</u>
	<u>-</u>	<u>9,252,683</u>	<u>-</u>	<u>9,253,140</u>

^ Movement in unquoted shares and accumulated impairment loss is due to translation difference.

15. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Financial assets at fair value through other comprehensive income:				
(a) Debt securities	10,551,729	-	10,551,729	-
(b) Equity investments	37,170	-	37,960	-
	<u>10,588,899</u>	<u>-</u>	<u>10,589,689</u>	<u>-</u>

(a) Debt investment securities at fair value through other comprehensive income

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Malaysian Government Investment Issues	2,396,255	-	2,396,255	-
Sukuk	8,155,730	-	8,155,730	-
	<u>10,551,985</u>	<u>-</u>	<u>10,551,985</u>	<u>-</u>
Allowance for impairment: Collective assessment - 12 months ECL	(256)	-	(256)	-
	<u>10,551,729</u>	<u>-</u>	<u>10,551,729</u>	<u>-</u>

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15. Financial assets at fair value through other comprehensive income (continued)

(a) Debt investment securities at fair value through other comprehensive income (continued)

Movements in allowances for impairment which reflect the ECL model on impairment are as follows:

	Group and Bank 30.09.2018 RM'000
12 months ECL	
At 1 January 2018	-
- Effects on adoption of MFRS 9	345
At 1 January 2018, as restated	345
Reversal of impairment made during the period	(89)
At 30 September 2018	<u>256</u>

(b) Equity investments at fair value through other comprehensive income

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Quoted Shares				
- outside Malaysia	<u>14,098</u>	-	<u>14,098</u>	-
Unquoted Shares				
- in Malaysia	<u>23,056</u>	-	<u>23,846</u>	-
- outside Malaysia	<u>16</u>	-	<u>16</u>	-
	<u>23,072</u>	-	<u>23,862</u>	-
	<u>37,170</u>	-	<u>37,960</u>	-

16. Financial assets held-to-maturity

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
At amortised cost		
Unquoted Sukuk in Malaysia	-	6,887
Less: Accumulated impairment loss	-	(6,887)
	<u>-</u>	<u>-</u>

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17. Financing, advances and others

(a) By type and Shariah contract

Group and Bank 30 September 2018	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai' Al-Dayn RM'000	Bai' Al-Inah RM'000	At- Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek^ RM'000	Ijarah Thumma Al-Bai'^ RM'000	Istisna' RM'000	Ar-Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	2,242	1,300,844	-	-	-	-	1,303,086
Term financing										
House financing	3,843,398	-	-	-	13,638,903	-	-	52,080	-	17,534,381
Syndicated financing	-	-	-	42,303	629,744	-	100,566	-	-	772,613
Leasing financing	-	-	-	-	-	81,629	82	-	-	81,711
Bridging financing	-	-	-	-	-	-	-	68,107	-	68,107
Personal financing	-	-	-	11,941	13,450,622	-	-	-	-	13,462,563
Other term financing	1,202,225	1,214,940	-	6,955	7,643,104	-	-	1,208	-	10,068,432
Staff financing	62,934	9,302	-	-	149,396	-	-	10,209	-	231,841
Credit cards	-	-	-	-	464,309	-	-	-	-	464,309
Trade bills discounted	-	801,204	154,831	-	-	-	-	-	-	956,035
Trust receipts	-	7,648	-	-	-	-	-	-	-	7,648
Pawn broking	-	-	-	-	-	-	-	-	75,550	75,550
Investment Account Platform *	-	-	-	-	7,807	-	-	-	-	7,807
	5,108,557	2,033,094	154,831	63,441	37,284,729	81,629	100,648	131,604	75,550	45,034,083

Allowance for impairment on financing, advances and others

- collective assessment allowance - 12 months ECL

(389,003)

- collective assessment allowance - lifetime ECL

(232,830)

- individual assessment allowance - lifetime ECL

(155,737)

Net financing, advances and others

44,256,513

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17. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

Group and Bank 31 December 2017	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai' Al-Dayn RM'000	Bai' Al-Inah RM'000	At- Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek^ RM'000	Ijarah Thumma Al-Bai'^ RM'000	Istisna' RM'000	Ar-Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	29,197	1,207,519	-	-	-	-	1,236,716
Term financing										
House financing	4,127,474	-	-	-	11,981,534	-	-	55,733	-	16,164,741
Syndicated financing	-	-	-	44,968	578,156	-	108,570	-	-	731,694
Leasing financing	-	-	-	-	-	87,945	299	-	-	88,244
Bridging financing	-	-	-	-	-	-	-	76,622	-	76,622
Personal financing	-	-	-	20,340	12,347,365	-	-	-	-	12,367,705
Other term financing	1,532,421	1,130,377	-	3,429	7,558,287	-	-	1,257	-	10,225,771
Staff financing	71,358	7,634	-	-	134,660	-	-	11,676	-	225,328
Credit cards	-	-	-	-	458,138	-	-	-	-	458,138
Trade bills discounted	-	819,992	186,433	-	-	-	-	-	-	1,006,425
Trust receipts	-	2,922	-	-	-	-	-	-	-	2,922
Pawn broking	-	-	-	-	-	-	-	-	87,222	87,222
Investment Account Platform *	-	-	-	-	14,408	-	-	-	-	14,408
	5,731,253	1,960,925	186,433	97,934	34,280,067	87,945	108,869	145,288	87,222	42,685,936
Allowance for impairment on financing, advances and others										
- collective assessment allowance										(446,069)
- individual assessment allowance										(126,447)
Net financing, advances and others										<u>42,113,420</u>

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17. Financing, advances and others (continued)

(a) By type of and Shariah contract (continued)

Included in financing, advances and others are house financing and personal financing that are used for the underlying assets of Unrestricted Investment Accounts (“UA”) and financing sold to Cagamas with recourse to the Group and the Bank. The details are as follows:

		Group and Bank	
		30.09.2018	31.12.2017
		RM’000	RM’000
	Note		
House financing			
Unrestricted Investment Accounts	20	3,559,454	3,127,603
Sold to Cagamas with recourse	21	1,501,187	-
		<u>5,060,641</u>	<u>3,127,603</u>
Personal financing			
Unrestricted Investment Accounts	20	<u>1,126,193</u>	<u>1,132,582</u>

* This represents a term financing of the Group’s and the Bank’s participation through Investment Account Platform (“IAP”) to finance viable ventures.

^ Assets funded under *Ijarah* financing are owned by the Bank throughout the tenure of the *Ijarah* financing and ownership of the assets will be transferred to customer at the end of financing tenure for a token consideration or other amount as specified in the *Ijarah* financing contract.

(b) By type of customer

		Group and Bank	
		30.09.2018	31.12.2017
		RM’000	RM’000
Domestic non-bank financial institutions		1,418,308	1,354,806
Domestic business enterprise		7,157,020	7,015,168
Small and medium industries		973,166	896,444
Government and statutory bodies		603,623	820,586
Individuals		34,255,239	31,986,842
Other domestic entities		24,896	8,195
Foreign entities		601,831	603,895
		<u>45,034,083</u>	<u>42,685,936</u>

(c) By profit rate sensitivity

		Group and Bank	
		30.09.2018	31.12.2017
		RM’000	RM’000
Fixed rate			
House financing		1,092,603	1,168,200
Others		3,168,536	3,560,756
Floating rate			
House financing		17,049,895	15,625,095
Others		23,723,049	22,331,885
		<u>45,034,083</u>	<u>42,685,936</u>

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17. Financing, advances and others (continued)

(d) By remaining contractual maturity

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
Maturity within one year	4,469,116	4,414,217
More than one year to three years	1,423,722	1,087,304
More than three years to five years	3,028,231	2,598,903
More than five years	36,113,014	34,585,512
	45,034,083	42,685,936

(e) By geographical distribution

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
Central Region	21,425,427	20,673,380
Eastern Region	7,412,330	6,860,968
Northern Region	6,398,396	6,121,471
Southern Region	6,474,150	5,908,526
East Malaysia Region	3,323,780	3,121,591
	45,034,083	42,685,936

(f) By sector

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
Primary agriculture	509,711	486,679
Mining and quarrying	12,991	8,080
Manufacturing (including agro-based)	768,116	835,268
Electricity, gas and water	320,491	337,388
Wholesale & retail trade, and hotels & restaurants	1,214,959	1,228,681
Construction	2,338,900	2,176,453
Real estate	1,639,872	1,582,531
Transport, storage and communications	818,196	655,633
Finance, insurance and business activities	2,165,103	2,147,118
Education, health and others	989,310	1,210,056
Household sectors	34,256,434	32,018,049
	45,034,083	42,685,936

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17. Financing, advances and others (continued)

(g) Movement in impaired financing and advances (“impaired financing”) are as follows:

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
At 1 January 2018/ 2017	398,277	389,445
Classified as impaired during the period/year	487,350	648,281
Reclassified as not impaired during the period/year	(233,553)	(331,592)
Amount recovered	(89,937)	(92,432)
Amount written off	(124,112)	(209,231)
Exchange differences	-	(6,194)
At 30 September 2018/ 31 December 2017	<u>438,025</u>	<u>398,277</u>
Gross impaired financing as a percentage of gross financing, advances and others	<u>0.97%</u>	<u>0.93%</u>

(h) Impaired financing by geographical distribution

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
Central Region	262,366	223,305
Eastern Region	104,143	107,422
Northern Region	28,474	28,710
Southern Region	25,879	22,915
East Malaysia Region	17,163	15,925
	<u>438,025</u>	<u>398,277</u>

(i) Impaired financing by sector

	Group and Bank	
	30.09.2018	31.12.2017
	RM'000	RM'000
Manufacturing (including agro-based)	22,604	35,448
Wholesale & retail trade, and hotels & restaurants	52,917	38,433
Construction	120,451	86,357
Transport, storage and communications	11,173	12,604
Finance, insurance and business activities	3,144	3,799
Education, health and others	4,452	5,106
Household sectors	223,284	216,530
	<u>438,025</u>	<u>398,277</u>

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17. Financing, advances and others (continued)

(j) Movement of allowance for impairment on financing, advances and others

Group and Bank 30.09.2018	← Collective →			Total collective RM'000	Individual RM'000	Total RM'000
	12-month ECL RM'000	Lifetime ECL not credit- impaired RM'000	Lifetime ECL credit- impaired RM'000			
At 1 January 2018				446,069	126,447	572,516
- effects of adoption of MFRS 9				187,404	1,695	189,099
Restated at 1 January 2018	390,478	139,501	103,494	633,473	128,142	761,615
Transfer to 12-month ECL	7,594	(7,435)	(159)	-	-	-
Transfer to Lifetime ECL not credit impaired	(3,768)	9,891	(6,123)	-	-	-
Transfer to Lifetime ECL credit impaired	(27)	(2,087)	2,114	-	-	-
Allowance made during the period	39,465	29,671	102,239	171,375	57,819	229,194
Financial assets that have been derecognised	(28,990)	(19,637)	(38,128)	(86,755)	-	(86,755)
Write-offs	(13,361)	(14,312)	(66,199)	(93,872)	(30,224)	(124,096)
Exchange differences	(2,388)	-	-	(2,388)	-	(2,388)
At 30 September 2018	389,003	135,592	97,238	621,833	155,737	777,570

Group and Bank	30.09.2018 RM'000	31.12.2017 RM'000
<u>Collective assessment allowance</u>		
At 1 January 2018 / 1 January 2017	633,473	554,971
Allowance made during the period/year	84,620	34,706
Amount written off	(93,872)	(141,940)
Exchange differences	(2,388)	(1,668)
At 30 September 2018 / 31 December 2017	621,833	446,069
<u>Individual assessment allowance</u>		
At 1 January 2018 / 1 January 2017	128,142	128,198
Allowance made during the period/year	73,645	102,059
Amount recovered	(15,826)	(30,324)
Amount written off	(30,224)	(67,291)
Exchange differences	-	(6,195)
At 30 September 2018 / 31 December 2017	155,737	126,447

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18. Other financial assets at amortised cost

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Sukuk [^]	6,887	-	6,887	-
Other receivables	51,211	90,137	14,663	87,964
Deposit and prepayments	38,224	33,086	36,996	31,968
Related companies*	729	755	1,302	1,605
	97,051	123,978	59,848	121,537
Less : Accumulated impairment loss:				
Individual assessment				
- Sukuk [^]	(6,887)	-	(6,887)	-
- Other receivables	(475)	(475)	(475)	(475)
	89,689	123,503	52,486	121,062

* This relates to amounts due from holding and related companies that are unsecured, not subject to compensation charges for late payment and repayment is neither fixed nor expected.

[^] Previously classified as financial assets held-to-maturity as disclosed in Note 16. These assets are classified and measured at amortised cost under MFRS 9.

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19. Deposits from customers

a) By type and Shariah contract

	Group		Bank	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Saving Deposit				
<i>Wadiah</i>	4,440,119	4,138,519	4,440,119	4,138,519
Demand Deposit				
<i>Wadiah</i>	9,360,428	11,333,608	9,367,983	11,343,024
Term Deposit	31,745,339	30,617,889	31,752,203	30,624,591
Special Investment Deposit				
<i>Mudharabah</i>	6,252	6,182	6,252	6,182
General Investment Deposit				
<i>Mudharabah</i>	297,344	322,561	297,344	322,561
Term Deposit				
<i>Tawarruq</i>	28,769,901	26,728,087	28,776,765	26,734,789
Negotiable Islamic Debt Certificates (NIDC)	2,671,842	3,561,059	2,671,842	3,561,059
Others	96,252	102,894	96,252	102,894
Total Deposits	<u>45,642,138</u>	<u>46,192,910</u>	<u>45,656,557</u>	<u>46,209,028</u>

b) Maturity structure of term deposits are as follows:

	Group		Bank	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Due within six months	15,490,344	18,565,407	15,492,999	18,571,396
More than six months to one year	8,968,821	8,742,154	8,973,030	8,742,867
More than one year to three years	5,107,422	1,618,691	5,107,422	1,618,691
More than three years to five years	2,178,752	1,691,637	2,178,752	1,691,637
	<u>31,745,339</u>	<u>30,617,889</u>	<u>31,752,203</u>	<u>30,624,591</u>

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19. Deposits from customers (continued)

c) By type of customers

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Business enterprises	17,870,790	12,406,686	17,870,790	12,406,686
Government and statutory bodies	9,611,261	8,847,454	9,611,261	8,847,454
Domestic non-bank financial institutions	8,641,830	14,063,475	8,656,249	14,079,593
Individuals	5,288,855	4,810,541	5,288,855	4,810,541
Domestic banking institutions	2,052,841	3,395,740	2,052,841	3,395,740
Others	2,176,561	2,669,014	2,176,561	2,669,014
	<u>45,642,138</u>	<u>46,192,910</u>	<u>45,656,557</u>	<u>46,209,028</u>

20. Investment accounts of customers

(a) By type and Shariah contract

	Note	Group and Bank	
		30.09.2018	31.12.2017
		RM'000	RM'000
Unrestricted investment accounts			
Without maturity			
<i>Mudharabah</i>		2,432,717	1,994,491
With maturity			
<i>Wakalah</i>		2,252,930	2,265,694
		<u>4,685,647</u>	<u>4,260,185</u>
Investment portfolio:			
<i>House financing</i>	17	3,559,454	3,127,603
<i>Personal financing</i>	17	1,126,193	1,132,582
		<u>4,685,647</u>	<u>4,260,185</u>
Restricted investment accounts ("RA") managed by the Bank[^]			
With maturity			
<i>Wakalah</i>		89,532	124,384
Investment portfolio:			
<i>Other term financing</i>		89,532	124,384

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20. Investment accounts of customers (continued)

^ Restricted investment accounts (“RA”) is an arrangement between the Bank and the investment account holders (“IAH”) where the Bank acts as the investment agent to manage and administer the RA and its underlying assets. RA is accounted for as off balance sheet as the Bank has no right and obligation in respect of the assets related to the RA or to the residual cash flows from those assets except for the Wakalah performance incentive fee income generated by the Bank for managing the RA.

Included in RA managed by the Bank is an arrangement between the Bank and its ultimate holding entity with underlying assets amounting to RM89,144,000 (2017: RM134,022,000).

(b) By type of customers

	Group and Bank	
	30.09.2018	31.12.2017
	RM’000	RM’000
Individuals	2,517,991	2,212,239
Government and statutory bodies	275,726	400,709
Business enterprises	477,198	474,464
Non-bank financial institutions	1,360,554	1,077,298
Others	54,178	95,475
	4,685,647	4,260,185

21. Recourse obligations on financing sold to Cagamas

Recourse obligations on financing sold to Cagamas represents house financing accounts that are sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the Bank. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statements of financial position. The financing are not de-recognised and are analysed in Note 17.

22. Subordinated Sukuk Murabahah

	Note	Group and Bank	
		30.09.2018	31.12.2017
		RM’000	RM’000
<i>Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme</i>			
First tranche, RM300 million	(a)	307,703	303,355
Second tranche, RM400 million	(b)	406,263	401,085
Third tranche, RM300 million	(c)	305,804	302,046
		1,019,770	1,006,486

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22. Subordinated Sukuk Murabahah (continued)

The Bank issued the following tranches of Subordinated Sukuk Murabahah:

- (a) On 22 April 2015, the Bank issued the first tranche of RM300 million in nominal value of Subordinated Sukuk Murabahah which is due on 22 April 2025, with optional redemption on 22 April 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.75% per annum payable semi-annually in arrears.
- (b) On 15 December 2015, the Bank issued the second tranche of RM400 million which is due on 15 December 2025, with optional redemption on 15 December 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.50% per annum payable semi-annually in arrears.
- (c) On 13 November 2017, the Bank issued the third tranche of RM300 million which is due on 12 November 2027, with optional redemption on 12 December 2022 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.08% per annum payable semi-annually in arrears.

The Subordinated Sukuk Murabahah qualifies as Tier II capital for the computation of the regulatory capital of the Bank in accordance with the Capital Adequacy Framework (Capital Components) for Islamic Banks issued by Bank Negara Malaysia.

23. Other liabilities

	Group		Bank	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Other payables	663,561	651,703	615,414	644,664
Accruals	112,170	130,596	108,884	129,105
	<u>775,731</u>	<u>782,299</u>	<u>724,298</u>	<u>773,769</u>

24. Share capital

Group and Bank	Number of shares		Amount	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
<i>Issued and fully paid</i>				
Ordinary shares				
At 1 January 2018/2017	2,466,022	2,404,384	2,869,498	2,404,384
Transfer from share premium	-	-	-	264,790
Allotment of new ordinary shares	43,960	61,638	142,870	200,324
At 30 September 2018/31 December 2017	<u>2,509,982</u>	<u>2,466,022</u>	<u>3,012,368</u>	<u>2,869,498</u>

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24. Share capital (continued)

The Bank increased its share capital on 20 September 2018 by RM142,870,000 via the issuance of 43,960,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of one hundred percent of the interim dividend of approximately 5.79 sen in respect of financial year ending 31 December 2018.

During the financial year ended 31 December 2017, the Bank transferred RM264,790,400 share premium to its share capital pursuant to the transition provisions set out in Section 618(2) of the Companies Act 2017.

The Bank further increased its share capital during the financial year ended 31 December 2017 by RM200,323,500 via the issuance of 41,282,000 and 20,356,000 new ordinary shares at a consideration of RM3.25 per share respectively arising from the Dividend Reinvestment Plan of one hundred percent and fifty percent respectively of dividends declared and paid.

25. Income derived from investment of depositors' funds

Group and Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) Saving and demand deposits	208,273	183,049	594,714	552,948
(ii) General investment deposits	4,942	5,830	14,478	17,185
(iii) Term deposits	423,839	340,341	1,152,373	1,027,232
(iv) Other deposits	43,172	49,962	154,954	152,183
	<u>680,226</u>	<u>579,182</u>	<u>1,916,519</u>	<u>1,749,548</u>

(i) *Income derived from investment of saving and demand deposits*

Group and Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	179,481	156,237	519,759	464,856
Financial assets:				
- fair value through profit or loss	1,507	-	4,021	-
- fair value through other comprehensive income	16,752	-	49,333	-
- other financial assets at amortised cost	-	-	87	-
- held-for-trading	-	1,247	-	4,138
- available-for-sale	-	22,033	-	62,362
- held-to-maturity	-	-	-	2,112
Money at call and deposits with financial institutions	3,205	1,519	13,217	7,105
	<u>200,945</u>	<u>181,036</u>	<u>586,417</u>	<u>540,573</u>

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25. Income derived from investment of depositors' funds (continued)

(i) *Income derived from investment of saving and demand deposits*

Group and Bank	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	1,209	-	1,469	-
Net gain on revaluation of financial assets at fair value through profit or loss	244	-	351	-
Net gain/(loss) from sale of financial assets held-for-trading	-	1,272	-	(119)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(35)	-	1,237
	<u>1,453</u>	<u>1,237</u>	<u>1,820</u>	<u>1,118</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	5,875	-	6,477	-
Net gain from sale of financial assets available-for-sale	-	776	-	1,410
Net gain from sale of financial assets held-to-maturity	-	-	-	9,847
	<u>5,875</u>	<u>776</u>	<u>6,477</u>	<u>11,257</u>
	<u>208,273</u>	<u>183,049</u>	<u>594,714</u>	<u>552,948</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>2,853</u>	<u>1,754</u>	<u>8,580</u>	<u>7,988</u>

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25. Income derived from investment of depositors' funds (continued)

(ii) *Income derived from investment of general investment deposits*

Group and Bank	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	4,304	5,057	12,782	14,712
Financial assets:				
- fair value through profit or loss	33	-	89	-
- fair value through other comprehensive income	362	-	1,091	-
- other financial assets at amortised cost	-	-	2	-
- held-for-trading	-	36	-	117
- available-for-sale	-	629	-	1,749
- held-to-maturity	-	-	-	58
Money at call and deposits with financial institutions	84	56	334	212
	<u>4,783</u>	<u>5,778</u>	<u>14,298</u>	<u>16,848</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	26	-	32	-
Net gain on revaluation of financial assets at fair value through profit or loss	6	-	8	-
Net gain/(loss) from sale of financial assets held-for-trading	-	32	-	(7)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(1)	-	35
	<u>32</u>	<u>31</u>	<u>40</u>	<u>28</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	127	-	140	-
Net gain from sale of financial assets available-for-sale	-	21	-	39
Net gain from sale of financial assets held-to-maturity	-	-	-	270
	<u>127</u>	<u>21</u>	<u>140</u>	<u>309</u>
	<u>4,942</u>	<u>5,830</u>	<u>14,478</u>	<u>17,185</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>62</u>	<u>67</u>	<u>191</u>	<u>265</u>

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25. Income derived from investment of depositors' funds (continued)

(iii) Income derived from investment of term deposits

Group and Bank	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	365,234	290,566	1,006,891	865,342
Financial assets:				
- fair value through profit or loss	3,078	-	7,816	-
- fair value through other comprehensive income	34,037	-	95,387	-
- other financial assets at amortised cost	-	-	164	-
- held-for-trading	-	2,311	-	7,704
- available-for-sale	-	40,821	-	115,902
- held-to-maturity	-	-	-	3,924
Money at call and deposits with financial institutions	6,544	2,804	25,381	10,695
	<u>408,893</u>	<u>336,502</u>	<u>1,135,639</u>	<u>1,003,567</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	2,455	-	2,943	-
Net gain on revaluation of financial assets at fair value through profit or loss	450	-	630	-
Net gain/(loss) from sale of financial assets held-for-trading	-	2,428	-	(159)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(41)	-	2,354
	<u>2,905</u>	<u>2,387</u>	<u>3,573</u>	<u>2,195</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	12,041	-	13,161	-
Net gain from sale of financial assets available-for-sale	-	1,452	-	2,626
Net gain from sale of financial assets held-to-maturity	-	-	-	18,844
	<u>12,041</u>	<u>1,452</u>	<u>13,161</u>	<u>21,470</u>
	<u>423,839</u>	<u>340,341</u>	<u>1,152,373</u>	<u>1,027,232</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>5,827</u>	<u>4,662</u>	<u>16,588</u>	<u>14,585</u>

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25. Income derived from investment of depositors' funds (continued)

(iv) Income derived from investment of other deposits

Group and Bank	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	37,213	42,639	135,624	128,103
Financial assets:				
- fair value through profit or loss	312	-	1,037	-
- fair value through other comprehensive income	3,477	-	12,880	-
- other financial assets at amortised cost	-	-	22	-
- held-for-trading	-	340	-	1,138
- available-for-sale	-	6,002	-	17,184
- held-to-maturity	-	-	-	555
Money at call and deposits with financial institutions	661	404	3,620	1,904
	<u>41,663</u>	<u>49,385</u>	<u>153,183</u>	<u>148,884</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	248	-	339	-
Net gain on revaluation of financial assets at fair value through profit or loss	56	-	41	-
Net gain/(loss) from sale of financial assets held-for-trading	-	379	-	(3)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(19)	-	312
	<u>304</u>	<u>360</u>	<u>380</u>	<u>309</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	1,205	-	1,391	-
Net gain from sale of financial assets available-for-sale	-	217	-	400
Net gain from sale of financial assets held-to-maturity	-	-	-	2,590
	<u>1,205</u>	<u>217</u>	<u>1,391</u>	<u>2,990</u>
	<u>43,172</u>	<u>49,962</u>	<u>154,954</u>	<u>152,183</u>
<i>of which</i>				
Financing income earned on impaired financing	591	698	2,265	2,243

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26. Income derived from investment account funds

Group and Bank	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Finance income</i>				
Unrestricted investment accounts				
- <i>Mudharabah</i>	29,905	23,862	89,826	68,869
- <i>Wakalah</i>	33,507	39,947	98,159	115,122
	<u>63,412</u>	<u>63,809</u>	<u>187,985</u>	<u>183,991</u>

27. Income derived from investment of shareholders' funds

Group	3 months ended		9 months ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	1,859	1,748	5,463	5,053
Financial assets:				
- fair value through other comprehensive income	46,452	-	133,556	-
- available-for-sale	-	28,824	-	103,075
Money at call and deposits with financial institutions	2	2	4	3
	<u>48,313</u>	<u>30,574</u>	<u>139,023</u>	<u>108,131</u>
<i>Other dealing income</i>				
Net gain from foreign exchange transactions	18,698	14,845	45,491	49,410
Net derivatives gain/(loss)	(29)	(263)	48	(1,121)
Net loss on revaluation of financial assets at fair value through profit or loss	-	-	(1)	-
Net gain on revaluation of financial assets held-for-trading	-	(1)	-	-
	<u>18,669</u>	<u>14,581</u>	<u>45,538</u>	<u>48,289</u>
<i>Other operating income</i>				
Net gain from sale of financial assets available for sale	-	-	-	272
Gross dividend income:				
- unit trust in Malaysia	27	598	894	1,738
	<u>27</u>	<u>598</u>	<u>894</u>	<u>2,010</u>

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27. Income derived from investment of shareholders' funds (continued)

Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<i>Fees and commission</i>				
Fees	33,644	39,789	108,220	106,153
Commission	5,065	3,875	19,896	19,623
Others	4,459	4,500	15,003	11,845
	43,168	48,164	143,119	137,621
<i>Other income</i>				
Net gain/(loss) on disposal of property and equipment	104	(65)	374	(68)
Rental income	702	691	1,937	2,081
Other income	7	1	23	115
	813	627	2,334	2,128
	110,974	94,498	330,821	298,046

28. Net allowance for impairment on financing and advances

Group and Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net allowances for impaired financing, advances and others:				
- Collective assessment allowance	34,203	6,555	84,620	64,001
- Individual assessment allowance	19,144	6,561	57,819	17,022
Bad debts and financing recovered	(27,243)	(56,907)	(80,414)	(91,218)
	26,104	(43,791)	62,025	(10,195)

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29. Income attributable to depositors

Group	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah fund	2,351	2,899	7,356	8,785
- Non-Mudharabah fund	304,781	271,187	900,580	815,519
Deposits and placements of banks and other financial institutions				
- Non-Mudharabah fund	-	747	409	2,324
Recourse obligation on financing sold to Cagamas	17,813	-	24,938	-
	324,945	274,833	933,283	826,628

Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah fund	2,351	2,899	7,356	8,785
- Non-Mudharabah fund	304,860	271,246	900,787	815,695
Deposits and placements of banks and other financial institutions				
- Non-Mudharabah fund	-	747	409	2,324
Recourse obligation on financing sold to Cagamas	17,813	-	24,938	-
	325,024	274,892	933,490	826,804

30. Income attributable to investment account holders

Group and Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Unrestricted investment accounts				
- <i>Mudharabah</i>	1,268	480	4,163	1,375
- <i>Wakalah</i>	22,265	27,205	65,090	78,616
	23,533	27,685	69,253	79,991

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31. Personnel expenses

Group	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Salaries, allowances and bonuses	119,695	110,854	341,724	324,208
Employees' Provident Fund	14,397	13,910	43,380	41,412
Other staff related costs	16,181	14,029	42,687	44,374
	150,273	138,793	427,791	409,994

Bank	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Salaries, allowances and bonuses	117,562	108,831	335,119	319,557
Employees' Provident Fund	14,100	13,639	42,462	40,769
Other staff related costs	15,846	13,837	41,758	43,883
	147,508	136,307	419,339	404,209

32. Other overhead expenses

Group	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<i>Promotion</i>				
Credit and debit card expenses	7,755	7,256	23,533	21,868
Commissions	10,237	3,411	24,624	9,599
Advertisement and publicity	2,310	2,420	6,748	4,812
	20,302	13,087	54,905	36,279
<i>Establishment</i>				
Office rental	13,868	14,055	40,424	40,352
Depreciation of property and equipment	12,152	13,143	35,741	42,511
Information technology expenses	12,145	17,838	34,438	41,847
Office maintenance	2,582	2,778	8,562	8,318
Security services	1,580	2,974	7,634	12,163
Utilities	3,630	3,254	10,445	10,518
Takaful	2,002	2,718	6,336	5,112
Rental of equipment	1,232	948	3,545	2,884
Others	40	39	320	320
	49,231	57,747	147,445	164,025

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33. Segmental Reporting on Revenue, Profit and Assets

	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Total RM'000
<u>9 months ended 30 September 2018</u>						
Total Revenue	1,543,665	462,365	420,830	46,296	(10,328)	2,462,828
Net fund based income	722,195	288,178	(13,641)	217,277	-	1,214,009
Non-fund based income	116,266	26,666	72,847	40,625	(10,121)	246,283
Net income	838,461	314,844	59,206	257,902	(10,121)	1,460,292
Allowances for impairment	(33,437)	(28,588)	-	89	-	(61,936)
Profit before overheads, zakat & tax	805,024	286,256	59,206	257,991	(10,121)	1,398,356
Operating expenses						(772,639)
Profit before zakat & tax						625,717
<u>9 months ended 30 September 2017</u>						
Total Revenue	1,354,886	439,850	430,043	25,520	(7,717)	2,242,582
Net fund based income	638,537	267,861	(17,603)	206,581	-	1,095,376
Non-fund based income	110,045	27,684	90,108	20,291	(7,541)	240,587
Net income	748,582	295,545	72,505	226,872	(7,541)	1,335,963
Allowances for impairment	(10,772)	20,724	-	-	-	9,952
Profit before overheads, zakat & tax	737,810	316,269	72,505	226,872	(7,541)	1,345,915
Operating expenses						(754,663)
Profit before zakat & tax						591,252

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33. Segmental Reporting on Revenue, Profit and Assets (continued)

	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Total RM'000
<u>At 30 September 2018</u>						
Segment assets	33,876,848	10,379,665	12,140,042	87,284	(31,955)	56,451,884
Unallocated assets						<u>2,634,499</u>
Total assets						<u><u>59,086,383</u></u>
 <u>At 31 December 2017</u>						
Segment assets	31,693,272	10,420,148	12,961,042	41,366	(33,167)	55,082,661
Unallocated assets						<u>2,660,253</u>
Total assets						<u><u>57,742,914</u></u>

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34. Fair value of Financial Instruments

Fair value hierarchy

MFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes profit rates swap and structured debt. The sources of input parameters include Bank Negara Malaysia (BNM) indicative yields or counterparty credit risk.
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The table does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values.

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34. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Group 30 September 2018 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets at fair value through profit or loss	-	957,086	-	957,086	-	957,086	957,086
Derivative financial assets	-	46,371	-	46,371	-	46,371	46,371
Financial assets at fair value through other comprehensive income	14,098	10,551,729	23,072*	10,588,899	-	10,588,899	10,588,899
Financing, advances and others	-	-	-	-	45,175,550	45,175,550	44,256,513
Financial liabilities							
Derivative financial liabilities	-	24,444	-	24,444	-	24,444	24,444
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,520,625	1,520,625	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	1,052,290	1,052,290	1,019,770
Group 31 December 2017 RM'000							
	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets held-for-trading	-	380,925	-	380,925	-	380,925	380,925
Derivative financial assets	-	68,319	-	68,319	-	68,319	68,319
Financial assets available-for-sale	17,612	9,229,771	-	9,247,383	5,300*	9,252,683	9,252,683
Financing, advances and others	-	-	-	-	42,299,796	42,299,796	42,113,420
Financial liabilities							
Derivative financial liabilities	-	74,668	-	74,668	-	74,668	74,668
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	-	-
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

* Comprise non-traded equity investments which are measured at fair value upon adoption of MFRS 9. Before the adoption of MFRS 9, these securities were measured at cost less any impairment loss because their fair value was not considered to be reliably measurable. MFRS 9 has removed this cost exception.

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34. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Bank 30 September 2018 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets at fair value through profit or loss	-	951,707	-	951,707	-	951,707	951,707
Derivative financial assets	-	46,371	-	46,371	-	46,371	46,371
Financial assets at fair value through other comprehensive income	14,098	10,551,729	23,862*	10,589,689	-	10,589,689	10,589,689
Financing, advances and others	-	-	-	-	45,175,550	45,175,550	44,256,513
Financial liabilities							
Derivative financial liabilities	-	24,444	-	24,444	-	24,444	24,444
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,520,625	1,520,625	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	1,052,290	1,052,290	1,019,770
Bank 31 December 2017 RM'000							
	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets held-for-trading	-	375,664	-	375,664	-	375,664	375,664
Derivative financial assets	-	68,319	-	68,319	-	68,319	68,319
Financial assets available-for-sale	17,612	9,230,228	-	9,247,840	5,300*	9,253,140	9,253,140
Financial assets held-to-maturity	-	-	-	-	-	-	-
Financing, advances and others	-	-	-	-	42,299,796	42,299,796	42,113,420
Financial liabilities							
Derivative financial liabilities	-	74,668	-	74,668	-	74,668	74,668
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	-	-
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

* Comprise non-traded equity investments which are measured at fair value upon adoption of MFRS 9. Before the adoption of MFRS 9, these securities were measured at cost less any impairment loss because their fair value was not considered to be reliably measurable. MFRS 9 has removed this cost exception.

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34. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Unobservable inputs used in measuring fair value

The following tables show the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

(a) Financial instruments carried at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity investments	Adjusted net asset method	Assets and liabilities of the investee company	Changes on the assets and liabilities would reflect the fair value measurement

(b) Financial instruments not carried at fair value

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

(i) Other financial assets at amortised cost

The fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities that classified as other financial assets at amortised cost, the fair values are valued at cost less impairment or estimated using discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(ii) Financing, advances and others

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

(iii) Subordinated Sukuk Murabahah and Recourse obligations on financing sold to Cagamas

The fair values of subordinated obligations are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for borrowings with similar risks profiles.

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35. Commitment and Contingencies

The commitment and contingencies and their related counterparty credit risk for the Group and Bank are as follows:

As at 30 September 2018	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Credit related exposures</i>			
Direct credit substitutes	477,552	477,552	477,496
Transaction related contingent items	1,007,919	503,959	468,709
Short term self-liquidating trade related contingencies	289,275	57,855	56,342
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- not exceeding one year	-	-	-
- exceeding one year	1,572,822	786,411	594,538
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	7,628,204	-	-
	<u>10,975,772</u>	<u>1,825,777</u>	<u>1,597,085</u>
		Positive Fair Value of Derivative Contracts RM'000	
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Derivative Financial Instruments</i>			
Foreign exchange related contracts			
- less than one year	3,341,396	42,624	85,718
Profit rate related contracts			
- less than one year	400,000	1,847	1,702
- one year to less than five years	-	-	-
- five years and above	185,935	1,900	10,735
	<u>3,927,331</u>	<u>46,371</u>	<u>98,155</u>
Total	<u>14,903,103</u>	<u>46,371</u>	<u>1,923,932</u>

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35. Commitment and Contingencies (continued)

The commitment and contingencies and their related counterparty credit risk for the Group and Bank are as follows (continued):

	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000	
As at 31 December 2017				
<i>Credit related exposures</i>				
Direct credit substitutes	2,871,511	2,871,511	2,167,427	
Transaction related contingent items	1,066,956	533,478	499,771	
Short term self-liquidating trade related contingencies	373,328	74,666	71,836	
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	318	64	32	
- exceeding one year	1,226,538	613,269	445,326	
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	4,402,695	-	-	
	<u>9,941,346</u>	<u>4,092,988</u>	<u>3,184,392</u>	
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Derivative Financial Instruments</i>				
Foreign exchange related contracts				
- less than one year	3,218,824	63,827	112,875	41,796
Profit rate related contracts				
- less than one year	-	-	-	-
- one year to less than five years	400,000	2,132	4,921	984
- five years and above	207,992	2,360	14,351	8,895
	<u>3,826,816</u>	<u>68,319</u>	<u>132,147</u>	<u>51,675</u>
Total	<u>13,768,162</u>	<u>68,319</u>	<u>4,225,135</u>	<u>3,236,067</u>

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36. Capital adequacy

Total capital and capital adequacy ratios of the Bank have been computed based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-Weighted Assets). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

The capital adequacy ratios of the Group and the Bank are set out below:

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Common Equity Tier I (CET I) Capital Ratio	12.681%	12.729%	12.663%	12.701%
Total Tier I Capital Ratio	12.681%	12.729%	12.663%	12.701%
Total capital ratio	16.389%	16.435%	16.376%	16.411%

The components of CET I, Tier I and Tier II capital:

	Group		Bank	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Paid-up share capital	3,012,368	2,869,498	3,012,368	2,869,498
Retained earnings	2,057,017	2,150,402	2,054,432	2,150,345
Other reserves	(92,666)	(60,196)	(92,487)	(60,337)
<u>Less:</u>				
Deferred tax assets	(71,690)	(37,288)	(70,147)	(37,288)
Gain on financial instruments classified as fair value through other comprehensive income	(4,675)	-	(4,675)	-
Regulatory reserve	(10,000)	(64,645)	(10,000)	(64,645)
Investment in subsidiaries	-	-	(15,525)	(15,525)
Total CET I and Tier I Capital	4,890,354	4,857,771	4,873,966	4,842,048
Sukuk Murabahah	1,000,000	1,000,000	1,000,000	1,000,000
Collective assessment allowance and regulatory reserve ^	430,079	414,193	429,460	414,193
Total Tier II Capital	1,430,079	1,414,193	1,429,460	1,414,193
Total Capital	6,320,433	6,271,964	6,303,426	6,256,241

^ Collective assessment allowance on non-impaired financing subject to maximum of 1.25% of total credit risk-weighted assets less credit absorbed by unrestricted investment accounts.

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36. Capital adequacy (continued)

The breakdown of risk-weighted assets by each major risk category is as follows:

	Group		Bank	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Credit risk	37,635,183	37,442,256	37,585,633	37,437,855
Less : Credit risk absorbed by unrestricted investment accounts	<u>(3,228,851)</u>	<u>(3,034,004)</u>	<u>(3,228,851)</u>	<u>(3,034,004)</u>
	34,406,332	34,408,252	34,356,782	34,403,851
Market risk	832,623	602,089	832,623	586,043
Operational risk	<u>3,326,931</u>	<u>3,152,951</u>	<u>3,301,460</u>	<u>3,132,745</u>
	<u>38,565,886</u>	<u>38,163,292</u>	<u>38,490,865</u>	<u>38,122,639</u>

37. Performance review for the nine months ended 30 September 2018

The Group reported profit before zakat and tax of RM625.7 million or an increase of 5.8% for the nine months ended 30 September 2018 compared to the previous corresponding period. The improved performance was mainly attributed to the increase in Base Rate and Base Financing rate by 25 bps effective February 2018, in response to the 25 bps increase in Overnight Policy Rate on 25 January 2018.

Year-on-year net financing assets grew RM4.2 billion or 10.4% to reach RM44.3 billion as at end of September 2018. Correspondingly, fund based income from financing also increased by RM206.4 million or 12.4%.

As at end of September 2018, customer deposits and investment accounts stood at RM50.3 billion with a year-on-year increase of RM4.2 billion or 9.1%. CASA ratio as at end of September 2018 was 30.2% against the Islamic Banking Industry CASA ratio of 22.7% as at end of July 2018.

The Group's gross impaired financing ratio was 0.97% while the net impaired financing ratio was a negative 0.77% as at end of September 2018 compared to 0.93% and a negative 0.41% respectively as at 31 December 2017. The Banking System gross impaired ratio was 1.58% and the net impaired ratio was 0.06% as at end of July 2018.

The key performance ratios as at end of September 2018 also compared favourably against the Banking System ratios as at end of December 2017. The Bank's return on equity and return on assets based on profit before zakat and tax (PBZT) were 16.3% and 1.4% respectively against the Islamic Banking Industry's 15.1% and 1.1% respectively.

38. Prospect for 2018

The extent of uncertainties of trade friction between the US and the rest of the world is expected to slow global trade as businesses would have to face increase in operating costs. Consequently, Malaysia's exports is anticipated to grow at a much slower rate this year. Businesses are envisaged to be mindful of their capital expenditure as demand outlook appears to be increasingly challenging. Government spending is expected to be in caution as the current administration aspires to reduce the debt level. This would have implications especially to public investment as the government has already taken various measures to reduce expenditure. These factors led to slower economic growth of 4.5% year-on-year in Q2 2018 (Q1 2018: 5.4%), lower than the initial estimates of 5.2%. This raises concern on the growth prospects for the second half of 2018.

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38. Prospect for 2018 (continued)

Amidst the challenging economic outlook, financing growth for the banking sector is anticipated to be between 5% and 6% as banks continue to defend their asset quality. In addition, usage of technology will intensify in order to improve customer experience and operational efficiency.

The Bank will focus on optimising its risks and returns, resources and productivity as well as its franchise value, which is underpinned by a disciplined balance sheet management. This is to sustain net income margin, preserve asset quality and minimise the financial impact arising from the implementation of MFRS 9 and the upcoming Net Stable Funding Ratio (“NSFR”) requirements. With digital transformation being a new thrust to enriching customer experience and services, Bank Islam has embarked on its digital journey in enhancing its reach and spurring innovation.

The Bank will continue to invest in its people, to build a strong compliance and risk culture as well as enhance its capability and capacity as a key player in Islamic Finance.

39. Subsequent events

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

40. Contingent liability

On 19 July 2018, the Ministry of Finance (MOF) issued a letter to Association of Banks in Malaysia (ABM) on the tax treatment on the adoption of MFRS 9 and clarified that no tax deduction is allowed for collective assessment (CA) impairment allowances. Only individual assessment (IA) impairment allowances and specific provision (excluding portion relating to future/expected credit losses) are allowable as tax deduction.

This is a departure from the tax treatment for allowances under MFRS 139 whereby both collective and individual impairment allowances are allowable as tax deduction.

Subsequently, on 13 August 2018, the ABM issued an appeal letter to MOF justifying that MFRS 9 is an enhancement to MFRS 139 and same tax treatment should be accorded under MFRS 9 for consistency and continuity. This is to ensure that Malaysian banks remain competitive in the global environment.

As at 30 September 2018, the Group and the Bank have not taken into account the impact of no tax deduction for CA as the matter is still in the appeal process.