

**BANK ISLAM MALAYSIA BERHAD**  
**(Company No. 98127-X)**  
**(Incorporated in Malaysia)**

**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**31 DECEMBER 2017**

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Contents**

	<u>Page</u>
1. Directors' Report	2
2. Statement by Directors	8
3. Report of the Shariah Supervisory Council	9
4. Statutory Declaration	15
5. Independent Auditors' Report	16
6. Statements of Financial Position	20
7. Statements of Profit or Loss and Other Comprehensive Income	22
8. Consolidated Statement of Changes in Equity	24
9. Statement of Changes in Equity	25
10. Statements of Cash Flow	26
11. Notes to the Financial Statements	29

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Directors' Report for the financial year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017.

### Principal activities

The Bank is principally engaged in Islamic banking business and the provision of related services. The principal activities of the subsidiaries are as stated in Note 13 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

### Immediate and ultimate holding company/entity

The Directors regard BIMB Holdings Berhad, a company incorporated in Malaysia and Lembaga Tabung Haji ("LTH"), a *hajj* pilgrims' funds board established in Malaysia as the immediate holding company and ultimate holding entity respectively during the financial year and until the date of this report.

### Subsidiaries

The details of the Bank's subsidiaries are disclosed in Note 13 to the financial statements.

### Results

	<b>Group</b> <b>RM'000</b>	<b>Bank</b> <b>RM'000</b>
Profit before zakat and tax expense	767,053	766,109
Zakat and tax expense	(200,935)	(200,760)
Profit for the year	<u>566,118</u>	<u>565,349</u>

### Reserves and provisions

During the financial year ended 31 December 2017, the Bank has transferred RM1,392,158,939 from statutory reserve to its retained earnings pursuant to the Revised Policy Document on Capital Funds for Islamic Banks issued by Bank Negara Malaysia ("BNM") on 3 May 2017, as disclosed in Note 2.1(a) and Note 22.

During the financial year ended 31 December 2017, the Bank has also transferred RM64,645,000 from its retained earnings to regulatory reserve to comply with BNM's Policy on Classification and Impairment Provisions for Financing, as disclosed in Note 22.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Dividends

Since the end of the previous financial year, the amount of dividends paid by the Bank were as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year:	
Final dividend of approximately 5.58 sen per ordinary share paid on 15 June 2017	134,167
In respect of the financial year ended 31 December 2017:	
Interim dividend of approximately 5.41 sen per ordinary share paid on 20 September 2017	132,310
	<u>266,477</u>

The Directors recommend a final dividend of 6.09 sen per ordinary share totalling RM150,180,000 for the financial year ended 31 December 2017.

## Directors of the Bank

Directors of the Bank who served during the financial year until the date of this report are:

Datuk Zamani Abdul Ghani (Chairman)  
Tan Sri Dato' Dr. Abdul Shukor Husin  
Datuk Zaiton Mohd Hassan  
Zahari @ Mohd Zin Idris  
Mohamed Ridza Mohamed Abdulla  
Noraini Che Dan  
Nik Mohd Hasyudeen Yusoff  
Dato' Sri Zukri Samat (retired on 9 June 2017)  
Dato' Sri Khazali Ahmad (appointed on 2 January 2018)  
Azizan Ahmad (appointed on 2 January 2018)

## Directors of the subsidiaries

Directors of the subsidiaries who served during the financial year until the date of this report are:

<b>Name of Company</b>	<b>Directors</b>
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Maria Mat Said Mohd Muazzam Mohamed
BIMB Investment Management Berhad	Nik Mohd Hasyudeen Yusoff (appointed on 13 September 2017) Najmuddin Mohd Lutfi Dato' Ghazali Awang Datuk Noripah Kamso Dr. Mohd Hatta Dagap Malkiat Singh @ Malkit Singh Maan A/L Delbara Singh Mujibburrahman Abd Rashid (appointed on 5 December 2017) Khairul Kamarudin (resigned on 13 September 2017)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Directors of the subsidiaries (continued)

Name of Company	Directors
Bank Islam Trust Company (Labuan) Ltd. and its subsidiary: BIMB Offshore Company Management Services Sdn. Bhd.	Zahari @ Mohd Zin Idris Maria Mat Said
Farihan Corporation Sdn. Bhd.	Razman Ismail (appointed on 1 August 2017) Maria Mat Said Khairul Kamarudin (resigned on 1 August 2017)

None of the Bank and subsidiaries' Directors holding office as at 31 December 2017 had any interest in the ordinary shares of the Bank and of its related corporations during the financial year.

## Directors' benefits

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the Note 33 to financial statements or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a firm in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

## Issue of shares

On 15 June 2017, the Bank increased its issued and paid-up capital from RM2,669,174,100 to RM2,803,340,600 via the issuance of 41,282,000 new ordinary shares at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of one hundred percent of the final dividend of approximately 5.58 sen per share in respect of financial year ended 31 December 2016, as disclosed in Note 37 to the financial statements.

On 20 September 2017, the Bank further increased its issued and paid-up capital from RM2,803,340,600 to RM2,869,497,600 via the issuance of 20,356,000 new ordinary shares at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of fifty percent of the interim dividend of approximately 5.41 sen per share in respect of financial year ended 31 December 2017, as disclosed in Note 37 to the financial statements.

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

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Options granted over unissued shares**

No options were granted to any person to take up unissued shares of the Bank during the financial year.

## **Indemnity and Takaful costs**

During the financial year, the total amount of Takaful cost incurred for Directors and Officers Liability Takaful coverage of the Group and of the Bank is RM111,570.

## **Other Statutory Information**

### **Impaired financing**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper actions had been taken in relation to the writing off of bad financing and the making of impairment provisions for impaired financing, and have satisfied themselves that all known bad financing have been written off and adequate impairment provisions made for impaired financing.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad financing, or amount of impairment provisions for impaired financing in the financial statements of the Group and of the Bank, inadequate to any substantial extent.

### **Current assets**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Group and of the Bank have been written down to their estimated realisable value.

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Bank to be misleading.

### **Valuation methods**

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank to be misleading or inappropriate.

### **Contingent and other liabilities**

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than those incurred in the ordinary course of business.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Contingent and other liabilities (continued)**

No contingent or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

## **Change of circumstances**

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 which would render any amount stated in the financial statements of the Group and of the Bank misleading.

## **Items of an unusual nature**

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely to affect substantially the results of the operations of the Group or of the Bank for the current financial year in which this report is made.

## **Compliance with Bank Negara Malaysia's expectations on financial reporting**

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia ("BNM")'s expectations on financial reporting have been complied with, including those as set out in the Financial Reporting for Islamic Banking Institutions, Circular on the Application of MFRS and Revised Financial Reporting Requirements for Islamic Banks and the Guidelines on Classification and Impairment Provision for Loans/Financing.

## **2018 Business Plan and Outlook**

### **Business Plan, Strategy and Future Outlook**

The Bank's corporate direction for 2018 is premised on the overarching themes of Value-Based Intermediation ("VBI"). VBI is at the heart of the Bank's business model, to deliver a sustainable performance with a strategic focus to support economic, social and environmental development. Shariah rules and principles remain as fundamentals to the Bank's direction along with the new Triple Bottom Line ("TBL") approach embedded in all operating principles.

The Bank will focus on optimising its risks and returns, optimising its resource 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 as well as to minimise financial impact arising from the implementation of Malaysian Financial Reporting Standards on Financial Instruments ("MFRS 9") in 2018 and the upcoming Net Stable Funding Ratio ("NSFR") requirements.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## 2018 Business Plan and Outlook

### Business Plan, Strategy and Future Outlook (continued)

The Bank will stay the course with its strategy to collaborate with FinTech companies in enhancing its reach and spurring innovation. The Bank will also carry on to invest in its people, to build a strong compliance and risk culture as well as enhance its capability and capacity as one of the key players in the Islamic Finance world.

### Ratings accorded by external rating agency

During the financial year, the Bank's rating was re-affirmed as follows:

Rating agency	Date re-affirmed	Ratings
RAM Rating Services Berhad	12 December 2017	Long-term rating: AA3 Short-term rating: P1 Outlook: Stable

### Auditors

The auditors, Messrs. KPMG Desa Megat PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 32 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
**Datuk Zamani Abdul Ghani**  
Chairman

.....  
**Noraini Che Dan**  
Director

Kuala Lumpur,

Date: 28 March 2018

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Statement by Directors pursuant to Section 251(2) of the Companies Act 2016**

In the opinion of the Directors, the financial statements set out on pages 20 to 164 are drawn up in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and the requirements of the Companies Act 2016 in Malaysia, and Shariah requirements so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....  
**Datuk Zamani Abdul Ghani**  
Chairman

.....  
**Noraini Che Dan**  
Director

Kuala Lumpur,

Date: 28 March 2018

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Report of the Shariah Supervisory Council



الحمد لله رب العالمين، والصلاة والسلام على سيدنا محمد، الذي أرسله الله رحمة للعالمين، هادياً مهدياً، وسراجاً منيراً، وعلى آله وصحبه أجمعين، ومن تبعهم بإحسان إلى يوم الدين، وبعد،

السلم عليكم ورحمة الله وبركاته and “Salam Sejahtera”

In carrying out the roles and the responsibilities of the Shariah Supervisory Council (“SSC”) as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia (“BNM”) and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2017.

The Bank’s Management is responsible to ensure that its conduct and businesses are in accordance with the Shariah rules and principles, and it is our responsibility to form an independent opinion based on our review on the conduct and businesses of the Bank and to produce this report.

We had eight (8) meetings during the financial year in which we reviewed inter alia products, transactions, services, processes and documents of the Bank.

In performing our roles and responsibilities, we have obtained all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with the Shariah rules and principles.

At the management level, the Chief Shariah Officer who functionally reports to us oversees the conduct and effectiveness of the internal Shariah compliance functions i.e. Shariah Research & Advisory, Shariah Review and Shariah Risk Management which are further substantiated by Shariah Audit that resides in the Internal Audit Division. Both Shariah Review and Shariah Risk Management functions also report to Chief Compliance Officer and Chief Risk Officer respectively. The roles of these functions are facilitating new research & product development activities, refining existing products & procedures, providing Shariah training, managing Shariah non-compliance risks bank-wide, conducting Shariah audit & review on departments and branches and coordinating with us on any matter that requires our decision.

The following are the major developments that took place during the financial year which come under our purview:

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Approvals**

To ensure smoothness and timely execution of our business operation, we empower the Chief Shariah Officer and his deputy to approve non-substantial variation to Shariah-related matters, and the approvals are reported to us periodically for review and confirmation.

## **Shariah Governance**

We have approved in our meetings, initiatives in strengthening the Shariah governance of the Bank which include the review and update of the Shariah Review Guideline, Shariah Non-Compliance Management & Reporting Guideline and Shariah Compliance Risk Management Guideline that aim, among others, to set out the Shariah Compliance Risk Management framework and Shariah review processes.

## **Shariah Risk Management**

We observe that the Bank implements measures in managing its Shariah non-compliance risk. The implementation of Risk Control Self-Assessment (“RCSA”) aims to assess the significance of identified Shariah non-compliance risks and effectiveness of the existing controls in the respective functional areas including continuous improvements to existing controls to provide reasonable mitigation to avoid any occurrence of Shariah non-compliance event in meeting the business objectives.

Since the introduction of RCSA, continuous process of identifying and assessing Shariah risks at respective functional areas are carried out. The increase in numbers of identified Shariah risks reflects the increasing level of Shariah awareness among staff especially Risk Controllers (“RC”) at each functional area.

## **Shariah Review & Shariah Audit**

The Shariah Review and Shariah Audit functions play a vital role in achieving the objective of ensuring Shariah compliance by evaluating and assessing activities in the Bank whereby the former validates the compliance of activities with Shariah rules and principles and the latter provides independent assurance in order to add value and improve the degree of Shariah compliance in relation to such activities. Shariah Review is required to perform assessment on newly launched products 6 months (not later than a year) after the products are launched.

Both Shariah Audit and Shariah Review plans for the financial year are reviewed and approved by us for their implementation. The reports are deliberated in our meetings to confirm that the Bank complies with the rulings issued by the Shariah Advisory Council (“SAC”) of Bank Negara Malaysia, the SAC of Securities Commission (for capital market related matters) as well as our decisions.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Shariah Review & Shariah Audit (continued)

During the year, the following reports were presented to us covering the following entities/areas:

Shariah Audit	Shariah Review
1) Capital Market Division	1) Validation on compliance with Tawarruq Policy Document
2) Consumer Collections and Recovery	2) Validation on compliance with Murabahah Policy Document
3) Shariah Division	3) Validation on compliance with BNM's Guidelines on Introduction of New Products
4) Corporate Support Division	4) Validation on compliance with BNM's Guidelines on Products Transparency and Disclosure
5) Treasury Division	5) Human Resources
6) BIMB Securities Sdn Bhd	6) Treasury – Derivatives Instruments
7) Corporate Recovery Department	7) Telemarketing Activities - UTS Marketing Solutions
8) Corporate Banking Division	8) Bank Islam Card Centre ("BICC") – Follow-up Review on MCC 5813
9) Product Management Division	9) Wafiyah Account Investment
10) Human Resources Division	10) RIA (Wakalah) via Investment Account Platform
11) Commercial Banking Division	11) Mudarabah Current Account ("TCIA")
12) Bank Islam Card Centre	12) BIMB Holding Berhad, Syarikat Al-Ijarah Sdn Bhd and BIMB Securities (Holdings) Sdn Bhd
13) Bank Islam Labuan Offshore Branch	13) Verification on the Compliance to SSC of Bank Islam's Decision
14) Bank Islam Trust Company (Labuan) Limited	14) Verification on the Compliance to Resolution of the SAC of BNM
15) Abandoned Housing Projects	15) Verification on the Compliance to Resolution of the SAC of SC
16) Assessment on the compliance with the BNM's Tawarruq Policy Document	16) Bank Islam Trust (Labuan) Limited
17) Assessment on the compliance with the BNM's Murabahah Policy Document	17) Bank Islam Labuan Offshore Branch ("BILOB")

## Shariah Training & Awareness

During the year, seventeen (17) Shariah training and briefing sessions were held covering 832 participants among the Bank's employees nationwide.

All new recruits of the Bank spend one day in the Muamalat 101 training module during the orientation programme in which they learn the fundamentals of Shariah applied in Islamic banking business.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Shariah Training & Awareness (continued)

The Bank has embarked on an initiative to increase the knowledge of the staff by engaging Islamic Banking and Finance Institute Malaysia (“IBFIM”) for in-house certification programme namely Associate Qualification in Islamic Finance (“AQIF”) which comprises six (6) important modules. The Bank’s Shariah officers are part of the trainers for the AQIF modules. AQIF enhances the staff competencies, skills and knowledge in Islamic finance by providing exposure on the basic foundation and philosophy of Islamic finance and its operational applications. Successful participants of AQIF are offered to pursue the subsequent levels of the certification programme i.e. Intermediate Qualification of Islamic Finance (“IQIF”) and Certified Qualification in Islamic Finance (“CQIF”) accordingly.

To increase the awareness on Shariah compliance among the RCs, the Bank conducts three (3) Shariah Town Hall sessions whereby the RCs are updated on new Shariah requirements/rulings issued either by us or the regulators and any occurrence of Shariah non - compliances.

## Shariah Non-Compliant Events & Income

We confirm the following incidences that breach Shariah rules and principles for products in 2017:

- (i) Four (4) occurrences of absence of *wakalah aqad* execution for Term Deposit Tawarruqi (“TDT-i”) in branches;
- (ii) One (1) occurrence of absence of *wakalah aqad* execution for Wafiyah Investment Account in branches;
- (iii) Overcharge of *ta’widh* and profit on Bank Islam Card Credit’s customer; and
- (iv) Absence of commodity trading for TDT-i.

We were informed on the root causes of the incidences and noted that the Bank took corrective as well as preventive measures in order to avoid the same incidences from occurring in the future.

We confirm that all of the events together with the rectification plans were presented to the Board of Directors and us and reported to BNM in accordance with the Shariah non-compliance reporting requirement prescribed by the regulator.

During the financial year, the Bank detected non-significant Shariah non-compliance income amounting to RM8,374.23. This amount was disposed off to charitable causes upon our approval as further described in the Note 23 – Sources and Uses of Charity Fund.

## Business Zakat

During the financial year, the Bank fulfilled its obligation to pay *zakat* on its business to state *zakat* authorities by adopting the capital growth computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji (“JAWHAR”). The Bank paid the *zakat* on the Bank’s portion i.e. shareholders’ fund as well as other funds received by the Bank except for depositors’ fund.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Business Zakat (continued)**

Several *zakat* authorities have mandated distribution of a portion of the *zakat* paid by the Bank on the basis of the Bank acting as their agent (*wakil*) for distribution to eligible beneficiaries (*asnaf*) among needy individuals, mosques, non-governmental organizations, institutions of higher learning (needy students welfare funds) and schools as guided by the Business Zakat Payment Guideline that was approved by us.

## **Safeguarding the Investment Account Holders (“IAH”) Interest**

In ensuring the interest of IAH is protected, we confirm that the profit allocation for the IAH is in accordance with Shariah rules and principles where the profit computation formula is duly presented and approved by us. The performance of the Investment Account is disclosed and reported via issuance of Fund Performance Report (“FPR”) which is made available on the Bank’s website.

We have reviewed the financial statements of the Bank and confirm that the financial statement is in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Bank, excluding the seven (7) Shariah non-compliance incidences mentioned above, during the financial year ended 31 December 2017 that were reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to Investment Account conformed to the basis that has been approved by us;
3. The computation, payment and distribution of business *zakat* are in compliance with the Shariah rules and principles; and
4. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles have been disposed off to charitable causes.

On that note, we, members of Shariah Supervisory Council of Bank Islam Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Bank for the year ended 31 December 2017 have been conducted in conformity with the Shariah rules and principles.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

*We bear witness only to what we know, and we could not well guard against the unseen!*  
(*Surah Yusuf, verse:81*)

Allah knows best.

.....  
Professor Dato' Dr. Ahmad Hidayat Buang

.....  
Ustaz Dr. Ahmad Shahbari@Sobri Salamon

.....  
Sahibus Samahah Dato' Dr. Hj. Anhar Hj. Opir

.....  
Associate Professor Dr. Yasmin Hanani Mohd Safian

.....  
Assistant Professor Dr. Uzaimah Ibrahim

Kuala Lumpur,

Date: 28 March 2018

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Statutory Declaration pursuant to Section 251(1)(b) of the Companies Act 2016**

I, **Mohd Muazzam bin Mohamed**, the officer primarily responsible for the financial management of Bank Islam Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 20 to 164 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Mohd Muazzam bin Mohamed, in Kuala Lumpur on 28 March 2018.

.....  
**Mohd Muazzam bin Mohamed**

Before me,

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD**

### **Report on the Financial Statements**

#### **Opinion**

We have audited the financial statements of Bank Islam Malaysia Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Bank, and the statements of profit or loss and other 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 20 to 164.

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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards 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 auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("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 Auditors' Report Thereon**

The Directors of the Bank are responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Annual Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Information Other than the Financial Statements and Auditors' Report Thereon (continued)**

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 on the other information obtained prior to the date of this auditors' report, 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards 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 ability of the Group and of the Bank 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.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

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 internal control of the Group and of the Bank.
- 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 the 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 ability of the Group or of the Bank 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 gives a true and fair view.
- 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.

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.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)  
(Incorporated in Malaysia)

## **Other Matters**

This report is made solely to the members 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.

### **KPMG Desa Megat PLT**

Firm Number: LLP0010082-LCA & AF0759  
Chartered Accountants

### **Adrian Lee Lye Wang**

Approval Number: 02679/11/2019 J  
Chartered Accountant

Date: 28 March 2018

Petaling Jaya

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statements of Financial Position as at 31 December 2017

	Note	Group		Bank	
		31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Assets</b>					
Cash and short-term funds	3	<b>4,185,697</b>	3,963,417	<b>4,185,561</b>	3,963,268
Deposits and placements with banks and other financial institutions	4	-	100,000	-	100,000
Financial assets held-for-trading	5	<b>380,925</b>	574,835	<b>375,664</b>	569,750
Derivative financial assets	6	<b>68,319</b>	124,572	<b>68,319</b>	124,572
Financial assets available-for-sale	7	<b>9,252,683</b>	9,957,286	<b>9,253,140</b>	9,957,743
Financial assets held-to-maturity	8	-	57,703	-	57,703
Financing, advances and others	9	<b>42,113,420</b>	39,189,274	<b>42,113,420</b>	39,189,274
Other assets	10	<b>123,503</b>	99,015	<b>121,062</b>	95,928
Statutory deposits with Bank Negara Malaysia	11	<b>1,407,284</b>	1,374,876	<b>1,407,284</b>	1,374,876
Current tax assets		<b>1,792</b>	1,779	<b>1,737</b>	1,737
Deferred tax assets	12	<b>37,288</b>	48,378	<b>37,288</b>	48,378
Investments in subsidiaries	13	-	-	<b>15,525</b>	15,525
Property and equipment	14	<b>172,003</b>	185,562	<b>171,240</b>	184,547
<b>Total assets</b>		<b><u>57,742,914</u></b>	<b><u>55,676,697</u></b>	<b><u>57,750,240</u></b>	<b><u>55,683,301</u></b>

*The notes on pages 29 to 164 are an integral part of these financial statements.*

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statements of Financial Position as at 31 December 2017 (continued)

	Note	Group		Bank	
		31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Liabilities and equity</b>					
Deposits from customers	15	46,192,910	45,940,414	46,209,028	45,949,715
Investment accounts of customers	16	4,260,185	3,812,261	4,260,185	3,812,261
Deposits and placements of banks and other financial institutions	17	-	30,000	-	30,000
Derivative financial liabilities	6	74,668	111,089	74,668	111,089
Bills and acceptance payable		420,258	46,278	420,258	46,278
Subordinated Sukuk Murabahah	18	1,006,486	704,393	1,006,486	704,393
Other liabilities	19	782,299	601,750	773,769	598,591
Zakat and taxation	20	46,404	45,046	46,340	45,019
<b>Total liabilities</b>		<b>52,783,210</b>	<b>51,291,231</b>	<b>52,790,734</b>	<b>51,297,346</b>
<b>Equity</b>					
Share capital	21	2,869,498	2,404,384	2,869,498	2,404,384
Reserves		2,090,206	1,981,082	2,090,008	1,981,571
<b>Total equity</b>		<b>4,959,704</b>	<b>4,385,466</b>	<b>4,959,506</b>	<b>4,385,955</b>
<b>Total liabilities and equity</b>		<b>57,742,914</b>	<b>55,676,697</b>	<b>57,750,240</b>	<b>55,683,301</b>
<b>Restricted investment accounts managed by the Bank</b>	16	<b>124,384</b>	<b>141,343</b>	<b>124,384</b>	<b>141,343</b>
<b>Total Islamic banking asset owned and managed by the Bank</b>		<b>57,867,298</b>	<b>55,818,040</b>	<b>57,874,624</b>	<b>55,824,644</b>
<b>Commitments and contingencies</b>	43	<b>13,768,162</b>	<b>13,704,559</b>	<b>13,768,162</b>	<b>13,704,559</b>

The notes on pages 29 to 164 are an integral part of these financial statements.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2017

		Group		Bank	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds	24	<b>2,324,187</b>	2,342,204	<b>2,324,187</b>	2,342,204
Income derived from investment account funds	25	<b>247,046</b>	113,893	<b>247,046</b>	113,893
Income derived from investment of shareholders' funds	26	<b>434,353</b>	407,357	<b>421,285</b>	398,392
Net allowance for impairment on financing and advances, net of recoveries	27	<b>15,613</b>	(92,105)	<b>15,613</b>	(92,105)
Allowance for impairment on investments	28	-	(255)	-	(255)
Net allowance of impairment on other assets		(243)	608	(243)	608
Direct expenses		<b>(18,421)</b>	(20,387)	<b>(18,421)</b>	(20,387)
Total distributable income		<b>3,002,535</b>	2,751,315	<b>2,989,467</b>	2,742,350
Wakalah performance incentive fees from restricted investment accounts	16	<b>2,595</b>	5,328	<b>2,595</b>	5,328
Income attributable to depositors	29	<b>(1,103,036)</b>	(1,069,637)	<b>(1,103,275)</b>	(1,069,869)
Income attributable to investment account holders	30	<b>(105,301)</b>	(38,387)	<b>(105,301)</b>	(38,387)
<b>Total net income</b>		<b>1,796,793</b>	1,648,619	<b>1,783,486</b>	1,639,422
Personnel expenses	31	<b>(569,343)</b>	(506,673)	<b>(560,447)</b>	(500,177)
Other overhead expenses	32	<b>(419,101)</b>	(382,069)	<b>(415,634)</b>	(379,339)
		<b>808,349</b>	759,877	<b>807,405</b>	759,906
Finance cost on Subordinated Sukuk Murabahah	18	<b>(41,296)</b>	(39,465)	<b>(41,296)</b>	(39,465)
<b>Profit before zakat and tax</b>		<b>767,053</b>	720,412	<b>766,109</b>	720,441
Zakat		<b>(13,373)</b>	(12,859)	<b>(13,306)</b>	(12,844)
Tax expense	35	<b>(187,562)</b>	(176,591)	<b>(187,454)</b>	(176,590)
<b>Profit for the year</b>		<b>566,118</b>	530,962	<b>565,349</b>	531,007
<b>Earnings per share (sen)</b>	36	<b>23.27</b>	22.29		

The notes on pages 29 to 164 are an integral part of these financial statements.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)  
(Incorporated in Malaysia)

## Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2017 (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit for the year	<u>566,118</u>	<u>530,962</u>	<u>565,349</u>	<u>531,007</u>
<b>Other comprehensive income, net of tax:</b>				
<b>Items that are or may be reclassified subsequently to profit or loss</b>				
Currency translation differences in respect of foreign operations	45,908	(20,252)	45,990	(20,293)
Fair value reserve				
Net change in fair value	43,480	15,229	43,480	15,229
Net amount transferred to profit or loss	(6,157)	(51,249)	(6,157)	(51,249)
Income tax (expense)/credit relating to components of other comprehensive income	(8,958)	8,645	(8,958)	8,645
<b>Other comprehensive income/(expense) for the year, net of tax</b>	<u>74,273</u>	<u>(47,627)</u>	<u>74,355</u>	<u>(47,668)</u>
<b>Total comprehensive income for the year</b>	<u>640,391</u>	<u>483,335</u>	<u>639,704</u>	<u>483,339</u>

*The notes on pages 29 to 164 are an integral part of these financial statements.*

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Consolidated Statement of Changes in Equity for the financial year ended 31 December 2017

Group	Note	← Attributable to equity holders of the Bank →				Total equity RM'000
		← Non-distributable →		Other reserves RM'000	Distributable Retained earnings RM'000	
		Share capital RM'000	Share premium RM'000			
<b>At 1 January 2016</b>		<b>2,363,283</b>	<b>175,452</b>	<b>1,107,920</b>	<b>385,913</b>	<b>4,032,568</b>
Profit for the year		-	-	-	530,962	530,962
Currency translation difference in respect of foreign operations		-	-	(20,252)	-	(20,252)
Fair value reserve – Net change in fair value		-	-	15,229	-	15,229
– Net amount reclassified to profit or loss		-	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income		-	-	8,645	-	8,645
Total comprehensive (expense)/income for the year		-	-	(47,627)	530,962	483,335
Transfer to reserve fund		-	-	132,752	(132,752)	-
Dividends paid on ordinary shares	37	-	-	-	(260,876)	(260,876)
Issue of shares pursuant to Dividend Reinvestment Plan	37	41,101	89,338	-	-	130,439
<b>At 31 December 2016/1 January 2017</b>		<b>2,404,384</b>	<b>264,790</b>	<b>1,193,045</b>	<b>523,247</b>	<b>4,385,466</b>
Profit for the year		-	-	-	566,118	566,118
Currency translation difference in respect of foreign operations		-	-	45,908	-	45,908
Fair value reserve – Net change in fair value		-	-	43,480	-	43,480
– Net amount reclassified to profit or loss		-	-	(6,157)	-	(6,157)
Income tax expense relating to components of other comprehensive income		-	-	(8,958)	-	(8,958)
Total comprehensive income for the year		-	-	74,273	566,118	640,391
Transfer of share premium to share capital	21	264,790	(264,790)	-	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159	-
Transfer to regulatory reserve	22	-	-	64,645	(64,645)	-
Dividends paid on ordinary shares	37	-	-	-	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	37	200,324	-	-	-	200,324
<b>At 31 December 2017</b>		<b>2,869,498</b>	<b>-</b>	<b>(60,196)</b>	<b>2,150,402</b>	<b>4,959,704</b>

Note 22

The notes on pages 29 to 164 are an integral part of these financial statements.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statement of Changes in Equity for the financial year ended 31 December 2017

		← Attributable to equity holders of the Bank →				
Bank	Note	← Non-distributable →			Distributable	Total Equity RM'000
		Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	
<b>At 1 January 2016</b>		<b>2,363,283</b>	<b>175,452</b>	<b>1,107,738</b>	<b>386,580</b>	<b>4,033,053</b>
Profit for the year		-	-	-	531,007	531,007
Currency translation difference in respect of foreign operations		-	-	(20,293)	-	(20,293)
Fair value reserve – Net change in fair value		-	-	15,229	-	15,229
– Net amount reclassified to profit or loss		-	-	(51,249)	-	(51,249)
Income tax credit relating to components of other comprehensive income		-	-	8,645	-	8,645
Total comprehensive (expense)/income for the year		-	-	(47,668)	531,007	483,339
Transfer to reserve fund		-	-	132,752	(132,752)	-
Dividends paid on ordinary shares	37	-	-	-	(260,876)	(260,876)
Issue of shares pursuant to Dividend Reinvestment Plan	37	41,101	89,338	-	-	130,439
<b>At 31 December 2016/1 January 2017</b>		<b>2,404,384</b>	<b>264,790</b>	<b>1,192,822</b>	<b>523,959</b>	<b>4,385,955</b>
Profit for the year		-	-	-	565,349	565,349
Currency translation difference in respect of foreign operations		-	-	45,990	-	45,990
Fair value reserve – Net change in fair value		-	-	43,480	-	43,480
– Net amount reclassified to profit or loss		-	-	(6,157)	-	(6,157)
Income tax expense relating to components of other comprehensive income		-	-	(8,958)	-	(8,958)
Total comprehensive income for the year		-	-	74,355	565,349	639,704
Transfer of share premium to share capital	21	264,790	(264,790)	-	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159	-
Transfer to regulatory reserve	22	-	-	64,645	(64,645)	-
Dividends paid on ordinary shares	37	-	-	-	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	37	200,324	-	-	-	200,324
<b>At 31 December 2017</b>		<b>2,869,498</b>	<b>-</b>	<b>(60,337)</b>	<b>2,150,345</b>	<b>4,959,506</b>

Note 22

The notes on pages 29 to 164 are an integral part of these financial statements.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statements of Cash Flow for the financial year ended 31 December 2017

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Cash flows from operating activities</b>				
Profit before zakat and tax	<b>767,053</b>	720,412	<b>766,109</b>	720,441
Adjustments for:				
Depreciation of property and equipment	<b>54,480</b>	59,582	<b>54,220</b>	59,338
Net (gain)/loss on disposal of property and equipment	<b>71</b>	(527)	<b>71</b>	(527)
Property and equipment written off	<b>56</b>	8	<b>56</b>	8
Collective assessment allowance	<b>34,706</b>	161,667	<b>34,706</b>	161,667
Individual assessment allowance (Reversal)/Allowance of impairment losses on other assets	<b>243</b>	(608)	<b>243</b>	(608)
Allowance for impairment loss on financial assets available-for-sale	-	255	-	255
Net (gain)/loss on sale of financial assets held-for-trading	<b>765</b>	(5,605)	<b>765</b>	(5,260)
Net gain on sale of financial assets available-for-sale	<b>(6,157)</b>	(51,249)	<b>(6,157)</b>	(51,249)
Net gain on sale of financial assets held to maturity	<b>(31,551)</b>	-	<b>(31,551)</b>	-
Fair value (gain)/loss on financial assets held-for-trading	<b>(5,214)</b>	4,074	<b>(5,214)</b>	3,904
Dividends from securities	<b>(2,600)</b>	(4,991)	<b>(2,422)</b>	(4,991)
Net derivative loss	<b>779</b>	4,515	<b>779</b>	4,515
Finance cost on Subordinated Sukuk Murabahah	<b>41,296</b>	39,465	<b>41,296</b>	39,465
Operating profit before changes in assets and liabilities	<b>925,662</b>	957,660	<b>924,636</b>	957,620

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statements of Cash Flow

for the financial year ended 31 December 2017 (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Changes in assets and liabilities:				
Financing, advances and others	<b>(3,030,587)</b>	(5,086,913)	<b>(3,030,587)</b>	(5,086,913)
Statutory deposits with Bank				
Negara Malaysia	<b>(32,408)</b>	216,584	<b>(32,408)</b>	216,584
Bills and other receivables	<b>31,476</b>	(34,000)	<b>30,876</b>	(33,474)
Deposits from customers	<b>252,496</b>	2,384,064	<b>259,313</b>	2,354,768
Investment accounts of customers	<b>447,924</b>	3,136,156	<b>447,924</b>	3,136,156
Deposits and placements of banks and other financial institutions	<b>(30,000)</b>	30,000	<b>(30,000)</b>	30,000
Bills and acceptance payable	<b>373,980</b>	(76,299)	<b>373,980</b>	(76,299)
Other liabilities	<b>143,352</b>	62,210	<b>137,981</b>	94,748
Cash generated from/(used in) operations	<b>(918,105)</b>	1,589,462	<b>(918,285)</b>	1,593,190
Zakat paid	<b>(12,869)</b>	(8,721)	<b>(12,837)</b>	(8,704)
Tax paid	<b>(184,591)</b>	(138,380)	<b>(184,473)</b>	(138,284)
Tax refund	<b>45</b>	10,869	<b>-</b>	10,808
<b>Net cash generated from/(used in) operating activities</b>	<b>(1,115,520)</b>	1,453,230	<b>(1,115,595)</b>	1,457,010
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	<b>(41,360)</b>	(36,887)	<b>(41,349)</b>	(36,500)
Proceeds from disposal of property and equipment	<b>305</b>	1,181	<b>305</b>	1,181
Dividends from securities	<b>2,600</b>	4,991	<b>2,422</b>	4,991
Net proceeds from disposal/(purchase) of securities	<b>1,035,696</b>	(151,202)	<b>1,035,872</b>	(151,547)
<b>Net cash generated from/(used in) investing activities</b>	<b>997,241</b>	(181,917)	<b>997,250</b>	(181,875)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## Statements of Cash Flow for the financial year ended 31 December 2017 (continued)

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Cash flows from financing activities</b>				
Subordinated Sukuk Murabahah	300,000	-	300,000	-
Dividend paid on ordinary shares	(266,477)	(260,876)	(266,477)	(260,876)
Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan	200,324	130,439	200,324	130,439
Finance cost paid on Subordinated Sukuk Murabahah	(39,203)	(39,452)	(39,203)	(39,452)
Net cash generated from/(used in) financing activities*	<u>194,644</u>	<u>(169,889)</u>	<u>194,644</u>	<u>(169,889)</u>
<b>Net increase in cash and cash equivalents</b>	<b>76,365</b>	1,101,424	<b>76,299</b>	1,105,246
<b>Cash and cash equivalents at 1 January</b>	<b>4,063,417</b>	2,982,246	<b>4,063,268</b>	2,978,315
<b>Exchange difference on translation</b>	<b>45,915</b>	(20,253)	<b>45,994</b>	(20,293)
<b>Cash and cash equivalents at 31 December</b>	<b><u>4,185,697</u></b>	<b><u>4,063,417</u></b>	<b><u>4,185,561</u></b>	<b><u>4,063,268</u></b>
Cash and cash equivalents comprise:				
Cash and short-term funds	4,185,697	3,963,417	4,185,561	3,963,268
Deposits and placements with banks and other financial institutions	-	100,000	-	100,000
	<u>4,185,697</u>	<u>4,063,417</u>	<u>4,185,561</u>	<u>4,063,268</u>

\* Net cash generated from/(used in) financing activities are solely attributable to changes from financing cash flows.

*The notes on pages 29 to 164 are an integral part of these financial statements.*

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **Notes to the financial statements for the financial year ended 31 December 2017**

### **1. Principal activities and general information**

The Bank is principally engaged in Islamic banking business and the provision of related financial services. The principal activities of its subsidiaries are as disclosed in Note 13 to the financial statements.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The address of its registered office and principal place of business is as follows:

Level 32, Menara Bank Islam  
No. 22, Jalan Perak,  
50450 Kuala Lumpur.

The immediate holding company of the Bank is BIMB Holdings Berhad, a public limited liability company incorporated in Malaysia and is listed on the Main Board of Bursa Malaysia Securities Berhad.

The ultimate holding entity is Lembaga Tabung Haji (“LTH”), a *hajj* pilgrims’ funds board established under the Tabung Haji Act, 1995 (Act 535).

The consolidated financial statements comprise the Bank and its subsidiaries (together referred to as the “Group”).

These financial statements were approved by the Board of Directors on 28 March 2018.

### **2. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

#### **2.1 Basis of preparation**

##### **(a) Statement of compliance**

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Bank.

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018***

- 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*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

#### ***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (a) Statement of compliance (continued)

##### *MFRSs, Interpretations and amendments effective for a date yet to be confirmed*

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Bank plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.
- from the annual period beginning on 1 January 2021 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2021.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Bank except as mentioned in the subsequent paragraphs:

##### **MFRS 9, *Financial Instruments***

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The standard introduces new requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with three measurement categories - amortised cost, fair value through profit or loss (“FVTPL”) and fair value through other comprehensive income (“FVOCI”).

For impairment, MFRS 9 introduces an expected-loss impairment model which will require more timely recognition of expected credit losses to reflect changes of credit risk of financial instruments as well as future economic conditions.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (a) Statement of compliance (continued)

##### **MFRS 9, *Financial Instruments* (continued)**

The Group and the Bank anticipate changes to the financial statements in the areas of classification and measurements for financial assets and liabilities and they are as follows:

- Financing, advances and others that are classified as financing and receivables as well as investments in debt securities classified as held to maturity under MFRS 139 are expected to be classified as financial assets measured at amortised cost under MFRS 9;
- The majority of the debt securities classified as available for sale (“AFS”) under MFRS 139 are expected to be classified as investment securities measured at FVOCI;
- Financial assets and liabilities held for trading are expected to be continued to be measured at FVTPL; and
- Investment in equity instruments that are currently classified as AFS and measured at cost due to absence of quoted market price are expected to be classified and measured at FVTPL.

The expected changes on the above classification of financial assets and liabilities are not expected to have material impact on the assets value of the Group and the Bank.

Separately, under the new expected loss impairment model, the Group and the Bank expects that the allowance for impairment on financing and investment in securities to increase by approximately 20%-30% as compared to the balance as at 31 December 2017.

The Group and the Bank continues to refine and validate the impairment models which may change the actual impact on adoption.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (a) Statement of compliance (continued)

##### **MFRS 16, *Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases. However, a lessee may elect not to apply the requirements for short-term leases which are for the term 12 months or less and leases for which the underlying asset is of low value. For such leases, lessees may elect to expense off the lease payments on a straight line basis over the lease term or using other systematic method. Upon adoption of MFRS 16, the Group and the Bank are required to account for major part of their operating leases in the statement of financial position by recognising the 'right-of-use' asset and the lease liability, thus increasing the assets and liabilities of the Group and of the Bank.

The recognition of the 'right-of-use' asset and the lease liability are expected to increase the Group's and the Bank's total assets and liabilities by less than 1%.

##### **Companies Act 2016**

The financial statements of the Group and of the Bank have been prepared in accordance with the requirements of the Companies Act 2016 ("CA 2016"), which replaced the Companies Act 1965. Amongst the key changes introduced in the CA 2016 which affected the financial statements of the Group and of the Bank upon the commencement of the CA 2016 on 31 January 2017 were:

- (a) the removal of the authorised share capital;
- (b) the ordinary shares of the Bank ceased to have par or nominal value; and
- (c) the Bank's share premium became part of the share capital.

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 CA 2016.

There was no impact on the number of ordinary shares in issue or the relative entitlement of any of the members as a result of this transfer of the amount in the share premium account to the share capital account.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

#### **(a) Statement of compliance (continued)**

##### **Revised Policy Document on Capital Funds and Capital Funds for Islamic Banks issued by Bank Negara Malaysia ("BNM")**

On 3 May 2017, BNM issued a revised Policy Document on Capital Funds and Capital Funds for Islamic Banks ("Revised Policy Document"). This Revised Policy Document was applicable to banking institutions in Malaysia covering licensed banks, licensed investment banks and licensed Islamic banks. The issuance of this Revised Policy Document has superseded two guidelines issued by BNM previously, namely Capital Funds and Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document were:

- (a) the removal of the requirement on maintenance of a reserve fund; and
- (b) the revised component of capital funds shall exclude share premium and reserve fund.

During the financial year, the Bank transferred RM1,392,158,939 from statutory reserve fund to its retained earnings pursuant to the Revised Policy Document.

#### **(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial assets held-for-trading and financial assets available-for-sale, which have been measured at fair value.

#### **(c) Functional and presentation currency**

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand (RM'000), unless otherwise stated.

#### **(d) Use of estimates and judgement**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimates are revised and in any future periods affected.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (d) Use of estimates and judgement (continued)

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect in determining the amount recognised in the financial statements are described in the following notes:

- Note 2.5 and Note 40 – Fair value of financial instruments
- Note 2.10 – Impairment
- Note 12 – Deferred tax assets

### 2.2 Basis of consolidation

#### (a) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Bank. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has *de facto* power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less impairment losses, if any. Where there is indication of impairment, the carrying amount of the investment is assessed. A write down is made if the carrying amount exceeds its recoverable amount.

#### (b) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.2 Basis of consolidation (continued)**

#### **(b) Business combinations (continued)**

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### **(c) Loss of control**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as a financial asset available-for-sale depending on the level of influence retained.

#### **(d) Transactions eliminated on consolidation**

In preparing the consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.3 Foreign currency**

#### **(a) Foreign currency transactions**

In preparing the financial statements of the Group entities, transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, when settlement of monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the Translation Reserve in equity.

#### **(b) Foreign operations denominated in functional currencies other than Ringgit Malaysia (“RM”)**

The assets and liabilities of operations denominated in functional currencies other than RM, including fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting date. The income and expenses of the foreign operations are translated to RM at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income and accumulated in the Translation Reserve in equity.

### **2.4 Cash and cash equivalents**

Cash and cash equivalents include cash and short-term funds, and deposits and placements with banks and other financial institutions.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial instruments

Financial instruments are classified and measured using accounting policies as mentioned below.

#### *Initial recognition and measurement*

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are categorised as follows:

#### *Financial assets*

##### **(a) Financing and receivables**

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market and the Group does not intend to sell immediately or in the near term. The Group's financing and receivables consist of sale-based contracts (namely Bai' Bithaman Ajil, Bai Al-Inah, Murabahah, Bai Al-Dayn and At-Tawarruq), lease-based contracts (namely Ijarah Muntahiah Bit-Tamleek and Ijarah Thumma Al-Bai), construction-based contract (Istisna') and Ar-Rahnu contract.

These financing contracts are recorded in the financial statements as financing and receivables based on concept of 'substance over form' and in accordance with MFRS 139.

These contracts are subsequently measured at amortised cost using effective profit rate method. These contracts are stated net of unearned income and any impairment loss.

##### **(b) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are either:

###### **(i) Held-for-trading**

Financial assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial instruments (continued)

#### *Financial assets (continued)*

#### **(b) Financial assets at fair value through profit or loss (continued)**

##### (ii) Designated under fair value option

Financial assets meet at least one of the following criteria upon designation:

- it eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets, or recognising gains or losses on them, using different bases; or
- the financial asset contains an embedded derivative that would otherwise need to be separately recorded.

These financial assets are subsequently measured at their fair values and any gain or loss arising from a change in the fair value will be recognised in the profit or loss.

#### **(c) Financial assets held-to-maturity**

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. These financial assets are subsequently measured at amortised cost using the effective profit rate method, less any impairment loss.

Any sale or reclassification of more than insignificant amount of financial assets held-to-maturity would result in the reclassification of all financial assets held-to-maturity to financial assets available-for-sale and the Group would be prevented from classifying any financial assets as financial assets held-to-maturity for the current and following two financial years.

#### **(d) Financial assets available-for-sale**

Financial assets available-for-sale are financial assets that are either designated in this category or not classified in any other category and are measured at fair value.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment loss. Any gain or loss arising from a change in the fair value is recognised in the fair value reserve through other comprehensive income except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in profit or loss. On derecognition or disposal, the cumulative gains or losses previously recognised in other comprehensive income is reclassified from equity into profit or loss. Profit calculated for a debt instrument using the effective profit method is recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment. See Note 2.10 Impairment.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial instruments (continued)

#### *Derivative financial instruments*

The Group and the Bank hold derivative financial instruments to hedge its foreign currency and profit rate exposures. However, the Group and the Bank elect not to apply hedge accounting. Hence, foreign exchange trading positions, including spot and forward contracts, are revalued at prevailing market rates at statement of financial position date and the resultant gains and losses for the financial year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

#### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

The financial liabilities measured at amortised cost are deposit from customers, investment accounts of customers, deposits and placement of banks and other financial institutions, derivative financial liabilities, bills and acceptance payables, Subordinated Sukuk Murabahah and other liabilities.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of equity instruments that do not have quoted price in an active market for identical instruments whose fair value otherwise cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial instruments (continued)

#### *Financial liabilities (continued)*

##### (a) Investment accounts

Investment accounts are either:

##### (i) Unrestricted investment accounts

An unrestricted investment account (“URIA”) refers to a type of investment account where the investment account holder (“IAH”) provides the Bank with the mandate to make the ultimate decision without specifying any particular restrictions or conditions. The URIA is structured under Mudharabah and Wakalah contracts.

Impairment allowances required on the assets for investment accounts are charged to and borne by the investors.

##### (ii) Restricted investment accounts

Restricted investment account (“RIA”) refers to a type of investment account where the IAH provides a specific investment mandate to the Bank such as purpose, asset class, economic sector and period of investment.

RIA is accounted for as off balance sheet as the Bank has no risk and reward in respect of the assets related to the RIA or to the residual cash flows from those assets except for the fee income generated by the Bank for managing the RIA. The Bank also has no ability to use power over the RIA to affect the amount of the Bank’s return. The RIA is structured under Wakalah contract. Under Wakalah contract, IAH appoints the Bank as the agent to invest the funds provided by IAH to finance customers with a view of earning profits and the Bank receives fees for the agency service provided.

#### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial instruments (continued)

#### *Financial guarantee contracts (continued)*

Fair value arising from financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

#### *Derecognition*

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### 2.6 Property and equipment

#### *(a) Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.6 Property and equipment (continued)

#### (a) *Recognition and measurement (continued)*

The cost of property and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

#### (b) *Subsequent costs*

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### (c) *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group and the Bank will obtain ownership by the end of the lease term. Property and equipment under construction are not depreciated until the assets are ready for their intended use.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.6 Property and equipment (continued)

#### (c) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

* Long term leasehold land	50 years
* Building improvement and renovations	10 years
* Furniture, fixtures and fittings	2 - 10 years
* Office equipment	6 years
* Motor vehicles	5 years
* Computer equipment	
- Core Banking System	7 years
- Other hardware/software	5 years

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period, and adjusted as appropriate.

### 2.7 Leased assets – Finance lease

Leases in terms of which the Group or the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property and equipment.

### 2.8 Leased assets – Operating lease

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and, the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.8 Leased assets – Operating lease (continued)

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

### 2.9 Bills and other receivables

Bills and other receivables are stated at cost less any allowance for impairment.

### 2.10 Impairment

#### *Financial assets*

The Group and the Bank assess at each reporting date whether there is any objective evidence that financing and receivables, financial assets held-to-maturity or financial assets available-for-sale are impaired as a result of one or more events having an impact on the estimated future cash flows of the asset. A financial asset or a group of financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and prior to the reporting date (“a loss event”) and that loss event or events has an impact on the estimated future cash flow of the financial asset or the group of financial assets as that can be reliably estimated. The criteria that the Group and the Bank uses to determine that there is objective evidence of an impairment loss include:

- i) significant financial difficulty of the issuer or obligor;
- ii) a breach of contract, such as default or delinquency in profit or principal payments;
- iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- iv) consecutive downgrade of two notches for external ratings.

Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, the financing exhibits indications of credit weakness, or when the financing is classified as rescheduled and restructured in Central Credit Reference Information System (“CCRIS”).

For financing and receivables, the Group and the Bank first assess whether objective evidence of impairment exists individually for financing and receivables that are individually significant, and collectively for financing and receivables that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exist for an individually assessed financing and receivable, whether significant or not, it includes the assets in a group of financing and receivables with similar credit risk characteristics and collectively assesses them for impairment. Financing and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment for impairment.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.10 Impairment (continued)

#### *Financial assets (continued)*

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The amount of the loss is recognised using an allowance account and recognised in the profit or loss. The estimation of the amount and timing of the future cash flows requires management judgement. In estimating these cash flows, judgements are made about the realisable value of the collateral pledged and the borrower financial position. These estimations are based on assumptions and the actual results may differ from these, hence resulting in changes to impairment losses recognised.

For the purposes of a collective evaluation of impairment, financing and receivables are grouped on the basis of similar risk characteristics, taking into account the asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financing and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and remove the effects of conditions in the historical period that do not currently exist.

When a financing is uncollectable, it is written off against the related allowance for impairment. Such financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently, recoveries of amounts previously written off are credited to the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance for impairment account. The amount of reversal is recognised in the profit or loss.

In the case of available-for-sale equity securities, a significant or prolonged decline in their fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the profit or loss. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the comprehensive income statement.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.10 Impairment (continued)

#### *Financial assets (continued)*

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Where a financing shows evidence of credit weaknesses, the Group or the Bank may seek to renegotiate the financing rather than taking possession of the collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and the repayments are made promptly for a continuous period. Where an impaired financing is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the financing is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

#### *Other assets*

The carrying amount of other assets (except for current tax assets and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

### 2.11 Bills and acceptances payable

Bills and acceptances payable represent the Group's and the Bank's own bills and acceptances rediscounted and outstanding in the market.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.12 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provisions are reviewed at each reporting date and if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

### **2.13 Contingent liabilities**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **2.14 Contingent assets**

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

### **2.15 Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.16 Equity instruments**

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

#### ***Share Capital***

Ordinary shares are classified as equity in the statement of financial position. Cost directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

### **2.17 Recognition of income**

#### ***Financing income***

Financing income is recognised in the profit or loss using the effective profit rate method. The effective profit rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial instruments. When calculating the effective profit rate, the Group and the Bank have considered all contractual terms of the financial instruments but do not consider future credit losses. The calculation includes all fees and transaction costs integral to the effective profit rate, as well as premium or discounts.

Income from a sale-based contract is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding whereas income from Ijarah (lease-based contract) is recognised on effective profit rate basis over the lease term.

Once a financial assets or a group of financial assets has been written down as a result of an impairment loss, income is recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

#### ***Fee and other income recognition***

Financing arrangement, management and participation fees, underwriting commissions, brokerage fees and wakalah performance incentive fees are recognised as income based on contractual arrangements. Fees from advisory and corporate finance activities are recognised net of service taxes and discounts on completion of each stage of the assignment.

Dividend income from subsidiaries and other investments are recognised when the Bank's rights to receive payment is established.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.18 Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **2.19 Zakat**

This represents business zakat that is paid on the Bank's portion. It is an obligatory amount payable by the Group and the Bank to comply with the rules and principles of Shariah.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 2. Summary of significant accounting policies (continued)

### 2.20 Employee benefits

#### *Short-term employee benefits*

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's and the Bank's contribution to the Employees Provident Fund is charged to the profit or loss in the year to which they relate. Once the contributions have been paid, the Group and the Bank have no further payment obligations.

### 2.21 Earnings per ordinary shares

The Group presents basic earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

### 2.22 Fair value measurements

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **2. Summary of significant accounting policies (continued)**

### **2.22 Fair value measurements (continued)**

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 3. Cash and short-term funds

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Cash and balances with banks and other financial institutions	921,777	932,674	921,641	932,525
Money at call and interbank placements with remaining maturity not exceeding one month	3,263,920	3,030,743	3,263,920	3,030,743
	<u>4,185,697</u>	<u>3,963,417</u>	<u>4,185,561</u>	<u>3,963,268</u>

### 4. Deposits and placements with banks and other financial institutions

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Licensed Islamic banks	<u>-</u>	<u>100,000</u>

### 5. Financial assets held-for-trading

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>At fair value</b>				
Malaysian Government Investment Issues	355,681	324,500	355,681	324,500
Sukuk	19,983	245,250	19,983	245,250
Unit trust	5,261	5,085	-	-
	<u>380,925</u>	<u>574,835</u>	<u>375,664</u>	<u>569,750</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 6. 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 hedging purposes. The principal or contractual amount of these instruments reflects 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

	Notional amount RM'000	31.12.2017 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)
	<b>3,826,816</b>	<b>68,319</b>	<b>(74,668)</b>

  

	Notional amount RM'000	31.12.2016 Fair value	
		Assets RM'000	Liabilities RM'000
Forward contracts	3,117,570	117,445	(107,469)
Profit rate swaps	836,027	7,127	(3,620)
	<b>3,953,597</b>	<b>124,572</b>	<b>(111,089)</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 7. Financial assets available-for-sale

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>At fair value</b>				
Malaysian Government Investment Issues	1,525,094	2,057,324	1,525,094	2,057,324
Negotiable Islamic Debt Certificates	-	496,681	-	496,681
Sukuk	7,690,740	7,367,563	7,691,197	7,368,020
	<u>9,215,834</u>	<u>9,921,568</u>	<u>9,216,291</u>	<u>9,922,025</u>
<b>At fair value</b>				
Quoted shares				
- outside Malaysia	17,612	21,124	17,612	21,124
Quoted unit trust				
- in Malaysia	13,937	9,294	13,937	9,294
	<u>31,549</u>	<u>30,418</u>	<u>31,549</u>	<u>30,418</u>
<b>At cost</b>				
Unquoted shares in Malaysia*	23,520	25,468	23,520	25,468
Less: Accumulated impairment loss*	(18,239)	(20,187)	(18,239)	(20,187)
	<u>5,281</u>	<u>5,281</u>	<u>5,281</u>	<u>5,281</u>
<b>At cost</b>				
Unquoted shares outside Malaysia	329	329	329	329
Less: Impairment loss	(310)	(310)	(310)	(310)
	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>
	<u>9,252,683</u>	<u>9,957,286</u>	<u>9,253,140</u>	<u>9,957,743</u>

\* Movement in unquoted shares and accumulated impairment loss are due to translation differences.

## 8. Financial assets held-to-maturity

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>At amortised cost</b>		
Unquoted securities in Malaysia: Sukuk	6,887	64,590
Less: Accumulated impairment loss	(6,887)	(6,887)
	<u>-</u>	<u>57,703</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others

### (a) By type and Shariah contract

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
<b>At amortised cost</b>										
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
	<b>5,731,253</b>	<b>1,960,925</b>	<b>186,433</b>	<b>97,934</b>	<b>34,280,067</b>	<b>87,945</b>	<b>108,869</b>	<b>145,288</b>	<b>87,222</b>	<b>42,685,936</b>

Allowance for impairment on financing, advances and others

- collective assessment allowance

(446,069)

- individual assessment allowance

(126,447)

**Net financing, advances and others**

**42,113,420**

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others (continued)

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

Group and Bank 31 December 2016	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
<b>At amortised cost</b>										
Cash line	-	-	-	37,899	1,199,021	-	-	-	-	1,236,920
Term financing										
House financing ^	4,484,247	-	-	-	9,503,014	-	-	59,088	-	14,046,349
Syndicated financing	-	-	-	196,129	1,045,889	-	123,189	-	-	1,365,207
Leasing financing	-	-	-	-	-	90,610	902	-	-	91,512
Bridging financing	-	-	-	-	-	-	-	82,313	-	82,313
Personal financing ^	-	-	-	42,177	11,197,744	-	-	-	-	11,239,921
Other term financing	2,086,188	933,316	-	4,063	7,106,669	-	-	1,503	-	10,131,739
Staff financing	83,743	5,087	-	-	98,821	-	-	14,218	-	201,869
Credit cards	-	-	-	9,004	450,388	-	-	-	-	459,392
Trade bills discounted	-	741,037	180,010	-	-	-	-	-	-	921,047
Trust receipts	-	5,169	-	-	-	-	-	-	-	5,169
Pawn broking	-	-	-	-	-	-	-	-	85,315	85,315
Investment Account Platform *	-	-	-	-	5,690	-	-	-	-	5,690
	<b>6,654,178</b>	<b>1,684,609</b>	<b>180,010</b>	<b>289,272</b>	<b>30,607,236</b>	<b>90,610</b>	<b>124,091</b>	<b>157,122</b>	<b>85,315</b>	<b>39,872,443</b>

Allowance for impairment on financing, advances and others

- collective assessment allowance

(554,971)

- individual assessment allowance

(128,198)

**Net financing, advances and others**

**39,189,274**

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others (continued)

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

^ Included in house financing and personal financing as at 31 December 2017 are underlying assets under the Unrestricted Investment Accounts (“URIA”) amounting RM3,127,603,000 (2016: RM2,687,318,000) and RM1,132,582,000 (2016: RM1,124,943,000) respectively as disclosed in Note 16 of these financial statements.

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

### (b) By type of customer

	Group and Bank	
	31.12.2017 RM’000	31.12.2016 RM’000
Domestic non-bank financial institutions	1,354,806	1,376,559
Domestic business enterprise	7,015,168	6,908,806
Small medium industries	896,444	896,530
Government & statutory bodies	820,586	938,069
Individuals	31,986,842	28,957,975
Other domestic entities	8,195	7,239
Foreign entities	603,895	787,265
	<u>42,685,936</u>	<u>39,872,443</u>

### (c) By profit rate sensitivity

	Group and Bank	
	31.12.2017 RM’000	31.12.2016 RM’000
Fixed rate		
House financing	1,168,200	1,268,632
Others	3,560,756	4,059,422
Floating rate		
House financing	15,625,095	13,382,969
Others	22,331,885	21,161,420
	<u>42,685,936</u>	<u>39,872,443</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others (continued)

### (d) By remaining contractual maturity

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Maturity within one year	4,414,217	4,312,581
More than one year to three years	1,087,304	1,400,480
More than three years to five years	2,598,903	2,197,573
More than five years	34,585,512	31,961,809
	<u>42,685,936</u>	<u>39,872,443</u>

### (e) By geographical distribution

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Central Region	20,673,380	18,853,925
Eastern Region	6,860,968	6,534,376
Northern Region	6,121,471	5,864,200
Southern Region	5,908,526	5,499,121
East Malaysia Region	3,121,591	3,120,821
	<u>42,685,936</u>	<u>39,872,443</u>

### (f) By sector

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Primary agriculture	486,679	377,285
Mining and quarrying	8,080	12,931
Manufacturing (including agro-based)	835,268	747,410
Electricity, gas and water	337,388	868,319
Wholesale & retail trade, and hotels & restaurants	1,228,681	1,274,954
Construction	2,176,453	2,161,215
Real estate	1,582,531	1,205,740
Transport, storage and communications	655,633	870,559
Finance, insurance and business activities	2,147,118	2,134,947
Education, health and others	1,210,056	1,256,209
Household sectors	32,018,049	28,962,874
	<u>42,685,936</u>	<u>39,872,443</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others (continued)

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

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
At 1 January 2017/1 January 2016	389,445	381,270
Classified as impaired during the year	648,281	580,341
Reclassified as not impaired during the year	(331,592)	(284,602)
Amount recovered	(92,432)	(112,502)
Amount written off	(209,231)	(178,052)
Exchange differences	(6,194)	2,990
At 31 December 2017 /31 December 2016	<u>398,277</u>	<u>389,445</u>
Gross impaired financing as a percentage of gross financing, advances and others	<u>0.93%</u>	<u>0.98%</u>

(h) Impaired financing by geographical distribution

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
Central Region	223,305	142,841
Eastern Region	107,422	92,848
Northern Region	28,710	36,299
Southern Region	22,915	31,329
East Malaysia Region	15,925	86,128
	<u>398,277</u>	<u>389,445</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 9. Financing, advances and others (continued)

### (i) Impaired financing by sector

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Primary agriculture	-	1,311
Manufacturing (including agro-based)	35,448	36,739
Wholesale & retail trade, and hotels & restaurants	38,433	25,651
Construction	86,357	13,714
Transport, storage and communications	12,604	15,579
Finance, insurance and business activities	3,799	70,948
Education, health & others	5,106	3,076
Household sectors	216,530	222,427
	<u>398,277</u>	<u>389,445</u>

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

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
<u>Collective assessment allowance</u>		
At 1 January 2017/1 January 2016	554,971	541,065
Net allowance made during the year	34,706	161,667
Amount written off	(141,940)	(146,725)
Exchange differences	(1,668)	(1,036)
At 31 December 2017/31 December 2016	<u>446,069</u>	<u>554,971</u>
<u>Individual assessment allowance</u>		
At 1 January 2017/1 January 2016	128,198	124,471
Net allowance made during the year	102,059	54,566
Amount recovered	(30,324)	(23,904)
Amount written off	(67,291)	(29,928)
Exchange differences	(6,195)	2,993
At 31 December 2017/31 December 2016	<u>126,447</u>	<u>128,198</u>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 10. Other assets

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Other receivables	<b>90,137</b>	65,825	<b>87,964</b>	63,968
Less: Impairment loss	<b>(475)</b>	(256)	<b>(475)</b>	(256)
	<b>89,662</b>	65,569	<b>87,489</b>	63,712
Deposit and prepayments	<b>33,086</b>	32,741	<b>31,968</b>	31,441
Related companies*	<b>755</b>	705	<b>1,605</b>	775
	<b>123,503</b>	99,015	<b>121,062</b>	95,928

\* 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.

### 11. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which are determined as set percentages of total eligible liabilities.

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 12. Deferred tax assets

#### *Recognised deferred tax assets*

Deferred tax assets are attributable to the following:

Group and Bank	Assets		Liabilities		Net	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Property and equipment	-	-	(8,986)	(16,993)	(8,986)	(16,993)
Provisions	26,478	24,483	-	-	26,478	24,483
Unabsorbed capital allowances	12,829	24,963	-	-	12,829	24,963
Change in fair value reserve	6,967	15,925	-	-	6,967	15,925
Set off of tax	(8,986)	(16,993)	8,986	16,993	-	-
Net tax assets	<b>37,288</b>	48,378	-	-	<b>37,288</b>	48,378

Movement in temporary differences during the year:

Group and Bank	At 1.1.2016 RM'000	Recognised in profit or loss (Note 35) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2016/ 1.1.2017 RM'000	Recognised in profit or loss (Note 35) RM'000	Recognised in other comprehensive income RM'000	At 31.12.2017 RM'000
Property and equipment	(20,252)	3,259	-	(16,993)	8,007	-	(8,986)
Provisions	23,087	1,396	-	24,483	1,995	-	26,478
Unabsorbed capital allowances	25,067	(104)	-	24,963	(12,134)	-	12,829
Change in fair value reserve	7,280	-	8,645	15,925	-	(8,958)	6,967
Total assets	35,182	4,551	8,645	48,378	(2,132)	(8,958)	37,288

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 12. Deferred tax assets (continued)

#### *Unrecognised deferred tax assets*

Deferred tax assets have not been recognised in respect of the following items:

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Unabsorbed capital allowance	78,475	28,475	78,440	28,440
Unutilised tax losses	6,701	6,701	-	-
Deductible temporary differences	329	329	-	-
	<u>85,505</u>	<u>35,505</u>	<u>78,440</u>	<u>28,440</u>

The Bank's unabsorbed capital allowances of RM78,440,000 in respect of its leasing business whereby management considered it uncertain whether the Bank is able to utilise the benefits in the future. As such, deferred tax assets have not been recognised.

### 13. Investments in subsidiaries

	Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
<b>At cost</b>		
Unquoted shares in Malaysia	16,447	16,447
Less: Accumulated impairment loss	(922)	(922)
	<u>15,525</u>	<u>15,525</u>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 13. Investments in subsidiaries (continued)

Details of subsidiaries are as follows:

Name of Company	Principal activities	Effective ownership interest	
		31.12.2017	31.12.2016
		%	%
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Provides nominee services	100	100
BIMB Investment Management Berhad	Manages Islamic Unit Trust Funds	100	100
Bank Islam Trust Company (Labuan) Ltd.	Provides services as a Labuan registered trust company	100	100
and its subsidiary:			
BIMB Offshore Company Management Services Sdn. Bhd.	Acts as Resident Corporate Secretary and Director for Offshore Companies	100	100
Farihan Corporation Sdn. Bhd.	Provides manpower services to the Bank	100	100

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment

Group	Long term leasehold land RM'000	Building improvements and renovations RM'000	Furniture, fixtures and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicles RM'000	Renovation work-in-progress RM'000	Management information system under development RM'000	Total RM'000
<i>Cost</i>									
At 1 January 2016	14,784	32,473	119,118	86,044	306,723	1,237	287	19,526	580,192
Additions	-	670	2,618	4,361	11,824	-	1,434	15,980	36,887
Reclassifications	-	73	1,232	354	29,780	-	(1,659)	(29,780)	-
Disposals	-	(44)	(117)	(611)	(1,372)	(77)	-	-	(2,221)
Written off	-	-	-	(77)	-	-	-	-	(77)
Exchange difference	-	-	14	20	15	(3)	-	-	46
At 31 December 2016	14,784	33,172	122,865	90,091	346,970	1,157	62	5,726	614,827
Additions	-	545	1,807	4,983	11,552	466	4,733	17,274	41,360
Reclassifications	-	256	1,362	686	3,159	-	(2,304)	(3,159)	-
Disposals	-	-	(3)	(209)	(1,339)	(680)	-	-	(2,231)
Written off	-	(113)	(921)	(420)	-	-	-	-	(1,454)
Exchange difference	-	(2)	(32)	(45)	(32)	-	-	-	(111)
<b>At 31 December 2017</b>	<b>14,784</b>	<b>33,858</b>	<b>125,078</b>	<b>95,086</b>	<b>360,310</b>	<b>943</b>	<b>2,491</b>	<b>19,841</b>	<b>652,391</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment (continued)

Group	Long term leasehold land RM'000	Building improvements and renovations RM'000	Furniture, fixtures and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicles RM'000	Renovation work-in-progress RM'000	Management information system under development RM'000	Total RM'000
<i>Accumulated depreciation</i>									
At 1 January 2016	1,478	20,241	66,369	64,777	217,784	625	-	-	371,274
Depreciation for the year	174	2,102	9,220	7,694	40,223	169	-	-	59,582
Disposals	-	(10)	(44)	(596)	(840)	(77)	-	-	(1,567)
Written off	-	-	-	(69)	-	-	-	-	(69)
Exchange difference	-	-	14	20	14	(3)	-	-	45
At 31 December 2016	1,652	22,333	75,559	71,826	257,181	714	-	-	429,265
Depreciation for the year	174	2,004	9,128	7,065	35,991	118	-	-	54,480
Disposals	-	-	(3)	(203)	(1,332)	(317)	-	-	(1,855)
Written off	-	(104)	(898)	(396)	-	-	-	-	(1,398)
Exchange difference	-	(2)	(31)	(41)	(30)	-	-	-	(104)
<b>At 31 December 2017</b>	<b>1,826</b>	<b>24,231</b>	<b>83,755</b>	<b>78,251</b>	<b>291,810</b>	<b>515</b>	-	-	<b>480,388</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment (continued)

<b>Group</b>	<b>Long term leasehold land RM'000</b>	<b>Building improvements and renovations RM'000</b>	<b>Furniture, fixtures and fittings RM'000</b>	<b>Office equipment RM'000</b>	<b>Computer equipment RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Renovation work-in-progress RM'000</b>	<b>Management information system under development RM'000</b>	<b>Total RM'000</b>
<i>Carrying amounts</i>									
At 1 January 2016	13,306	12,232	52,749	21,267	88,939	612	287	19,526	208,918
At 31 December 2016	13,132	10,839	47,306	18,265	89,789	443	62	5,726	185,562
At 31 December 2017	<b>12,958</b>	<b>9,627</b>	<b>41,323</b>	<b>16,835</b>	<b>68,500</b>	<b>428</b>	<b>2,491</b>	<b>19,841</b>	<b>172,003</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment (continued)

<b>Bank</b>	<b>Long term leasehold land RM'000</b>	<b>Building improvements and renovations RM'000</b>	<b>Furniture, fixtures and fittings RM'000</b>	<b>Office equipment RM'000</b>	<b>Computer equipment RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Renovation work-in-progress RM'000</b>	<b>Management information system under development RM'000</b>	<b>Total RM'000</b>
<i>Cost</i>									
At 1 January 2016	14,784	32,292	119,043	85,695	305,087	1,237	287	19,526	577,951
Additions	-	662	2,617	4,355	11,452	-	1,434	15,980	36,500
Reclassifications	-	73	1,232	354	29,780	-	(1,659)	(29,780)	-
Disposals	-	(44)	(117)	(611)	(1,372)	(77)	-	-	(2,221)
Written off	-	-	-	(77)	-	-	-	-	(77)
Exchange difference	-	-	14	13	3	(3)	-	-	27
<b>At 31 December 2016</b>	<b>14,784</b>	<b>32,983</b>	<b>122,789</b>	<b>89,729</b>	<b>344,950</b>	<b>1,157</b>	<b>62</b>	<b>5,726</b>	<b>612,180</b>
Additions	-	545	1,807	4,980	11,544	466	4,733	17,274	41,349
Reclassifications	-	256	1,362	686	3,159	-	(2,304)	(3,159)	-
Disposals	-	-	(3)	(209)	(1,339)	(680)	-	-	(2,231)
Written off	-	(113)	(921)	(417)	-	-	-	-	(1,451)
Exchange difference	-	(2)	(32)	(31)	(6)	-	-	-	(71)
<b>At 31 December 2017</b>	<b>14,784</b>	<b>33,669</b>	<b>125,002</b>	<b>94,738</b>	<b>358,308</b>	<b>943</b>	<b>2,491</b>	<b>19,841</b>	<b>649,776</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment (continued)

Bank	Long term leasehold land RM'000	Building improvements and renovations RM'000	Furniture, fixtures and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicles RM'000	Renovation work-in-progress RM'000	Management information system under development RM'000	Total RM'000
<i>Accumulated depreciation</i>									
At 1 January 2016	1,478	20,147	66,341	64,449	216,864	625	-	-	369,904
Depreciation for the year	174	2,071	9,210	7,687	40,027	169	-	-	59,338
Disposals	-	(10)	(44)	(596)	(840)	(77)	-	-	(1,567)
Written off	-	-	-	(69)	-	-	-	-	(69)
Exchange difference	-	-	14	13	3	(3)	-	-	27
At 31 December 2016	1,652	22,208	75,521	71,484	256,054	714	-	-	427,633
Depreciation for the year	174	1,971	9,118	7,059	35,780	118	-	-	54,220
Disposals	-	-	(3)	(203)	(1,332)	(317)	-	-	(1,855)
Written off	-	(104)	(898)	(393)	-	-	-	-	(1,395)
Exchange difference	-	(2)	(31)	(28)	(6)	-	-	-	(67)
<b>At 31 December 2017</b>	<b>1,826</b>	<b>24,073</b>	<b>83,707</b>	<b>77,919</b>	<b>290,496</b>	<b>515</b>	<b>-</b>	<b>-</b>	<b>478,536</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 14. Property and equipment (continued)

<b>Bank</b>	<b>Long term leasehold land RM'000</b>	<b>Building improvements and renovations RM'000</b>	<b>Furniture, fixtures and fittings RM'000</b>	<b>Office equipment RM'000</b>	<b>Computer equipment RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Renovation work-in-progress RM'000</b>	<b>Management information system under development RM'000</b>	<b>Total RM'000</b>
<i>Carrying amounts</i>									
At 1 January 2016	13,306	12,145	52,702	21,246	88,223	612	287	19,526	208,047
At 31 December 2016	13,132	10,775	47,268	18,245	88,896	443	62	5,726	184,547
<b>At 31 December 2017</b>	<b>12,958</b>	<b>9,596</b>	<b>41,295</b>	<b>16,819</b>	<b>67,812</b>	<b>428</b>	<b>2,491</b>	<b>19,841</b>	<b>171,240</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 15. Deposits from customers

### (a) By type of deposit

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
<b>Saving Deposit</b>				
<i>Wadiah</i>	4,138,519	4,131,604	4,138,519	4,131,604
<b>Demand Deposit</b>				
<i>Wadiah</i>	11,333,608	10,001,972	11,343,024	10,004,601
<b>Term Deposit</b>	30,617,889	31,700,310	30,624,591	31,706,982
Special Investment Deposit <i>Mudharabah</i>	6,182	27,711	6,182	27,711
General Investment Deposit <i>Mudharabah</i>	322,561	394,639	322,561	394,639
Term Deposit-i <i>Tawarruq</i>	26,728,087	28,208,548	26,734,789	28,215,220
Negotiable Islamic Debt Certificates (NIDC)	3,561,059	3,069,412	3,561,059	3,069,412
<b>Others</b>	102,894	106,528	102,894	106,528
<b>Total Deposits</b>	<u>46,192,910</u>	<u>45,940,414</u>	<u>46,209,028</u>	<u>45,949,715</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 15. Deposits from customers (continued)

(b) Maturity structure of term deposits are as follows :

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Due within six months	<b>18,565,407</b>	26,475,051	<b>18,571,396</b>	26,481,013
More than six months to one year	<b>8,742,154</b>	4,166,465	<b>8,742,867</b>	4,166,465
More than one year to three years	<b>1,618,691</b>	690,590	<b>1,618,691</b>	691,300
More than three years to five years	<b>1,691,637</b>	368,204	<b>1,691,637</b>	368,204
	<b><u>30,617,889</u></b>	<u>31,700,310</u>	<b><u>30,624,591</u></b>	<u>31,706,982</u>

(c) By type of customers

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Domestic non-bank financial institutions	<b>14,063,475</b>	15,501,713	<b>14,079,593</b>	15,511,014
Business enterprises	<b>12,406,686</b>	11,730,076	<b>12,406,686</b>	11,730,076
Government and statutory bodies	<b>8,847,454</b>	6,890,474	<b>8,847,454</b>	6,890,474
Individuals	<b>4,810,541</b>	4,817,561	<b>4,810,541</b>	4,817,561
Domestic banking institutions	<b>3,395,740</b>	2,994,256	<b>3,395,740</b>	2,994,256
Others	<b>2,669,014</b>	4,006,334	<b>2,669,014</b>	4,006,334
	<b><u>46,192,910</u></b>	<u>45,940,414</u>	<b><u>46,209,028</u></b>	<u>45,949,715</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 16. Investment accounts of customers

### (a) By type and Shariah contract

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
<b>Unrestricted investment accounts</b>		
Without maturity		
<i>Mudharabah</i>	1,994,491	1,516,844
With maturity		
<i>Wakalah</i>	2,265,694	2,295,417
	<u>4,260,185</u>	<u>3,812,261</u>
<b>Restricted investment accounts (“RIA”) managed by the Bank<sup>^</sup></b>		
With maturity		
<i>Wakalah</i>	<u>124,384</u>	<u>141,343</u>

<sup>^</sup> Included in RIA managed by the Bank is an arrangement between the Bank and its ultimate holding entity where the Bank acts as an investment agent to manage and administer the RIA, with underlying assets amounting to RM123,962,000 (2016:RM141,033,000).

### (b) By type of customers

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
Individuals	2,212,239	1,677,636
Government and statutory bodies	400,709	762,888
Business Enterprises	474,464	737,961
Non-bank financial institutions	1,077,298	476,125
Bank and other financial institutions	-	45,919
Others	95,475	111,732
	<u>4,260,185</u>	<u>3,812,261</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 16. Investment accounts of customers (continued)

### (c) Movement of investment accounts of customers

Group and Bank	Unrestricted investment accounts			Restricted investment accounts
	Mudharabah RM'000	Wakalah RM'000	Total RM'000	Wakalah RM'000
As at 1 January 2016	461,312	214,793	676,105	82,567
<i>Funding inflows/outflows:</i>				
Net movement	1,054,331	-	1,054,331	-
New placement	-	13,090,638	13,090,638	75,412
Redemption/Principal repayment	-	(11,047,199)	(11,047,199)	(20,256)
Income from investment	61,379	52,514	113,893	8,948
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(60,178)	-	(60,178)	-
Wakalah performance incentive fees	-	(15,329)	(15,329)	(5,328)
As at 31 December 2016/1 January 2017	1,516,844	2,295,417	3,812,261	141,343
<i>Funding inflows/outflows:</i>				
Net movement	475,709	-	475,709	-
New placement	-	6,536,170	6,536,170	19,939
Redemption /Principal repayment	-	(6,669,256)	(6,669,256)	(46,150)
Income from investment	94,386	152,660	247,046	11,847
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(92,448)	-	(92,448)	-
Wakalah performance incentive fees	-	(49,297)	(49,297)	(2,595)
As at 31 December 2017	<b>1,994,491</b>	<b>2,265,694</b>	<b>4,260,185</b>	<b>124,384</b>
<i>Investment portfolio:</i>				
<b>2017</b>				
House financing	1,994,491	1,133,112	3,127,603	-
Personal financing	-	1,132,582	1,132,582	-
Other term financing	-	-	-	124,384
	<b>1,994,491</b>	<b>2,265,694</b>	<b>4,260,185</b>	<b>124,384</b>
<b>2016</b>				
House financing	1,516,844	1,170,474	2,687,318	-
Personal financing	-	1,124,943	1,124,943	-
Other term financing	-	-	-	141,343
	<b>1,516,844</b>	<b>2,295,417</b>	<b>3,812,261</b>	<b>141,343</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 16. Investment accounts of customers (continued)

### (d) By maturity structures, profit sharing ratio and rate of return

	Investment account holders			
	Total amount RM'000	Average profit sharing ratio (%)	Average rate of return (%)	Bank's wakalah performance incentive fee (%)
<b>2017</b>				
Unrestricted investment accounts:				
<i>Less than 3 months</i>				
- Mudharabah	1,994,491	2	0.11	-
- Wakalah	1,228,421	-	3.69	1.45
	<u>3,222,912</u>			
<i>Between 3 to 12 months</i>				
- Wakalah	1,037,273	-	3.72	1.42
	<u>4,260,185</u>			
Restricted investment accounts:				
<i>Less than 2 years</i>	10,000	-	6.30	0.30
<i>Between 2 to 5 years</i>	114,384	-	3.52	1.88
	<u>124,384</u>			
<b>2016</b>				
Unrestricted investment accounts:				
<i>Less than 3 months</i>				
- Mudharabah	1,516,844	2	0.13	-
- Wakalah	2,101,430	-	3.61	1.27
	3,618,274			
<i>Between 3 to 12 months</i>				
- Wakalah	193,987	-	3.72	1.16
	<u>3,812,261</u>			
Restricted investment accounts:				
<i>Between 2 to 5 years</i>	141,343	-	3.00	1.18

## 17. Deposits and placements of banks and other financial institutions

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
<i>Non-Mudharabah fund</i>		
Licensed Islamic banks	-	30,000

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 18. Subordinated Sukuk Murabahah

		Group and Bank	
	Note	31.12.2017 RM'000	31.12.2016 RM'000
<i>Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme</i>			
First tranche, RM300 million 5.75% due in 2025	(a)	<b>303,355</b>	303,308
Second tranche, RM400 million 5.50% due in 2025	(b)	<b>401,085</b>	401,085
Third tranche, RM300 million 5.08% due in 2027	(c)	<b>302,046</b>	-
		<b><u>1,006,486</u></b>	<u>704,393</u>
Finance cost on Subordinated Sukuk Murabahah		<b><u>41,296</u></b>	<u>39,465</u>

The Bank issued the following tranches of Subordinated Sukuk Murabahah:

- On 22 April 2015, the Bank issued the first tranche of RM300 million in nominal value of Subordinated Sukuk Murabahah which are 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.
- On 15 December 2015, the Bank issued the second tranche of RM400 million which are 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.
- On 13 November 2017, the Bank issued the third tranche of RM300 million which are 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 BNM.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 18. Subordinated Sukuk Murabahah (continued)

Reconcillation of movement of Subordinated Sukuk Murabahah to cash flows arising from financing activities is as follows:

Group and Bank	At 1.1.2017 RM'000	Net changes from financing cash flows RM'000	Finance cost for the year RM'000	At 31.12.2017 RM'000
Nominal value	700,000	300,000	-	1,000,000
Finance cost payable	4,393	(39,203)	41,296	6,486
	<u>704,393</u>	<u>260,797</u>	<u>41,296</u>	<u>1,006,486</u>

## 19. Other liabilities

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Other payables	651,703	489,031	644,664	486,151
Accruals	130,596	112,719	129,105	112,440
	<u>782,299</u>	<u>601,750</u>	<u>773,769</u>	<u>598,591</u>

Included in other payables is undistributed charity fund amounting to RMNil (2016: RM5,000) for the Group and the Bank respectively. Movement of sources and uses of charity fund are disclosed in Note 23.

## 20. Zakat and taxation

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Zakat	13,385	12,878	13,323	12,851
Taxation	33,019	32,168	33,017	32,168
	<u>46,404</u>	<u>45,046</u>	<u>46,340</u>	<u>45,019</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 21. Share capital

Group and Bank	Number of shares		Amount	
	31.12.2017 '000	31.12.2016 '000	31.12.2017 RM'000	31.12.2016 RM'000
<i>Issued and fully paid</i>				
<b>Ordinary shares</b>				
At 1 January	<b>2,404,384</b>	2,363,283	<b>2,404,384</b>	2,363,283
Transfer from share premium	-	-	<b>264,790</b>	-
Allotment of new ordinary shares	<b>61,638</b>	41,101	<b>200,324</b>	41,101
At 31 December	<u><b>2,466,022</b></u>	<u>2,404,384</u>	<u><b>2,869,498</b></u>	<u>2,404,384</u>

During the financial year, 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 2016.

The Bank increased its share capital on 15 June 2017 by RM134,166,500 via the issuance of 41,282,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of one hundred percent of the final dividend of approximately 5.58 sen in respect of financial year ended 31 December 2016, as disclosed in Note 37.

The Bank further increased its share capital on 20 September 2017 by RM66,157,000 via the issuance of 20,356,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of fifty percent of the interim dividend of approximately 5.41 sen in respect of financial year ended 31 December 2017, as disclosed in Note 37.

The increase in its share capital during the financial year ended 31 December 2016 from RM2,363,282,700 to RM2,404,383,700 was via the issuance of 20,927,000 and 20,174,000 new ordinary shares at a consideration of RM3.10 and RM3.25 per share respectively arising from the Dividend Reinvestment Plan of fifty percent of dividends declared and paid, as disclosed in Note 37.

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 22. Other reserves

<b>Group</b>	<b>Statutory reserve (a) RM'000</b>	<b>Fair value reserve (b) RM'000</b>	<b>Translation reserve (c) RM'000</b>	<b>Regulatory reserve (d) RM'000</b>	<b>Total RM'000</b>
At 1 January 2016	1,259,407	(23,054)	(128,433)	-	1,107,920
Foreign exchange translation differences	-	-	(20,252)	-	(20,252)
Fair value reserve					
- Net change in fair value	-	15,229	-	-	15,229
- Net amount reclassified to profit or loss	-	(51,249)	-	-	(51,249)
Income tax credit relating to components of other comprehensive income	-	8,645	-	-	8,645
Transfer from current year profit	132,752	-	-	-	132,752
At 31 December 2016/1 January 2017	1,392,159	(50,429)	(148,685)	-	1,193,045
Foreign exchange translation differences	-	-	45,908	-	45,908
Fair value reserve					
- Net change in fair value	-	43,480	-	-	43,480
- Net amount reclassified to profit or loss	-	(6,157)	-	-	(6,157)
Income tax expense relating to components of other comprehensive income	-	(8,958)	-	-	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	-	-	-	(1,392,159)
Transfer of retained earnings to regulatory reserve	-	-	-	64,645	64,645
<b>At 31 December 2017</b>	<b>-</b>	<b>(22,064)</b>	<b>(102,777)</b>	<b>64,645</b>	<b>(60,196)</b>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 22. Other reserves (continued)

	Statutory reserve (a) RM'000	Fair value reserve (b) RM'000	Translation reserve (c) RM'000	Regulatory reserve (d) RM'000	Total RM'000
<b>Bank</b>					
At 1 January 2016	1,259,407	(23,054)	(128,615)	-	1,107,738
Foreign exchange translation differences	-	-	(20,293)	-	(20,293)
Fair value reserve					
- Net change in fair value	-	15,229	-	-	15,229
- Net amount reclassified to profit or loss	-	(51,249)	-	-	(51,249)
Income tax credit relating to components of other comprehensive income	-	8,645	-	-	8,645
Transfer from current year profit	132,752	-	-	-	132,752
At 31 December 2016/1 January 2017	1,392,159	(50,429)	(148,908)	-	1,192,822
Foreign exchange translation differences	-	-	45,990	-	45,990
Fair value reserve					
- Net change in fair value	-	43,480	-	-	43,480
- Net amount reclassified to profit or loss	-	(6,157)	-	-	(6,157)
Income tax expense relating to components of other comprehensive income	-	(8,958)	-	-	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	-	-	-	(1,392,159)
Transfer of retained earnings to regulatory reserve	-	-	-	64,645	64,645
<b>At 31 December 2017</b>	<b>-</b>	<b>(22,064)</b>	<b>(102,918)</b>	<b>64,645</b>	<b>(60,337)</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 22. Other reserves (continued)

- (a) The statutory reserve was previously maintained in compliance with the requirements of Bank Negara Malaysia and was not distributable as cash dividends. During the financial year ended 31 December 2017, the Bank has transferred RM1,392,158,939 from statutory reserve fund to its retained earnings pursuant to the Revised Policy Document issued by BNM on 3 May 2017, as disclosed in Note 2.1 (a).
- (b) The fair value reserve includes the cumulative net change in the fair value of financial assets available-for-sale, excluding impairment losses, until the financial asset is derecognised.
- (c) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the offshore banking operations in the Federal Territory of Labuan.
- (d) The regulatory reserve represents the Bank's compliance with BNM's Policy on Classification and Impairment Provisions for Financing to maintain, in aggregate, collective impairment allowances and regulatory reserve of no less than 1.2% of total outstanding financing, net of individual impairment allowances.

## 23. Sources and uses of charity funds

<b>Group and Bank</b>	<b>Charity funds RM'000</b>	<b>Shariah Non- compliance income RM'000</b>	<b>Total RM'000</b>
Undistributed funds as at 1 January 2016	2	9	11
Funds collected/received during the year	1	9	10
Uses of funds during the year	(3)	(13)	(16)
<i>Contribution to Non-profit Organisation</i>	-	(5)	(5)
<i>Contribution for Da'wah activities</i>	(1)	(3)	(4)
<i>Contribution for poor/needy family</i>	(2)	-	(2)
<i>Contribution to school</i>	-	(5)	(5)
Undistributed funds as at 31 December 2016/1 January 2017	-	5	5
Funds collected /received during the year	-	8	8
Uses of funds during the year	-	(11)	(11)
<i>Contribution to Non-profit Organisation</i>	-	(4)	(4)
<i>Contribution for Da'wah activities</i>	-	(5)	(5)
<i>Contribution to Institution</i>	-	(2)	(2)
<b>Undistributed funds as at 31 December 2017</b>	<b>-</b>	<b>2</b>	<b>2</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 24. Income derived from investment of depositors' funds

	Group and Bank	
	2017	2016
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	22,296	55,715
(ii) Term deposit-i	1,370,064	1,339,854
(iii) Saving and demand deposits	739,255	793,868
(iv) Other deposits	192,572	152,767
	<u>2,324,187</u>	<u>2,342,204</u>

### (i) Income derived from investment of general investment deposits

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b><i>Finance income and hibah</i></b>		
Financing, advances and others	19,305	46,815
Financial assets:		
- held-for-trading	142	497
- available-for-sale	2,136	6,207
- held-to-maturity	60	128
Money at call and deposits with financial institutions	296	697
	<u>21,939</u>	<u>54,344</u>
<b><i>Other dealing income</i></b>		
Net gain/(loss) from sale of financial assets held-for-trading	(10)	149
Net gain/(loss) on revaluation of financial assets held-for-trading	46	(70)
	<u>36</u>	<u>79</u>
<b><i>Other operating income</i></b>		
Net gain from sale of financial assets available-for-sale	51	1,292
Net gain from sale of financial assets held-to-maturity	270	-
	<u>321</u>	<u>1,292</u>
	<u>22,296</u>	<u>55,715</u>
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<u>322</u>	<u>827</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

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

### (ii) Income derived from investment of term deposit-i

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b><i>Finance income and hibah</i></b>		
Financing, advances and others	1,170,411	1,137,396
Financial assets:		
- held-for-trading	9,643	11,313
- available-for-sale	144,803	142,503
- held-to-maturity	4,085	2,861
Money at call and deposits with financial institutions	16,156	16,007
	<u>1,345,098</u>	<u>1,310,080</u>
<b><i>Other dealing income</i></b>		
Net gain/(loss) from sale of financial assets held-for-trading	(442)	2,995
Net gain/(loss) on revaluation of financial assets held-for-trading	3,084	(2,247)
	<u>2,642</u>	<u>748</u>
<b><i>Other operating income</i></b>		
Net gain from sale of financial assets available-for-sale	3,480	29,026
Net gain from sale of financial assets held-to-maturity	18,844	-
	<u>22,324</u>	<u>29,026</u>
	<u>1,370,064</u>	<u>1,339,854</u>
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<u>18,818</u>	<u>18,818</u>

### (iii) Income derived from investment of saving and demand deposits

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b><i>Finance income and hibah</i></b>		
Financing, advances and others	630,634	673,911
Financial assets:		
- held-for-trading	5,192	6,703
- available-for-sale	78,063	84,433
- held-to-maturity	2,202	1,695
Money at call and deposits with financial institutions	10,077	9,484
	<u>726,168</u>	<u>776,226</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 24. Income derived from investment of depositors' funds

### (iii) *Income derived from investment of saving and demand deposits (continued)*

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b><i>Other dealing income</i></b>		
Net gain/(loss) from sale of financial assets held-for-trading	(275)	1,775
Net gain/(loss) on revaluation of financial assets held-for-trading	1,649	(1,331)
	<u>1,374</u>	<u>444</u>
<b><i>Other operating income</i></b>		
Net gain from sale of financial assets available-for-sale	1,866	17,198
Net gain from sale of financial assets held-to-maturity	9,847	-
	<u>11,713</u>	<u>17,198</u>
	<u>739,255</u>	<u>793,868</u>
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<u>10,288</u>	<u>11,150</u>

### (iv) *Income derived from investment of other deposits*

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b><i>Finance income and hibah</i></b>		
Financing, advances and others	164,014	129,683
Financial assets:		
- held-for-trading	1,371	1,290
- available-for-sale	20,574	16,248
- held-to-maturity	578	327
Money at call and deposits with financial institutions	2,560	1,825
	<u>189,097</u>	<u>149,373</u>
<b><i>Other dealing income</i></b>		
Net gain/(loss) from sale of financial assets held-for-trading	(38)	341
Net gain/(loss) on revaluation of financial assets held-for-trading	435	(256)
	<u>397</u>	<u>85</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

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

(v) *Income derived from investment of other deposits (continued)*

	Group and Bank	
	2017	2016
	RM'000	RM'000
<i>Other operating income</i>		
Net gain from sale of financial assets available-for-sale	488	3,309
Net gain from sale of financial assets held-to-maturity	2,590	-
	<u>3,078</u>	<u>3,309</u>
	<u>192,572</u>	<u>152,767</u>
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	<u>2,738</u>	<u>2,145</u>

## 25. Income derived from investment account funds

	Group and Bank	
	2017	2016
	RM'000	RM'000
<b>Finance income</b>		
Unrestricted investment accounts		
- <i>Mudharabah</i>	94,386	61,379
- <i>Wakalah</i>	152,660	52,514
	<u>247,046</u>	<u>113,893</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 26. Income derived from investment of shareholders' funds

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	6,951	6,355	6,951	6,355
Financial assets available-for-sale	147,372	125,468	147,372	125,468
Money at call and deposits with financial institutions	4	193	4	193
	<u>154,327</u>	<u>132,016</u>	<u>154,327</u>	<u>132,016</u>
<i>Other dealing income</i>				
Net gain from foreign exchange transactions	66,396	73,114	66,396	73,114
Net derivatives loss	(779)	(4,515)	(779)	(4,515)
Net gain from sale of financial assets held-for-trading	-	345	-	-
Net loss on revaluation of financial assets held-for-trading	-	(170)	-	-
	<u>65,617</u>	<u>68,774</u>	<u>65,617</u>	<u>68,599</u>
<i>Other operating income</i>				
Net gain from sale of financial assets available-for-sale	272	424	272	424
Gain on liquidation of a subsidiary	-	-	-	89
Gross dividend income from securities				
- unquoted in Malaysia	-	1,612	-	1,612
- unit trust in Malaysia	2,600	3,379	2,422	3,379
	<u>2,872</u>	<u>5,415</u>	<u>2,694</u>	<u>5,504</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

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

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<i>Fees and commission</i>				
Card fees and commission	70,751	67,002	70,751	67,002
Takaful service fees and commission	28,436	33,766	28,436	33,766
Financing fees	22,810	21,078	22,810	21,078
Commission on MEPS	13,184	12,022	13,184	12,022
Ar-Rahnu fees	11,984	10,964	11,984	10,964
Unit trust management fees	10,158	7,877	-	-
Mobile banking fees	6,808	7,000	6,808	7,000
Deposit and payment service fees	6,677	7,510	6,677	7,510
Corporate advisory fees	5,877	4,041	5,877	4,041
Processing fees	4,202	3,172	4,200	3,171
Commission on bills payment system	2,831	2,572	2,831	2,572
Commission from wealth management services	58	24	6,787	4,322
Ta'widh Charges	698	902	698	902
Others	24,292	20,102	14,633	14,567
	<u>208,766</u>	<u>198,032</u>	<u>195,676</u>	<u>188,917</u>
<i>Other income</i>				
Rental income	2,446	2,423	2,788	2,761
Net gain/(loss) on disposal of property and equipment	(71)	527	(71)	527
Other income	396	170	254	68
	<u>2,771</u>	<u>3,120</u>	<u>2,971</u>	<u>3,356</u>
	<u>434,353</u>	<u>407,357</u>	<u>421,285</u>	<u>398,392</u>

## 27. Net allowance for impairment on financing and advances

	Group and Bank	
	2017 RM'000	2016 RM'000
Allowance for impairment on financing, advances and others:		
- collective assessment allowance	34,706	161,667
- individual assessment allowance	71,735	30,662
Bad debts and financing recovered	(122,054)	(100,224)
	<u>(15,613)</u>	<u>92,105</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 28. Allowance for impairment on investments

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Allowance for impairment of financial assets:				
- available-for-sale	<u>-</u>	<u>255</u>	<u>-</u>	<u>255</u>

## 29. Income attributable to depositors

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits from customers:				
- Mudharabah fund	11,445	18,467	11,445	18,467
- Non-Mudharabah fund	1,088,245	1,020,530	1,088,484	1,020,762
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah fund	3,346	30,640	3,346	30,640
	<u>1,103,036</u>	<u>1,069,637</u>	<u>1,103,275</u>	<u>1,069,869</u>

## 30. Income attributable to investment account holders

	Group and Bank	
	2017 RM'000	2016 RM'000
Unrestricted investment accounts		
- <i>Mudharabah</i>	1,938	1,201
- <i>Wakalah</i>	103,363	37,186
	<u>105,301</u>	<u>38,387</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 31. Personnel expenses

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Salaries and wages	291,285	261,319	286,154	257,284
Allowances and bonuses	149,181	133,184	147,529	132,458
Employees' Provident Fund	54,226	49,723	53,273	49,009
Directors and Shariah Supervisory Council Members' remuneration	11,875	9,986	11,182	9,325
Medical benefits	28,420	20,803	28,209	20,603
Staff sales commission	14,645	13,310	14,645	13,310
Others	19,711	18,348	19,455	18,188
	<u>569,343</u>	<u>506,673</u>	<u>560,447</u>	<u>500,177</u>

## 32. Other overhead expenses

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<i>Promotion</i>				
Credit and debit card expenses	31,114	25,513	31,114	25,513
Advertisement and publicity	9,608	10,112	9,454	9,998
Others	13,915	13,005	10,111	11,092
	<u>54,637</u>	<u>48,630</u>	<u>50,679</u>	<u>46,603</u>
<i>Establishment</i>				
Depreciation of property and equipment	54,480	59,582	54,220	59,338
Information technology expenses	59,535	49,956	59,535	49,956
Office rental	54,314	51,684	54,254	51,620
Security services	16,267	18,028	16,267	18,033
Utilities	14,068	15,686	13,992	15,611
Office maintenance	11,522	10,416	11,169	10,312
Takaful	8,069	13,473	8,037	13,227
Rental of equipment	4,504	3,715	4,429	3,641
Others	320	305	320	305
	<u>223,079</u>	<u>222,845</u>	<u>222,223</u>	<u>222,043</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 32. Other overhead expenses (continued)

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<i>General expenses</i>				
Indirect tax expenses	<b>23,318</b>	15,457	<b>23,317</b>	15,455
Outsourcing fees				
- Management of self-service terminal	<b>12,128</b>	11,466	<b>12,128</b>	11,466
- Credit recovery	<b>2,516</b>	5,230	<b>2,516</b>	5,230
- Others	<b>4,169</b>	4,195	<b>4,169</b>	4,195
Office supplies	<b>9,593</b>	8,784	<b>9,462</b>	8,596
Licenses	<b>9,500</b>	7,048	<b>9,500</b>	7,048
Travelling and transportation	<b>7,893</b>	7,198	<b>7,813</b>	7,092
Bank and service charges	<b>7,615</b>	3,956	<b>7,601</b>	3,937
Security services for cash in transit	<b>6,419</b>	6,201	<b>6,419</b>	6,201
Postage and delivery charges	<b>4,979</b>	5,896	<b>4,963</b>	5,870
Management fees	-	-	<b>4,633</b>	2,432
Subscription fees	<b>4,061</b>	3,851	<b>4,061</b>	3,851
Professional fees	<b>4,379</b>	3,453	<b>4,203</b>	3,291
Mobile banking expenses	<b>1,359</b>	2,699	<b>1,359</b>	2,699
Auditors' remuneration				
- statutory audit fees	<b>763</b>	700	<b>700</b>	618
- others	<b>642</b>	355	<b>642</b>	355
Processing charges	<b>655</b>	852	<b>655</b>	852
Property and equipment written off	<b>56</b>	8	<b>56</b>	8
Others	<b>41,340</b>	23,245	<b>38,535</b>	21,497
	<b>141,385</b>	110,594	<b>142,732</b>	110,693
	<b>419,101</b>	382,069	<b>415,634</b>	379,339

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 33. Chief Executive Officer, Directors and Shariah Supervisory Council Members' remuneration

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
<b>Directors of the Bank</b>				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	7,366	7,236	7,366	7,233
Benefits-in-kind	113	173	113	173
	<u>7,479</u>	<u>7,409</u>	<u>7,479</u>	<u>7,406</u>
<i>Chief Executive Officer:</i>				
Salaries and other remuneration, including meeting allowances	677	-	671	-
Benefits-in-kind	16	-	16	-
	<u>693</u>	<u>-</u>	<u>687</u>	<u>-</u>
<i>Non-Executive Directors:</i>				
Fees	1,376	1,076	1,356	1,064
Other emoluments	1,234	627	1,217	618
Benefits-in-kind	219	172	219	172
	<u>2,829</u>	<u>1,875</u>	<u>2,792</u>	<u>1,854</u>
<b>Directors of subsidiaries</b>				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	502	468	-	-
	<u>502</u>	<u>468</u>	<u>-</u>	<u>-</u>
<i>Non-Executive Directors:</i>				
Fees	72	81	-	-
Other emoluments	67	75	-	-
	<u>139</u>	<u>156</u>	<u>-</u>	<u>-</u>
Total	<u>11,642</u>	<u>9,908</u>	<u>10,958</u>	<u>9,260</u>
<b>Members of Shariah Supervisory Council (SSC)</b>				
- SSC of the Bank	575	416	572	410
- SSC of a subsidiary	6	7	-	-
Total	<u>581</u>	<u>423</u>	<u>572</u>	<u>410</u>
Grand total (excluding benefits-in-kind) (Note 31)	<u>11,875</u>	<u>9,986</u>	<u>11,182</u>	<u>9,325</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 33. Chief Executive Officer, Directors and Shariah Supervisory Council Member's remuneration (continued)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer, Directors of the Bank is as follows:

	← Remuneration received from the Bank →				Bank	Remuneration received from subsidiaries		Group
	Salary and Bonus	Fees	Other Emoluments	Benefits -in-kind	Total	Fees	Other Emoluments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 December 2017</b>								
<b>Executive Director:</b>								
Dato' Sri Zukri Samat (retired on 9 June 2017)	5,637	-	1,729	113	7,479	-	-	7,479
<b>Chief executive officer:</b>								
Khairul Kamarudin (appointed on 14 June 2017)	509	-	162	16	687	-	6	693
<b>Non-Executive Directors:</b>								
Datuk Zamani Abdul Ghani	-	240	226	88	554	-	-	554
Tan Sri Dato' Dr. Abdul Shukor Husin	-	156	130	50	336	-	-	336
Datuk Zaiton Mohd Hassan	-	240	215	25	480	-	-	480
Zahari @ Mohd Zin Idris	-	216	239	6	461	12	12	485
Mohamed Ridza Mohamed Abdulla	-	108	94	25	227	-	-	227
Nik Mohd Hasyudeen Yusoff	-	198	148	25	371	8	5	384
Noraini Che Dan	-	198	165	-	363	-	-	363
	-	1,356	1,217	219	2,792	20	17	2,829
	6,146	1,356	3,108	348	10,958	20	23	11,001

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 33. Chief Executive Officer, Directors and Shariah Supervisory Council Members' remuneration (continued)

The total remuneration (including benefits-in-kind) of the Directors of the Bank is as follows (continued):

	← Remuneration received from the Bank →				Bank	Remuneration received from subsidiaries		Group
	Salary and Bonus	Fees	Other Emoluments	Benefits -in-kind	Total	Fees	Other Emoluments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31 December 2016</b>								
<b><i>Executive Director:</i></b>								
Dato' Sri Zukri Samat	5,639	-	1,594	173	7,406	-	3	7,409
<b><i>Non-Executive Directors:</i></b>								
Datuk Zamani Abdul Ghani	-	231	157	62	450	-	-	450
Tan Sri Dato' Dr. Abdul Shukor Husin	-	155	81	-	236	-	-	236
Datuk Zaiton Mohd Hassan	-	242	128	35	405	-	-	405
Datuk Seri Johan Abdullah (ceased as a director on 17 February 2016)	-	15	40	-	55	-	-	55
Zahari @ Mohd Zin Idris	-	216	125	50	391	12	9	412
Mohamed Ridza Mohamed Abdulla	-	108	60	25	193	-	-	193
Nik Mohd Hasyudeen Yusoff	-	49	12	-	61	-	-	61
Noraini Che Dan	-	48	15	-	63	-	-	63
	-	1,064	618	172	1,854	12	9	1,875
	5,639	1,064	2,212	345	9,260	12	12	9,284

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 33. Chief Executive Officer, Directors and Shariah Supervisory Council Member's remuneration (continued)

The total remuneration of the members of the Shariah Supervisory Council of the Bank is as follows:

	Remuneration received from ← the Bank →		Bank	Remuneration received from subsidiary	Group
	Fees	Other Emoluments	Total	Fees	Total
<b>31 December 2017</b>	RM'000	RM'000	RM'000	RM'000	RM'000
Professor Dato' Dr. Ahmad Hidayat Buang	72	75	147	-	147
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	66	36	102	3	105
Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir (appointed on 1 April 2017)	49	10	59	-	59
Assistant Professor Dr. Uzaimah Ibrahim	66	42	108	-	108
Ustazah Dr. Yasmin Hanani Mohd Safian	66	49	115	-	115
Ustaz Dr. Muhammad Syafii Antonio (resigned on 31 March 2017)	17	24	41	-	41
	<b>336</b>	<b>236</b>	<b>572</b>	<b>3</b>	<b>575</b>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 33. Chief Executive Officer, Directors and Shariah Supervisory Council Member's remuneration (continued)

The total remuneration of the members of the Shariah Supervisory Council of the Bank is as follows (continued):

	Remuneration received from ← the Bank →		Bank	Remuneration received from subsidiary	Group
	Fees	Other Emoluments	Total	Fees	Total
<b>31 December 2016</b>	RM'000	RM'000	RM'000	RM'000	RM'000
Professor Dato' Dr. Ahmad Hidayat Buang	60	36	96	-	96
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	54	23	77	6	83
Ustaz Dr. Muhammad Syafii Antonio	54	23	77	-	77
Assistant Professor Dr. Uzaimah Ibrahim	54	26	80	-	80
Ustazah Dr. Yasmin Hanani Mohd Safian	54	26	80	-	80
	276	134	410	6	416

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 34. 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 either directly or indirectly. The key management personnel include all the Directors of the Group, and certain senior management members of the Group.

The compensation for key management personnel other than the Directors' remuneration is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Other key management personnel:		
- Short-term employee benefits	<u>21,425</u>	<u>18,525</u>

Number of employees categorised as key management personnel as at 31 December 2017 was 23 (2016: 19).

## 35. Tax expense

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
Current year	<b>191,736</b>	182,542	<b>191,620</b>	182,500
Over provision in prior years	<b>(6,306)</b>	(1,400)	<b>(6,298)</b>	(1,359)
	<u><b>185,430</b></u>	<u>181,142</u>	<u><b>185,322</b></u>	<u>181,141</u>
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	<b>2,024</b>	(5,026)	<b>2,024</b>	(5,026)
Under provision in prior years	<b>108</b>	475	<b>108</b>	475
	<u><b>2,132</b></u>	<u>(4,551)</u>	<u><b>2,132</b></u>	<u>(4,551)</u>
	<u><u><b>187,562</b></u></u>	<u><u>176,591</u></u>	<u><u><b>187,454</b></u></u>	<u><u>176,590</u></u>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 35. Tax expense (continued)

A reconciliation of effective tax expense for the Group and the Bank are as follows:

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before tax	<u>767,053</u>	<u>720,412</u>	<u>766,109</u>	<u>720,441</u>
Income tax calculated using Malaysian tax rate of 24% (2016: 24%)	<b>184,093</b>	172,899	<b>183,866</b>	172,906
Income not subject to tax	<b>(11,924)</b>	(1,406)	<b>(11,924)</b>	(1,406)
Non-deductible expenses	<u>9,591</u>	<u>6,023</u>	<u>9,702</u>	<u>5,974</u>
	<b>181,760</b>	177,516	<b>181,644</b>	177,474
Derecognition of deferred tax assets	<b>12,000</b>	-	<b>12,000</b>	-
(Over)/Under provision in prior years				
- Income tax	<b>(6,306)</b>	(1,400)	<b>(6,298)</b>	(1,359)
- Deferred tax	<b>108</b>	475	<b>108</b>	475
	<u>187,562</u>	<u>176,591</u>	<u>187,454</u>	<u>176,590</u>

### 36. Earnings per share

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM566,118,000 (2016: RM530,962,000) and the weighted average number of ordinary shares outstanding during the year of 2,432,579,699 (2016: 2,381,774,336).

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 37. Dividends

Dividends paid by the Bank:

	Sen per share	Total amount RM'000	Date of payment
<b>2017</b>			
Final 2016	5.58	134,167	15 June 2017
Interim 2017	5.41	132,310	20 September 2017
		<u>266,477</u>	
<b>2016</b>			
Final 2015	5.49	129,744	18 May 2016
Interim 2016	5.50	131,132	22 September 2016
		<u>260,876</u>	

From the total dividend amount paid of RM134.2 million on 15 June 2017, 100% or RM134.2 million was reinvested to subscribe for 41,282,000 new ordinary shares at RM3.25 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM132.3 million on 20 September 2017, approximately 50% or RM66.1 million was distributed as cash dividend whilst the remaining 50% amounting to RM66.2 million was reinvested to subscribe for 20,356,000 new ordinary shares at RM3.25 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM129.7 million on 18 May 2016, approximately 50% or RM64.9 million was distributed as cash dividend whilst the remaining 50% amounting to RM64.8 million was reinvested to subscribe for 20,927,000 new ordinary shares of RM1.00 at RM3.10 each via the Dividend Reinvestment Plan.

From the total dividend amount paid of RM131.1 million on 22 September 2016, approximately 50% or RM65.6 million was distributed as cash dividend whilst the remaining 50% amounting to RM65.5 million was reinvested to subscribe for 20,174,000 new ordinary shares of RM1.00 at RM3.25 each via the Dividend Reinvestment Plan.

The dividend was reinvested by the sole shareholder, BIMB Holdings Berhad to strengthen the Bank's capital position to fund the business growth of the Bank.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 37. Dividends (continued)

After the end of the financial year, the following dividend was proposed by the Directors. This dividend will be recognised in the subsequent financial year upon approval by the shareholder.

	<b>Sen per share</b>	<b>Total amount RM'000</b>
Final 2017 ordinary dividend	6.09	<b>150,180</b>

## 38. Operating Segments

The Group's reportable segments, as described below, can be classified into four segments. Each segment offers different products and services. The following summary describes the operations in each of the segments:

- Consumer Banking                      Includes financing, deposits and other transactions and balances with retail customers
- Corporate and Commercial Banking      Includes corporate finance activities, financing, deposits and other transactions and balances with corporate customers, commercial customers and small & medium enterprises
- Treasury                                      Undertakes funding activities through borrowings and investing in liquid assets such as short-term placements and corporate and government debt securities
- Shareholders unit                          Operates shareholders' funds

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before allocation of overheads and income tax.

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 38. Operating Segments (continued)

31 December 2017	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Group Total RM'000
<b>Total Revenue</b>	<b>1,839,686</b>	<b>588,196</b>	<b>554,546</b>	<b>37,153</b>	<b>(11,400)</b>	<b>3,008,181</b>
Net fund based income	858,386	360,774	(27,177)	283,355	-	<b>1,475,338</b>
Non-fund based income	155,474	40,997	109,233	29,963	(11,161)	<b>324,506</b>
<b>Net income</b>	<b>1,013,860</b>	<b>401,771</b>	<b>82,056</b>	<b>313,318</b>	<b>(11,161)</b>	<b>1,799,844</b>
Net allowance for impairment	(14,849)	30,219	-	-	-	<b>15,370</b>
<b>Profit before overheads, zakat and tax</b>	<b>999,011</b>	<b>431,990</b>	<b>82,056</b>	<b>313,318</b>	<b>(11,161)</b>	<b>1,815,214</b>
Operating expenses						<b>(1,048,161)</b>
<b>Profit before zakat and tax</b>						<b>767,053</b>
Segment assets	31,693,272	10,420,148	12,961,042	41,366	(33,167)	<b>55,082,661</b>
Unallocated assets						<b>2,660,253</b>
<b>Total assets</b>						<b>57,742,914</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 38. Operating Segments (continued)

31 December 2016	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Group Total RM'000
<b>Total Revenue</b>	<b>1,715,082</b>	<b>570,896</b>	<b>407,371</b>	<b>181,974</b>	<b>(6,541)</b>	<b>2,868,782</b>
Net fund based income	866,086	394,541	(35,294)	202,575	-	<b>1,427,908</b>
Non-fund based income	144,540	39,739	130,696	24,184	(6,309)	<b>332,850</b>
<b>Net income</b>	<b>1,010,626</b>	<b>434,280</b>	<b>95,402</b>	<b>226,759</b>	<b>(6,309)</b>	<b>1,760,758</b>
Net allowance for impairment	(63,109)	(28,996)	353	-	-	<b>(91,752)</b>
<b>Profit before overheads, zakat and tax</b>	<b>947,517</b>	<b>405,284</b>	<b>95,755</b>	<b>226,759</b>	<b>(6,309)</b>	<b>1,669,006</b>
Operating expenses						<b>(948,594)</b>
<b>Profit before zakat and tax</b>						<b>720,412</b>
Segment assets	28,586,902	10,602,372	13,840,512	34,450	(25,529)	<b>53,038,707</b>
Unallocated assets						<b>2,637,990</b>
<b>Total assets</b>						<b>55,676,697</b>

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **39. Financial Risk Management**

### **Overview**

The Bank's business activities involve the use financial instruments which expose the Bank to various financial risks, namely credit risk, market risk and liquidity risk.

The Bank's financial risk management is guided by the Bank's Risk Appetite Statement and Risk Management Policies/Guidelines and subject to the oversight by the Board of Directors ("Board") via the Board Risk Committee ("BRC").

The BRC is assisted by the specific Risk Management Committees namely the Management Risk Control Committee ("MRCC") and the Asset & Liability Management Committee ("ALCO").

### **(a) Financial instruments by categories**

The table in subsequent pages provide an analysis of financial instruments categorised as follows:

- Financing, advances and receivables ("F&R")
- Fair value through profit or loss ("FVTPL")
- Financial assets available-for-sale ("AFS")
- Financial assets held-to-maturity ("HTM")
- Financial liabilities measured at amortised cost ("FL")

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (a) Financial instruments by categories (continued)

<b>Bank</b>						
<b>31 December 2017</b>						
<b>RM'000</b>	<b>Carrying amount</b>	<b>F&amp;R/(FL)</b>	<b>FVTPL</b>	<b>AFS</b>	<b>HTM</b>	<b>Derivatives</b>
<i>Financial assets</i>						
Cash and short-term funds and deposits and placements with financial institutions	4,185,561	4,185,561	-	-	-	-
Financial assets held-for-trading	375,664	-	375,664	-	-	-
Derivative financial assets	68,319	-	-	-	-	68,319
Financial assets available-for-sale	9,253,140	-	-	9,253,140	-	-
Financial assets held-to-maturity	-	-	-	-	-	-
Financing, advances and others	42,113,420	42,113,420	-	-	-	-
Other assets	121,062	121,062	-	-	-	-
Statutory deposits with Bank Negara Malaysia	1,407,284	1,407,284	-	-	-	-
	<b>57,524,450</b>	<b>47,827,327</b>	<b>375,664</b>	<b>9,253,140</b>	<b>-</b>	<b>68,319</b>
<i>Financial liabilities</i>						
Deposits from customers	(46,209,028)	(46,209,028)	-	-	-	-
Investment accounts of customers	(4,260,185)	(4,260,185)	-	-	-	-
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-
Derivative financial liabilities	(74,668)	-	-	-	-	(74,668)
Bills and acceptance payable	(420,258)	(420,258)	-	-	-	-
Subordinated Sukuk Murabahah	(1,006,486)	(1,006,486)	-	-	-	-
Other liabilities	(773,769)	(773,769)	-	-	-	-
	<b>(52,744,394)</b>	<b>(52,669,726)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(74,668)</b>

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (a) Financial instruments by categories (continued)

<b>Bank</b>						
<b>31 December 2016</b>						
<b>RM'000</b>	<b>Carrying amount</b>	<b>F&amp;R/(FL)</b>	<b>FVTPL</b>	<b>AFS</b>	<b>HTM</b>	<b>Derivatives</b>
<i>Financial assets</i>						
Cash and short-term funds and deposits and placements with financial institutions	4,063,268	4,063,268	-	-	-	-
Financial assets held-for-trading	569,750	-	569,750	-	-	-
Derivative financial assets	124,572	-	-	-	-	124,572
Financial assets available-for-sale	9,957,743	-	-	9,957,743	-	-
Financial assets held-to-maturity	57,703	-	-	-	57,703	-
Financing, advances and others	39,189,274	39,189,274	-	-	-	-
Other assets	95,928	95,928	-	-	-	-
Statutory deposits with Bank Negara Malaysia	1,374,876	1,374,876	-	-	-	-
	<b>55,433,114</b>	<b>44,723,346</b>	<b>569,750</b>	<b>9,957,743</b>	<b>57,703</b>	<b>124,572</b>
<i>Financial liabilities</i>						
Deposits from customers	(45,949,715)	(45,949,715)	-	-	-	-
Investment accounts of customers	(3,812,261)	(3,812,261)	-	-	-	-
Deposits and placements of banks and other financial institutions	(30,000)	(30,000)	-	-	-	-
Derivative financial liabilities	(111,089)	-	-	-	-	(111,089)
Bills and acceptance payable	(46,278)	(46,278)	-	-	-	-
Subordinated Sukuk Murabahah	(704,393)	(704,393)	-	-	-	-
Other liabilities	(598,591)	(598,591)	-	-	-	-
	<b>(51,252,327)</b>	<b>(51,141,238)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(111,089)</b>

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk

#### Overview

Credit risk is the risk of a customer or counterparty failing to perform its obligations. It arises from all transactions that could lead to actual, contingent or potential claims against any party, customer or obligor. The types of credit risks that the Bank considers to be material include: Default Risk, Counterparty Risk, Pre-Settlement Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk, and Migration Risk.

#### Credit risk governance

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the MRCC and/or BRC, guided by the Board of Directors' approved Risk Appetite Statement.

The Bank has instituted several levels of Financing Committees, which assess and approve credits at their specified authority levels.

The MRCC is responsible under the authority delegated by the BRC for managing credit risk at strategic level. The MRCC reviews the Bank's credit risk policies and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance levels.

The Bank's credit risk management governance includes the establishment of detailed credit risk policies, guidelines and procedures which document the Bank's financing standards, discretionary powers for financing approval, credit risk ratings methodologies and models, acceptable collaterals and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing.

#### Management of credit risk

The management of credit risk is being performed by Credit Management Division ("CMD") and Risk Management Division ("RMD"), and two other units outside of the CMD and RMD domain, namely, Credit Administration Department and Credit Recovery. The combined objectives are, amongst others:

- To build a high quality credit portfolio in line with the Bank's overall strategy and risk appetite;
- To ensure that the Bank is compensated for the risk taken, balancing/optimising the risk/return relationship;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk problem areas; and
- To conform with statutory, regulatory and internal credit requirements.

The Bank monitors its credit exposures either on a portfolio or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (certain parts of) the portfolio. The affected portfolio or financing is placed on a watchlist to enforce close monitoring and prevent financing from turning impaired and to increase chances of full recovery.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### Management of Credit Risk (continued)

A detailed limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk concentration to a single customer, sector, product, Shariah contract, etc.

Credit risk arising from dealing and investing activities are managed by the establishment of limits which include counter parties limits and permissible acquisition of private debt securities, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

#### Maximum exposure to credit risk

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	<b>Bank</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds	<b>4,185,561</b>	3,963,268
Deposits and placements with banks and other financial institutions	-	100,000
Financial assets held-for-trading	<b>375,664</b>	569,750
Derivative financial assets	<b>68,319</b>	124,572
Financial assets available-for-sale	<b>9,253,140</b>	9,957,743
Financial assets held-to-maturity	-	57,703
Financing, advances and others	<b>42,113,420</b>	39,189,274
Sub-total	<b><u>55,996,104</u></b>	<u>53,962,310</u>
Credit related obligation:		
Credit commitments	<b>9,941,346</b>	9,750,962
Sub-total	<b><u>9,941,346</u></b>	<u>9,750,962</u>
Total credit exposures	<b><u>65,937,450</u></b>	<u>63,713,272</u>

There is no disclosure for the Group as the Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments are not materially different from the Bank.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (i) Concentration of credit risk for Group and Bank

Group As at 31 December 2017	Cash and short- term funds and deposits and placements with financial institutions RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Financing, advances and others RM'000	On- Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	481,879	481,879	111,992
Mining and quarrying	-	-	-	-	-	7,906	7,906	383,585
Manufacturing (including agro-based)	-	-	22	-	-	800,040	800,062	1,094,810
Electricity, gas and water	-	-	-	2,129,021	-	330,767	2,459,788	442,008
Wholesale & retail trade, and hotels & restaurants	-	-	-	81,146	-	1,187,262	1,268,408	611,688
Construction	-	1	65	702,282	-	2,089,099	2,791,447	1,615,417
Real estate	-	-	1,535	508,410	-	1,569,501	2,079,446	7,910
Transport, storage and communications	-	15,041	1	925,993	-	637,669	1,578,704	486,025
Finance, insurance and business activities	3,263,920	365,883	66,696	4,905,831	-	2,112,629	10,714,959	1,680,118
Education, health and others	-	-	-	-	-	1,197,840	1,197,840	1,787,146
Household sectors	-	-	-	-	-	31,698,828	31,698,828	479,715
Other sectors	921,777	-	-	-	-	-	921,777	1,240,932
	<b>4,185,697</b>	<b>380,925</b>	<b>68,319</b>	<b>9,252,683</b>	<b>-</b>	<b>42,113,420</b>	<b>56,001,044</b>	<b>9,941,346</b>

\* Commitments and contingencies excluding derivative financial assets

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (i) Concentration of credit risk for Group and Bank (continued)

Group As at 31 December 2016	Cash and short- term funds and deposits and placements with financial institutions RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Financing, advances and others RM'000	On- Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	370,064	370,064	111,408
Mining and quarrying	-	-	-	-	-	12,563	12,563	409,084
Manufacturing (including agro-based)	-	-	2,948	-	-	712,228	715,176	1,228,303
Electricity, gas and water	-	-	-	2,109,964	-	852,028	2,961,992	452,780
Wholesale & retail trade, and hotels & restaurants	-	-	1,609	95,959	-	1,220,744	1,318,312	600,832
Construction	-	5,092	-	650,738	57,703	2,126,845	2,840,378	1,544,578
Real estate	-	-	1,780	435,171	-	1,183,849	1,620,800	21,003
Transport, storage and communications	-	-	-	994,468	-	843,398	1,837,866	411,536
Finance, insurance and business activities	3,130,743	569,743	118,235	5,670,986	-	2,032,703	11,522,410	1,538,418
Education, health and others	-	-	-	-	-	1,240,340	1,240,340	1,595,137
Household sectors	-	-	-	-	-	28,594,512	28,594,512	592,299
Other sectors	932,674	-	-	-	-	-	932,674	1,245,584
	<b>4,063,417</b>	<b>574,835</b>	<b>124,572</b>	<b>9,957,286</b>	<b>57,703</b>	<b>39,189,274</b>	<b>53,967,087</b>	<b>9,750,962</b>

\* Commitments and contingencies excluding derivative financial assets

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (i) Concentration of credit risk for Group and Bank (continued)

Bank As at 31 December 2017	Cash and short- term funds and deposits and placements with financial institutions RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Financing, advances and others RM'000	On- Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	481,879	481,879	111,992
Mining and quarrying	-	-	-	-	-	7,906	7,906	383,585
Manufacturing (including agro-based)	-	-	22	-	-	800,040	800,062	1,094,810
Electricity, gas and water	-	-	-	2,129,021	-	330,767	2,459,788	442,008
Wholesale & retail trade, and hotels & restaurants	-	-	-	81,146	-	1,187,262	1,268,408	611,688
Construction	-	1	65	702,282	-	2,089,099	2,791,447	1,615,417
Real estate	-	-	1,535	508,410	-	1,569,501	2,079,446	7,910
Transport, storage and communications	-	15,041	1	925,993	-	637,669	1,578,704	486,025
Finance, insurance and business activities	3,263,920	360,622	66,696	4,906,288	-	2,112,629	10,710,155	1,680,118
Education, health and others	-	-	-	-	-	1,197,840	1,197,840	1,787,146
Household sectors	-	-	-	-	-	31,698,828	31,698,828	479,715
Other sectors	921,641	-	-	-	-	-	921,641	1,240,932
	<b>4,185,561</b>	<b>375,664</b>	<b>68,319</b>	<b>9,253,140</b>	<b>-</b>	<b>42,113,420</b>	<b>55,996,104</b>	<b>9,941,346</b>

\* Commitments and contingencies excluding derivative financial assets

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (i) Concentration of credit risk for Group and Bank (continued)

Bank As at 31 December 2016	Cash and short- term funds and deposits and placements with financial institutions RM'000	Financial assets held-for- trading RM'000	Derivative financial assets RM'000	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Financing, advances and others RM'000	On- Balance Sheets Total RM'000	Commitments and contingencies* RM'000
Primary agriculture	-	-	-	-	-	370,064	370,064	111,408
Mining and quarrying	-	-	-	-	-	12,563	12,563	409,084
Manufacturing (including agro-based)	-	-	2,948	-	-	712,228	715,176	1,228,303
Electricity, gas and water	-	-	-	2,109,964	-	852,028	2,961,992	452,780
Wholesale & retail trade, and hotels & restaurants	-	-	1,609	95,959	-	1,220,744	1,318,312	600,832
Construction	-	5,092	-	650,738	57,703	2,126,845	2,840,378	1,544,578
Real estate	-	-	1,780	435,171	-	1,183,849	1,620,800	21,003
Transport, storage and communications	-	-	-	994,468	-	843,398	1,837,866	411,536
Finance, insurance and business activities	3,130,743	564,658	118,235	5,671,443	-	2,032,703	11,517,782	1,538,418
Education, health and others	-	-	-	-	-	1,240,340	1,240,340	1,595,137
Household sectors	-	-	-	-	-	28,594,512	28,594,512	592,299
Other sectors	932,525	-	-	-	-	-	932,525	1,245,584
	<b>4,063,268</b>	<b>569,750</b>	<b>124,572</b>	<b>9,957,743</b>	<b>57,703</b>	<b>39,189,274</b>	<b>53,962,310</b>	<b>9,750,962</b>

\* Commitments and contingencies excluding derivative financial assets

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (ii) Collateral

The main types of collateral obtained by the Group and the Bank to mitigate the credit risk are as follows:

- For residential mortgages – charges over residential properties
- For commercial property financing – charges over the properties being financed
- For vehicle financing under Ijarah Thumma Al-Bai – ownership claims over the vehicles financed
- For other financing and advances – charges over business assets such as premises, inventories, trade receivables and/or cash deposits

#### (iii) Credit quality of gross financing and advances

Gross financing and advances are classified as follows:

- **Neither past due nor impaired financing**  
Financing for which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired and there is no objective evidence of impairment.
- **Past due but not impaired financing**  
Financing for which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank.
- **Impaired financing**  
Financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness, or when the financing is classified as rescheduled and restructured in Central Credit Reference Information System (“CCRIS”).

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (iii) Credit quality of gross financing and advances (continued)

The table below summarises the credit quality of the Group's and the Bank's gross financing according to the above classifications.

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
Neither past due nor impaired	41,736,562	38,788,825
Past due but not impaired	551,097	694,173
Impaired	398,277	389,445
	<u>42,685,936</u>	<u>39,872,443</u>
Allowance for impairment on financing, advances and others		
- collective assessment allowance	(446,069)	(554,971)
- individual assessment allowance	(126,447)	(128,198)
	<u>42,113,420</u>	<u>39,189,274</u>

#### *Neither past due nor impaired financing*

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
Excellent to good	35,144,157	31,981,235
Satisfactory	6,092,349	6,352,707
Fair	500,056	454,883
	<u>41,736,562</u>	<u>38,788,825</u>

Internal rating definition:-

**Excellent to Good:** Sound financial position with no difficulty in meeting its obligations.

**Satisfactory:** Adequate safety of meeting its current obligations but more time is required to meet the entire obligation in full.

**Fair:** Higher risks on payment obligations. Financial performance may continue to deteriorate.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (iii) Credit quality of gross financing and advances (continued)

##### *Past due but not impaired financing*

	Group and Bank			
	31.12.2017		31.12.2016	
	RM'000	% to gross financing	RM'000	% to gross financing
By ageing				
<i>Month-in-arrears 1</i>	362,240	0.85%	439,600	1.10%
<i>Month-in-arrears 2</i>	188,857	0.44%	254,573	0.64%
	<u>551,097</u>	<u>1.29%</u>	<u>694,173</u>	<u>1.74%</u>

##### *Impaired financing*

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Individually assessed	217,209	203,374
<i>of which:</i>		
<i>Month-in-arrears 0</i>	20,060	15,614
<i>Month-in-arrears 1</i>	69,204	240
<i>Month-in-arrears 2</i>	3,317	7,623
<i>Month-in-arrears 3 and above</i>	124,628	179,897
Collectively assessed	181,068	186,071
	<u>398,277</u>	<u>389,445</u>

##### *Impaired financing of which rescheduled and restructured financing*

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Consumer	21,264	25,950
Business	8,117	73,093
	<u>29,381</u>	<u>99,043</u>

Rescheduled or restructured financings are financings that have been rescheduled or restructured due to deterioration in the customers' financial positions and the Bank has made concessions that it would not otherwise consider. Once the financing is rescheduled or restructured, its satisfactory performance is monitored for a period of six months before it can be reclassified to performing.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (b) Credit risk (continued)

#### (iii) Credit quality of gross financing and advances (continued)

Financing, advances and others by line of business assessed by reference to the Bank's internal rating system:

<b>Group and Bank As at 31 December 2017</b>	<b>Consumer RM'000</b>	<b>Business RM'000</b>	<b>Total RM'000</b>
Excellent to good	26,212,600	8,931,557	35,144,157
Satisfactory	4,564,174	1,528,175	6,092,349
Fair	499,291	765	500,056
Past due but not impaired	362,240	188,857	551,097
Impaired	216,461	181,816	398,277
<b>Total</b>	<b>31,854,766</b>	<b>10,831,170</b>	<b>42,685,936</b>

<b>Group and Bank As at 31 December 2016</b>	<b>Consumer RM'000</b>	<b>Business RM'000</b>	<b>Total RM'000</b>
Excellent to good	23,435,587	8,545,648	31,981,235
Satisfactory	4,286,898	2,065,809	6,352,707
Fair	454,484	399	454,883
Past due but not impaired	559,685	134,488	694,173
Impaired	222,349	167,096	389,445
<b>Total</b>	<b>28,959,003</b>	<b>10,913,440</b>	<b>39,872,443</b>

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 39. Financial Risk Management (continued)

#### (b) Credit risk (continued)

##### (iv) Credit quality of other financial assets

Credit quality of other financial assets by external rating is as follows:

<b>Bank As at 31 December 2017</b>	<b>Financial assets held-for- trading RM'000</b>	<b>Derivative financial assets RM'000</b>	<b>Financial assets available -for-sale RM'000</b>	<b>Financial assets held-to- maturity RM'000</b>	<b>Total RM'000</b>
Government bonds and treasury bills	355,681	-	1,757,129	-	<b>2,112,810</b>
Sukuk					
Rated AAA	1	-	2,004,390	-	<b>2,004,391</b>
Rated AA1 to AA3	-	-	1,046,033	-	<b>1,046,033</b>
Rated A1 to A3	9	-	-	-	<b>9</b>
Lower than A	-	-	20,000	-	<b>20,000</b>
Unrated – Government guaranteed bonds	19,973	-	4,388,282	-	<b>4,408,255</b>
Other unrated financial assets	-	-	37,306	-	<b>37,306</b>
Derivative financial assets					
Bank and financial institution counterparties	-	66,694	-	-	<b>66,694</b>
Corporate	-	1,625	-	-	<b>1,625</b>
	<b>375,664</b>	<b>68,319</b>	<b>9,253,140</b>	<b>-</b>	<b>9,697,123</b>

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

## Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

### 39. Financial Risk Management (continued)

#### (b) Credit risk (continued)

##### (iv) Credit quality of other financial assets (continued)

Credit quality of other financial assets by external rating is as follows (continued):

<b>Bank As at 31 December 2016</b>	<b>Financial assets held-for- trading RM'000</b>	<b>Derivative financial assets RM'000</b>	<b>Financial assets available -for-sale RM'000</b>	<b>Financial assets held-to- maturity RM'000</b>	<b>Total RM'000</b>
Government bonds and treasury bills	324,500	-	2,359,521	-	<b>2,684,021</b>
Sukuk					
Rated AAA	225,237	-	1,915,961	-	<b>2,141,198</b>
Rated AA1 to AA3	-	-	1,585,060	-	<b>1,585,060</b>
Rated A1 to A3	-	-	-	-	-
Lower than A	-	-	20,415	-	<b>20,415</b>
Unrated – Government guaranteed bonds	20,013	-	4,040,610	-	<b>4,060,623</b>
Other unrated financial assets	-	-	36,176	57,703	<b>93,879</b>
Derivative financial assets					
Bank and financial institution counterparties	-	118,234	-	-	<b>118,234</b>
Corporate	-	6,338	-	-	<b>6,338</b>
	<b>569,750</b>	<b>124,572</b>	<b>9,957,743</b>	<b>57,703</b>	<b>10,709,768</b>

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk

#### Overview

All the Bank's financial instruments are subject to the risk that market prices and rates will move, resulting in profit or losses to the Bank. The following are the main market risk factors that the Bank is exposed to:

- **Profit Rate Risk:** also known as the Rate of Return Risk, is the potential impact on the Bank's profitability caused by changes in the market rate of return, either due to general market movements or due to issuer/customer specific reasons;
- **Foreign Exchange Risk:** the impact of exchange rate movements on the Bank's currency positions;
- **Equity Investment Risk:** the profitability impact on the Bank's equity positions or investments caused by changes in equity prices or values;

The Bank separates the market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated as per the Board-approved Trading Book Policy Statements. Non-trading portfolios primarily arise from the Bank's profit rate management of the Bank's assets and liabilities and investment portfolio mainly for liquidity management.

#### Market risk governance

The management of market risk is principally carried out by using sets of policies and guidelines approved by the ALCO and/or BRC, guided by the Board-approved Risk Appetite Statement.

The ALCO is responsible under the authority delegated by the BRC for managing market risk at strategic level.

#### Management of market risk

The objective is to manage market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the Bank's approved risk appetite.

All market risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. The management of market risk is guided by detailed limits, policies and guidelines which are periodically reviewed.

# **Bank Islam Malaysia Berhad**

(Company No. 98127-X)

(Incorporated in Malaysia)

## **39. Financial Risk Management (continued)**

### **(c) Market risk (continued)**

#### **Management of market risk (continued)**

The Market Risk Management Department (“MRMD”) is the independent risk control function and is responsible for the implementation of market risk management policies. MRMD is also responsible for developing the Bank’s market risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Escalation procedures are documented and approved by the ALCO and/or BRC. In addition, the market risk exposures and limits are reported to the ALCO and the BRC.

Other controls to ensure that market risk exposures remain within tolerable levels include stress testing, rigorous new product approval procedures and a list of permissible instruments that can be traded. Stress test results are produced regularly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Bank’s profitability, capital adequacy and liquidity. The stress test provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

#### **(i) Profit rate risk**

The table below summarises the Group’s and the Bank’s exposure to profit rate risk. The table indicates average profit rates at the reporting date and the periods in which the financial instruments reprice or mature, whichever is earlier.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	← Non trading book →					Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
<b>As at 31 December 2017</b>									
<i>Assets</i>									
Cash and short-term funds and deposits and placements with financial institutions	3,263,920	-	-	-	-	921,777	-	4,185,697	1.57%
Financial assets held-for-trading	-	-	-	-	-	-	380,925	380,925	4.40%
Derivative financial assets	-	-	-	-	-	-	68,319	68,319	1.79%
Financial assets available-for-sale	209,960	147,227	732,806	5,140,778	3,021,912	-	-	9,252,683	4.08%
Financial assets held-to-maturity	-	-	-	-	-	-	-	-	-
Financing, advances and others									
- non-impaired	37,200,376	559,077	73,727	1,474,789	2,979,690	-	-	42,287,659	5.56%
- impaired net of allowances *	-	-	-	-	-	(174,239)	-	(174,239)	
Other assets	-	-	-	-	-	1,741,870	-	1,741,870	
<b>Total assets</b>	<b>40,674,256</b>	<b>706,304</b>	<b>806,533</b>	<b>6,615,567</b>	<b>6,001,602</b>	<b>2,489,408</b>	<b>449,244</b>	<b>57,742,914</b>	

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	←		Non trading book		→		Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non profit sensitive RM'000			
<b>As at 31 December 2017</b>									
<b>Liabilities</b>									
Deposits from customers	8,164,490	13,367,794	7,370,928	1,714,677	-	15,575,021	-	46,192,910	2.54%
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01%
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95%
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258	
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43%
Other liabilities	-	-	-	-	-	828,703	-	828,703	
<b>Total liabilities</b>	<b>9,006,635</b>	<b>14,575,261</b>	<b>7,753,492</b>	<b>2,714,677</b>	<b>-</b>	<b>18,658,477</b>	<b>74,668</b>	<b>52,783,210</b>	
<b>Equity</b>									
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,959,704	-	4,959,704	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,959,704</b>	<b>-</b>	<b>4,959,704</b>	
<b>Total liabilities and shareholders' equity</b>	<b>9,006,635</b>	<b>14,575,261</b>	<b>7,753,492</b>	<b>2,714,677</b>	<b>-</b>	<b>23,618,181</b>	<b>74,668</b>	<b>57,742,914</b>	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	Non trading book						Trading book RM'000	Total RM'000
	← Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	→ Non profit sensitive RM'000		
As at 31 December 2017								
On-balance sheet profit sensitivity gap	31,667,621	(13,868,957)	(6,946,959)	3,900,890	6,001,602	(21,128,773)	374,576	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>31,767,621</b>	<b>(13,568,957)</b>	<b>(6,946,959)</b>	<b>3,500,890</b>	<b>6,001,602</b>	<b>(21,128,773)</b>	<b>374,576</b>	<b>-</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	Non trading book						Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000					
<b>As at 31 December 2016</b>										
<i>Assets</i>										
Cash and short-term funds and deposits and placements with financial institutions	3,030,743	100,000	-	-	-	932,674	-	4,063,417	1.80%	
Financial assets held-for-trading	-	-	-	-	-	-	574,835	574,835	4.08%	
Derivative financial assets	-	-	-	-	-	-	124,572	124,572	3.15%	
Financial assets available-for-sale	35,719	214,317	1,475,514	4,775,032	3,456,704	-	-	9,957,286	4.53%	
Financial assets held-to-maturity	-	-	-	-	57,703	-	-	57,703	8.71%	
Financing, advances and others										
- non-impaired	33,880,805	583,532	73,579	1,471,045	3,474,037	-	-	39,482,998	5.77%	
- impaired net of allowances *	-	-	-	-	-	(293,724)	-	(293,724)		
Other assets	-	-	-	-	-	1,709,610	-	1,709,610		
<b>Total assets</b>	<b>36,947,267</b>	<b>897,849</b>	<b>1,549,093</b>	<b>6,246,077</b>	<b>6,988,444</b>	<b>2,348,560</b>	<b>699,407</b>	<b>55,676,697</b>		

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	←		Non trading book		→		Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non profit sensitive RM'000			
<b>As at 31 December 2016</b>									
<i>Liabilities</i>									
Deposits from customers	16,904,998	9,948,300	4,436,940	410,072	-	14,240,104	-	45,940,414	2.52%
Investment accounts of customers	923,998	1,177,432	193,987	-	-	1,516,844	-	3,812,261	3.38%
Deposits and placements of banks and other financial institutions	30,000	-	-	-	-	-	-	30,000	4.47%
Derivative financial liabilities	-	-	-	-	-	-	111,089	111,089	2.81%
Bills and acceptance payable	-	-	-	-	-	46,278	-	46,278	
Subordinated Sukuk Murabahah	-	-	-	700,000	-	4,393	-	704,393	5.56%
Other liabilities	-	-	-	-	-	646,796	-	646,796	
<b>Total liabilities</b>	<b>17,858,996</b>	<b>11,125,732</b>	<b>4,630,927</b>	<b>1,110,072</b>	<b>-</b>	<b>16,454,415</b>	<b>111,089</b>	<b>51,291,231</b>	
<b>Equity</b>									
Equity attributable to equity holder of the Bank	-	-	-	-	-	4,385,466	-	4,385,466	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,385,466</b>	<b>-</b>	<b>4,385,466</b>	
<b>Total liabilities and shareholders' equity</b>	<b>17,858,996</b>	<b>11,125,732</b>	<b>4,630,927</b>	<b>1,110,072</b>	<b>-</b>	<b>20,839,881</b>	<b>111,089</b>	<b>55,676,697</b>	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Group	← Non trading book →				Over 5 years RM'000	Non profit sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000				
As at 31 December 2016								
On-balance sheet profit sensitivity gap	19,088,271	(10,227,883)	(3,081,834)	5,136,005	6,988,444	(18,491,321)	588,318	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	(200,000)	(400,000)	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>19,388,271</b>	<b>(9,927,883)</b>	<b>(3,281,834)</b>	<b>4,736,005</b>	<b>6,988,444</b>	<b>(18,491,321)</b>	<b>588,318</b>	<b>-</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank	←		Non trading book		→		Trading book	Total	Effective Profit rate %
	Up to 1 month	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non profit sensitive			
As at 31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<i>Assets</i>									
Cash, balances and placements with banks	3,263,920	-	-	-	-	921,641	-	4,185,561	1.56%
Financial assets held-for-trading	-	-	-	-	-	-	375,664	375,664	4.41%
Derivative financial assets	-	-	-	-	-	-	68,319	68,319	1.79%
Financial assets available-for-sale	210,417	147,227	732,806	5,140,778	3,021,912	-	-	9,253,140	4.08%
Financial assets held-to-maturity	-	-	-	-	-	-	-	-	-
Financing, advances and others									
- non-impaired	37,200,376	559,077	73,727	1,474,789	2,979,690	-	-	42,287,659	5.56%
- impaired net of allowances*	-	-	-	-	-	(174,239)	-	(174,239)	
Other assets	-	-	-	-	-	1,754,136	-	1,754,136	
<b>Total assets</b>	<b>40,674,713</b>	<b>706,304</b>	<b>806,533</b>	<b>6,615,567</b>	<b>6,001,602</b>	<b>2,501,538</b>	<b>443,983</b>	<b>57,750,240</b>	

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank	Non trading book						Trading book	Total	Effective profit rate %
	Up to 1 month	>1-3 months	>3-12 months	1-5 years	Over 5 years	Non profit sensitive			
As at 31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<i>Liabilities</i>									
Deposits from customers	8,166,979	13,370,765	7,372,170	1,714,677	-	15,584,437	-	46,209,028	2.54%
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01%
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	8.03%
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95%
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258	
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43%
Other liabilities	-	-	-	-	-	820,109	-	820,109	
<b>Total liabilities</b>	<b>9,009,124</b>	<b>14,578,232</b>	<b>7,754,734</b>	<b>2,714,677</b>	<b>-</b>	<b>18,659,299</b>	<b>74,668</b>	<b>52,790,734</b>	
<i>Equity</i>									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,506	-	4,959,506	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,959,506</b>	<b>-</b>	<b>4,959,506</b>	
<b>Total liabilities and shareholders' equity</b>	<b>9,009,124</b>	<b>14,578,232</b>	<b>7,754,734</b>	<b>2,714,677</b>	<b>-</b>	<b>23,618,805</b>	<b>74,668</b>	<b>57,750,240</b>	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank	←		Non trading book			→		Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non profit sensitive RM'000			
As at 31 December 2017									
On-balance sheet profit sensitivity gap	31,665,589	(13,871,928)	(6,948,201)	3,900,890	6,001,602	(21,117,267)	369,315	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-	
<b>Total profit sensitivity gap</b>	<b>31,765,589</b>	<b>(13,571,928)</b>	<b>(6,948,201)</b>	<b>3,500,890</b>	<b>6,001,602</b>	<b>(21,117,267)</b>	<b>369,315</b>	<b>-</b>	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank	Non trading book						Non profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective Profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000					
<b>As at 31 December 2016</b>										
<i>Assets</i>										
Cash, balances and placements with banks	3,030,743	100,000	-	-	-	932,525	-	4,063,268	1.79%	
Financial assets held-for-trading	-	-	-	-	-	-	569,750	569,750	4.09%	
Derivative financial assets	-	-	-	-	-	-	124,572	124,572	3.15%	
Financial assets available-for-sale	36,176	214,317	1,475,514	4,775,032	3,456,704	-	-	9,957,743	4.53%	
Financial assets held-to-maturity	-	-	-	-	57,703	-	-	57,703	8.71%	
Financing, advances and others										
- non-impaired	33,880,805	583,532	73,579	1,471,045	3,474,037	-	-	39,482,998	5.77%	
- impaired net of allowances*	-	-	-	-	-	(293,724)	-	(293,724)		
Other assets	-	-	-	-	-	1,720,991	-	1,720,991		
<b>Total assets</b>	<b>36,947,724</b>	<b>897,849</b>	<b>1,549,093</b>	<b>6,246,077</b>	<b>6,988,444</b>	<b>2,359,792</b>	<b>694,322</b>	<b>55,683,301</b>		

\* This is arrived at after deducting collective assessment allowance and individual assessment allowance from the outstanding gross impaired financing.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank As at 31 December 2016	←		Non trading book		→		Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non profit sensitive RM'000			
<b>Liabilities</b>									
Deposits from customers	16,907,009	9,951,240	4,438,661	410,072	-	14,242,733	-	45,949,715	2.52%
Investment accounts of customers	923,998	1,177,432	193,987	-	-	1,516,844	-	3,812,261	3.38%
Deposits and placements of banks and other financial institutions	30,000	-	-	-	-	-	-	30,000	4.47%
Derivative financial liabilities	-	-	-	-	-	-	111,089	111,089	2.81%
Bills and acceptance payable	-	-	-	-	-	46,278	-	46,278	
Subordinated Sukuk Murabahah	-	-	-	700,000	-	4,393	-	704,393	5.56%
Other liabilities	-	-	-	-	-	643,610	-	643,610	
<b>Total liabilities</b>	<b>17,861,007</b>	<b>11,128,672</b>	<b>4,632,648</b>	<b>1,110,072</b>	<b>-</b>	<b>16,453,858</b>	<b>111,089</b>	<b>51,297,346</b>	
<b>Equity</b>									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,385,955	-	4,385,955	
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,385,955</b>	<b>-</b>	<b>4,385,955</b>	
<b>Total liabilities and shareholders' equity</b>	<b>17,861,007</b>	<b>11,128,672</b>	<b>4,632,648</b>	<b>1,110,072</b>	<b>-</b>	<b>20,839,813</b>	<b>111,089</b>	<b>55,683,301</b>	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

Bank	Non trading book						Trading book	Total
	← Up to 1 month	>1-3 months	>3-12 months	1-5 years	Over 5 years	→ Non profit sensitive		
As at 31 December 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-balance sheet profit sensitivity gap	19,086,717	(10,230,823)	(3,083,555)	5,136,005	6,988,444	(18,480,021)	583,233	-
Off-balance sheet profit sensitivity gap (profit rate swaps)	300,000	300,000	(200,000)	(400,000)	-	-	-	-
<b>Total profit sensitivity gap</b>	<b>19,386,717</b>	<b>(9,930,823)</b>	<b>(3,283,555)</b>	<b>4,736,005</b>	<b>6,988,444</b>	<b>(18,480,021)</b>	<b>583,233</b>	<b>-</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

##### Profit rate risk in the non-trading portfolio

Profit rate risk in the non-trading portfolio is managed and controlled using measurement tools known as earnings-at-risk (“EaR”).

The Bank monitors the sensitivity of EaR under varying profit rate scenarios (i.e. simulation modeling). The model is a combination of standard and non-standard scenarios relevant to the local market. The standard scenarios include the parallel fall or rise in the profit rate curve and historical simulation. These scenarios assume no management action. Hence, it does not incorporate actions that would be taken by Treasury to mitigate the impact of the profit rate risk. In reality, depending on the view on future market movements, Treasury would proactively seek to change the profit rate exposure profile to minimise losses and to optimise net revenues. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of derivative financial instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

The table below shows the Bank’s profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

	2017		2016	
	-100bps	+100bps	-100bps	+100bps
	Increase/(Decrease)			
	RM	RM	RM	RM
	million	million	million	million
<b>Bank</b>				
Impact on EaR	(85.41)	85.41	(28.46)	28.46
Impact on EVE	168.00	(168.00)	266.25	(266.25)

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# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (i) Profit rate risk (continued)

##### Profit rate risk in the non-trading portfolio (continued)

Other control to manage the profit rate risk in the non-trading portfolio includes present value of a 1 basis point change (“PV01”) which measures the portfolio’s sensitivity to market rates movement.

#### (ii) Market risk in the Trading Portfolio

Market risk in the trading portfolio is monitored and controlled using Value-at-Risk (“VaR”). It is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationship between different markets and rates such as profit rates and foreign exchange rates. The historical simulation model used by the Bank incorporates the following features:

- Potential market movements are calculated with reference to data from the past two years;
- Historical market rates and prices are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated using a 99 per cent confidence level and for a one-day holding period.

A summary of the VaR position of the Bank’s trading portfolios at the reporting date is as follows:

Bank	As at	1.1.2017 to 31.12.2017		
	31.12.2017 RM million	Average RM million	Maximum RM million	Minimum RM million
Profit rate risk	1.74	1.88	3.29	0.59
Foreign exchange risk	0.43	0.29	0.86	0.01
Overall	2.17	2.17	3.67	0.62

  

Bank	As at	1.1.2016 to 31.12.2016		
	31.12.2016 RM million	Average RM million	Maximum RM million	Minimum RM million
Profit rate risk	1.39	2.09	4.34	0.94
Foreign exchange risk	0.04	0.13	0.52	0.01
Overall	1.43	2.22	4.81	0.95

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (c) Market risk (continued)

#### (ii) Market risk in the Trading Portfolio (continued)

In addition to VaR, the Bank has put in place the maximum loss limits, position limits, tenor limits and PV01 limits in monitoring the trading portfolio.

#### (iii) Foreign exchange risk

The Bank manages and controls the trading portfolio's foreign exchange risk by limiting the net open exposure to individual currencies and on an aggregate basis. The Bank also has in place the sensitivity limit. For the Bank-wide (trading and non-trading portfolios) foreign exchange risk, the Bank manages and controls by limiting the net open exposure on an aggregate basis.

#### *Sensitivity Analysis*

Assuming that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only net open position for major currencies are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	2017		2016	
	-1% Depreciation RM'000	+1% Appreciation RM'000	-1% Depreciation RM'000	+1% Appreciation RM'000
<b>Group and Bank</b>				
US Dollar	9,331	(9,331)	11,503	(11,503)
Euro	5,197	(5,197)	8,098	(8,098)
Others	826	(826)	(96)	96

### (d) Liquidity risk

#### **Overview**

Liquidity risk is the potential inability of the Bank to meet its funding needs and regulatory obligation when they fall due, or will have to do it at excessive cost. This risk can arise from mismatches in the timing of cash flows.

The Bank maintains a diversified and stable funding base comprising core retail, commercial, corporate customer deposits and institutional balances. This is augmented by wholesale funding and portfolios of highly liquid assets.

The objective of the Bank's liquidity management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access remains accessible and cost effective.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Overview (continued)

Current accounts and savings deposits payable on demand form a critical part of the Bank's funding profile, and the Bank places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Bank and the Bank's capital strength and liquidity, and on competitive and transparent pricing.

The Bank's liquidity management is primarily carried out in accordance with the Bank Negara Malaysia's requirements and limits approved by the ALCO and/or BRC. These limits and triggers vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- Daily projection of cash flows and ensuring that the Bank has sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintaining liabilities of appropriate term relative to the asset base;
- Maintaining a diverse range of funding sources with adequate back-up facilities;
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- Managing the maturities and diversifying funding liabilities across products and counterparties.

#### Liquidity risk governance

The management of liquidity risk is principally carried out by using sets of policies and guidelines approved by the ALCO and/or BRC, guided by the Board's approved Risk Appetite Statement.

The ALCO is responsible under the authority delegated by the BRC for managing liquidity risk at strategic level.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Management of liquidity risk

All liquidity risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. Limits and triggers are set to meet the following objectives:

- Maintaining sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Ensuring that cash flows are relatively diversified across all maturities;
- Ensuring that the deposit base is not overly concentrated to a relatively small number of depositors;
- Maintaining sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up; and
- Not over-extending financing activities relative to the deposit base.

MRMD is the independent risk control function and is responsible for ensuring efficient implementation of liquidity risk management. It is also responsible for developing the Bank's liquidity risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Escalation procedures are documented and approved by the ALCO and/or BRC, with proper authorities to ratify or approve any excess. In addition, the liquidity risk exposures and limits are reported to the ALCO and the BRC.

Stress testing and scenario analysis are important tools used by the Bank to manage the liquidity risk. Stress test results are produced regularly to determine the impact of a sudden liquidity shock. The stress-testing provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the liquidity and funding risk exposures of the Bank.

Another key control feature of the Bank's liquidity risk management is the approved and documented liquidity contingency management plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications to the Bank.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis

The table below summarises the Group's and Bank's assets and liabilities based on remaining contractual maturities.

Group As at 31 December 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	921,777	3,263,920	-	-	-	-	4,185,697
Securities portfolio	-	215,221	147,227	351,798	381,008	8,538,354	9,633,608
Derivatives financial assets	-	1,658	31,572	15,940	14,657	4,492	68,319
Financing and advances	-	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	-	-	-	-	-	1,741,870	1,741,870
<b>Total assets</b>	<b>921,777</b>	<b>4,756,403</b>	<b>2,311,343</b>	<b>797,995</b>	<b>848,680</b>	<b>48,106,716</b>	<b>57,742,914</b>
<b>Liabilities</b>							
Deposits from customers	15,575,021	8,164,490	13,367,794	5,377,330	1,993,598	1,714,677	46,192,910
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	-	4,260,185
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Derivative financial liabilities	-	3,958	29,334	27,218	12,257	1,901	74,668
Subordinated Sukuk Murabahah	-	-	-	-	6,486	1,000,000	1,006,486
Other liabilities	-	130,846	35,636	-	-	1,082,479	1,248,961
<b>Total liabilities</b>	<b>17,569,512</b>	<b>9,010,593</b>	<b>14,604,595</b>	<b>5,784,103</b>	<b>2,015,350</b>	<b>3,799,057</b>	<b>52,783,210</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

<b>Group</b> <b>As at 31 December 2017</b>	<b>On demand</b> <b>RM'000</b>	<b>Up to</b> <b>1 month</b> <b>RM'000</b>	<b>&gt;1 to 3</b> <b>months</b> <b>RM'000</b>	<b>&gt;3 to 6</b> <b>months</b> <b>RM'000</b>	<b>&gt;6 to 12</b> <b>months</b> <b>RM'000</b>	<b>Over</b> <b>1 year</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>Equity</b> Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,704	4,959,704
Net liquidity gap on statement of financial position	(16,647,735)	(4,254,190)	(12,293,252)	(4,986,108)	(1,166,670)	39,347,955	-
Commitments and contingencies	-	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
Net liquidity gap	(16,647,735)	7,441,806	(14,234,611)	(6,512,148)	(4,437,302)	35,505,440	(13,768,162)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

Group As at 31 December 2016	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	932,674	3,030,743	100,000	-	-	-	4,063,417
Securities portfolio	-	45,896	434,461	545,248	930,266	8,633,953	10,589,824
Derivatives financial assets	-	2,210	36,151	55,080	25,401	5,730	124,572
Financing and advances	-	1,879,099	1,628,096	363,191	342,024	34,976,864	39,189,274
Other assets	-	-	-	-	-	1,709,610	1,709,610
<b>Total assets</b>	<b>932,674</b>	<b>4,957,948</b>	<b>2,198,708</b>	<b>963,519</b>	<b>1,297,691</b>	<b>45,326,157</b>	<b>55,676,697</b>
<b>Liabilities</b>							
Deposits from customers	14,240,104	16,904,998	9,948,300	2,890,179	1,546,761	410,072	45,940,414
Investment accounts of customers	1,516,844	923,998	1,177,432	192,268	1,719	-	3,812,261
Deposits and placements of banks and other financial institutions	-	30,000	-	-	-	-	30,000
Derivative financial liabilities	-	2,448	16,618	66,606	23,334	2,083	111,089
Subordinated Sukuk Murabahah	-	-	-	-	4,393	700,000	704,393
Other liabilities	-	-	-	-	-	693,074	693,074
<b>Total liabilities</b>	<b>15,756,948</b>	<b>17,861,444</b>	<b>11,142,350</b>	<b>3,149,053</b>	<b>1,576,207</b>	<b>1,805,229</b>	<b>51,291,231</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

<b>Group</b> <b>As at 31 December 2016</b>	<b>On demand</b> <b>RM'000</b>	<b>Up to</b> <b>1 month</b> <b>RM'000</b>	<b>&gt;1 to 3</b> <b>months</b> <b>RM'000</b>	<b>&gt;3 to 6</b> <b>months</b> <b>RM'000</b>	<b>&gt;6 to 12</b> <b>months</b> <b>RM'000</b>	<b>Over</b> <b>1 year</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,385,466	4,385,466
Net liquidity gap on statement of financial position	(14,824,274)	(12,903,496)	(8,943,642)	(2,185,534)	(278,516)	39,135,462	-
Commitments and contingencies	3,614	2,075,726	2,969,757	2,415,705	1,870,769	4,368,988	13,704,559
Net liquidity gap	(14,827,888)	(14,979,222)	(11,913,399)	(4,601,239)	(2,149,285)	34,766,474	(13,704,559)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

Bank As at 31 December 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	921,641	3,263,920	-	-	-	-	4,185,561
Securities portfolio	-	210,417	147,227	351,798	381,008	8,538,354	9,628,804
Derivatives financial assets	-	1,658	31,572	15,940	14,657	4,492	68,319
Financing and advances	-	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	-	-	-	-	-	1,754,136	1,754,136
<b>Total assets</b>	<b>921,641</b>	<b>4,751,599</b>	<b>2,311,343</b>	<b>797,995</b>	<b>848,680</b>	<b>48,118,982</b>	<b>57,750,240</b>
<b>Liabilities</b>							
Deposits from customers	15,584,437	8,166,979	13,370,765	5,377,859	1,994,311	1,714,677	46,209,028
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	-	4,260,185
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Derivative financial liabilities	-	3,958	29,334	27,218	12,257	1,901	74,668
Subordinated Sukuk Murabahah	-	-	-	-	6,486	1,000,000	1,006,486
Other liabilities	-	130,846	35,636	-	-	1,073,885	1,240,367
<b>Total liabilities</b>	<b>17,578,928</b>	<b>9,013,082</b>	<b>14,607,566</b>	<b>5,784,632</b>	<b>2,016,063</b>	<b>3,790,463</b>	<b>52,790,734</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

<b>Bank As at 31 December 2017</b>	<b>On demand RM'000</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 to 3 months RM'000</b>	<b>&gt;3 to 6 months RM'000</b>	<b>&gt;6 to 12 months RM'000</b>	<b>Over 1 year RM'000</b>	<b>Total RM'000</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,506	4,959,506
Net liquidity gap on statement of financial position	(16,657,287)	(4,261,483)	(12,296,223)	(4,986,637)	(1,167,383)	39,369,013	-
Commitments and contingencies	-	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
Net liquidity gap	(16,657,287)	(7,449,099)	(14,237,582)	(6,512,677)	(4,438,015)	35,526,498	(13,768,162)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

Bank As at 31 December 2016	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds and deposits and placements with financial institutions	932,525	3,030,743	100,000	-	-	-	4,063,268
Securities portfolio	-	41,268	434,461	545,248	930,266	8,633,953	10,585,196
Derivatives financial assets	-	2,210	36,151	55,080	25,401	5,730	124,572
Financing and advances	-	1,879,099	1,628,096	363,191	342,024	34,976,864	39,189,274
Other assets	-	-	-	-	-	1,720,991	1,720,991
<b>Total assets</b>	<b>932,525</b>	<b>4,953,320</b>	<b>2,198,708</b>	<b>963,519</b>	<b>1,297,691</b>	<b>45,337,538</b>	<b>55,683,301</b>
<b>Liabilities</b>							
Deposits from customers	14,242,733	16,907,009	9,951,240	2,891,900	1,546,761	410,072	45,949,715
Investment accounts of customers	1,516,844	923,998	1,177,432	192,268	1,719	-	3,812,261
Deposits and placements of banks and other financial institutions	-	30,000	-	-	-	-	30,000
Derivative financial liabilities	-	2,448	16,618	66,606	23,334	2,083	111,089
Subordinated Sukuk Murabahah	-	-	-	-	4,393	700,000	704,393
Other liabilities	-	-	-	-	-	689,888	689,888
<b>Total liabilities</b>	<b>15,759,577</b>	<b>17,863,455</b>	<b>11,145,290</b>	<b>3,150,774</b>	<b>1,576,207</b>	<b>1,802,043</b>	<b>51,297,346</b>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Maturity analysis (continued)

<b>Bank As at 31 December 2016</b>	<b>On demand RM'000</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 to 3 months RM'000</b>	<b>&gt;3 to 6 months RM'000</b>	<b>&gt;6 to 12 months RM'000</b>	<b>Over 1 year RM'000</b>	<b>Total RM'000</b>
<b>Equity</b>							
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,385,955	4,385,955
Net liquidity gap on statement of financial position	(14,827,052)	(12,910,135)	(8,946,582)	(2,187,255)	(278,516)	39,149,540	-
Commitments and contingencies	3,614	2,075,726	2,969,757	2,415,705	1,870,769	4,368,988	13,704,559
Net liquidity gap	(14,830,666)	(14,985,861)	(11,916,339)	(4,602,960)	(2,149,285)	34,780,552	(13,704,559)

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

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

The table below present the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows:

Bank As at 31 December 2017	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b><u>Financial Liabilities</u></b>						
Deposit from customers	23,584,211	13,441,816	5,408,437	1,919,920	1,924,218	46,278,602
Investment accounts of customers	2,805,598	1,172,136	360,269	24,049	523	4,362,575
Deposit from placements of banks and other financial institutions	-	-	-	-	-	-
Derivatives financial liabilities	5,347	29,846	27,218	12,257	-	74,668
<i>Forward contract</i>	3,958	29,334	27,218	12,257	-	72,767
<i>Islamic Profit Rate Swap</i>	1,389	512	-	-	-	1,901
Bills and acceptance payable	420,258	-	-	-	-	420,258
Subordinated Sukuk Murabahah	-	-	10,970	28,353	966,196	1,005,519
Other liabilities	817,113	-	-	-	-	817,113
	<u>27,632,527</u>	<u>14,643,798</u>	<u>5,806,894</u>	<u>1,984,579</u>	<u>2,890,937</u>	<u>52,958,735</u>
<b><u>Commitment and Contingencies</u></b>						
Direct credit substitutes	32,823	66,569	27,583	96,056	214,424	437,455
Transaction related contingent items	105,664	111,197	102,293	271,506	476,445	1,067,105
Short term self liquidating trade related contingencies	210,585	57,984	21,956	27,528	42,684	360,737
	<u>349,072</u>	<u>235,750</u>	<u>151,832</u>	<u>395,090</u>	<u>733,553</u>	<u>1,865,297</u>

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (d) Liquidity risk (continued)

#### Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank As at 31 December 2016	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
<b><u>Financial Liabilities</u></b>						
Deposit from customers	31,213,148	10,035,417	2,934,954	1,577,290	475,389	46,236,198
Investment accounts of customers	2,243,331	1,442,873	190,963	1,710	-	3,878,877
Deposit from placements of banks and other financial institutions	30,005	-	-	-	-	30,005
Derivatives financial liabilities	5,528	17,158	65,069	23,334	-	111,089
<i>Forward contract</i>	2,448	16,618	65,069	23,334	-	107,469
<i>Islamic Profit Rate Swap</i>	3,080	540	-	-	-	3,620
Bills and acceptance payable	46,278	-	-	-	-	46,278
Subordinated Sukuk Murabahah	-	-	19,571	19,632	1,005,519	1,044,722
Other liabilities	643,610	-	-	-	-	643,610
	<b>34,181,900</b>	<b>11,495,448</b>	<b>3,210,557</b>	<b>1,621,966</b>	<b>1,480,908</b>	<b>51,990,779</b>
<b><u>Commitment and Contingencies</u></b>						
Direct credit substitutes	26,791	61,781	22,339	82,479	94,571	287,961
Transaction related contingent items	116,380	57,291	61,654	225,820	491,042	952,187
Short term self liquidating trade related contingencies	190,681	83,402	16,076	10,330	11,763	312,252
	<b>333,852</b>	<b>202,474</b>	<b>100,069</b>	<b>318,629</b>	<b>597,376</b>	<b>1,552,400</b>

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (e) Operational Risk

#### Overview

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems and external events, which includes legal risk and Shariah compliance risk but excludes strategic and reputational risk.

#### Management of operational risk

The Bank recognises and emphasises the importance of operational risk management (“ORM”) and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established guidelines, procedures and limits.

The Bank’s overall governance approach in managing operational risk is premised on the Three Lines of Defence Approach:

- **1st line of defence** – the risk owner or risk taking unit i.e. Business or Support Unit is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of operational risk. To reinforce accountability and ownership of risk and control, a Risk Controller for each risk taking unit is appointed to assist in driving the risk and control programme for the Bank.
- **2nd line of defence** – Operational Risk Management Department (“ORMD”) is responsible for establishing and maintaining the ORM Framework, developing various ORM tools to facilitate the management of operational risk, monitoring the effectiveness of ORM, assessing operational risk issues from the risk owner and escalating the issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, ORMD is also responsible to promote risk awareness across the Bank.

Shariah Risk Management Department (“SRM”), Compliance Division and Information Security & Governance Division (“ISG”) complement the role of ORMD as the second line of defence. SRM is responsible for managing the Shariah compliance risk (“SCR”) by establishing & maintaining appropriate SRM guidelines, facilitating the process of identifying, assessing, controlling & monitoring SCR and promoting SCR awareness.

Compliance Division is responsible for ensuring effective oversight on compliance-related risks such as regulatory compliance risk, compliance risk as well as money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programmes as well as conducting training that promotes awareness creation.

ISG is responsible in managing IT risk by establishing, maintaining and enforcing IT risk policies/guidelines and it works closely with Information Technology Division in identifying, assessing, mitigating and monitoring of IT risk in the Bank.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 39. Financial Risk Management (continued)

### (e) Operational Risk

#### Management of operational risk (continued)

- **3rd line of defence** – Internal Audit provides independent assurance to the Board and senior management on the effectiveness of the ORM process.

## 40. Fair value of financial instruments

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the amount at which the financial assets could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices where available, are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

Fair value information for non-financial assets and liabilities such as investments in subsidiaries and taxation are excluded, as they do not fall within the scope of MFRS 7, "Financial Instruments: Disclosure and Presentation" which requires the fair value information to be disclosed.

The fair values are based on the following methodologies and assumptions:

#### *Deposits and placements with banks and other financial institutions*

For deposits and placements with financial instruments with maturities of less than six months, the carrying value is a reasonable estimate of fair values. For deposits and placements with maturities six months and above, the estimated fair values are based on discounted cash flows using prevailing Islamic money market profit rates at which similar deposits and placements would be made with financial instruments of similar credit risk and remaining period to maturity.

#### *Financial assets held-for-trading, available-for-sale and held-to-maturity*

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

#### *Financing, advances and others*

The fair values are estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities. The fair values are represented by their carrying value, net of impairment loss, being the recoverable amount.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (continued)

The fair values are based on the following methodologies and assumptions (continued):

### *Deposits from customers and investment accounts of customers*

The fair values of deposits and investment accounts are deemed to approximate their carrying amounts as rate of returns are determined at the end of their holding periods based on the profit generated from the assets invested.

### *Deposits and placements of banks and other financial institutions*

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying values. For deposits and placements with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for deposits and placements with similar remaining period to maturities.

### *Bills and acceptance payable*

The estimated fair values of bills and acceptance payables with maturity of less than six months approximate their carrying values. For bills and acceptance payable with maturities of six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risks profile.

### **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.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (continued)

### Fair value hierarchy (continued)

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	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 3		
<b><i>Financial assets</i></b>							
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
Financial assets held-to-maturity	-	-	-	-	-	-	-
Financing, advances and others	-	-	-	-	42,299,796	42,299,796	42,113,420
<b><i>Financial liabilities</i></b>							
Derivative financial liabilities	-	74,668	-	74,668	-	74,668	74,668
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (continued)

### Fair value hierarchy (continued)

Group 31 December 2016 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 3		
<i>Financial assets</i>							
Financial assets held-for-trading	-	574,835	-	574,835	-	574,835	574,835
Derivative financial assets	-	124,572	-	124,572	-	124,572	124,572
Financial assets available-for-sale	21,124	9,930,862	-	9,951,986	5,300	9,957,286	9,957,286
Financial assets held-to-maturity	-	-	-	-	57,703	57,703	57,703
Financing, advances and others	-	-	-	-	39,233,082	39,233,082	39,189,274
<i>Financial liabilities</i>							
Derivative financial liabilities	-	111,089	-	111,089	-	111,089	111,089
Subordinated Sukuk Murabahah	-	-	-	-	740,110	740,110	704,393

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (continued)

### Fair value hierarchy (continued)

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			
<i>Financial assets</i>							
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
<i>Financial liabilities</i>							
Derivative financial liabilities	-	74,668	-	74,668	-	74,668	74,668
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (continued)

### Fair value hierarchy (continued)

Bank 31 December 2016 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 3		
<i>Financial assets</i>							
Financial assets held-for-trading	-	569,750	-	569,750	-	569,750	569,750
Derivative financial assets	-	124,572	-	124,572	-	124,572	124,572
Financial assets available-for-sale	21,124	9,931,319	-	9,952,443	5,300	9,957,743	9,957,743
Financial assets held-to-maturity	-	-	-	-	57,703	57,703	57,703
Financing, advances and others	-	-	-	-	39,233,082	39,233,082	39,189,274
<i>Financial liabilities</i>							
Derivative financial liabilities	-	111,089	-	111,089	-	111,089	111,089
Subordinated Sukuk Murabahah	-	-	-	-	740,110	740,110	704,393

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 40. Fair value of financial instruments (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
Financial assets available-for-sale	Valued at cost less impairment	Not applicable	Not applicable

#### (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) Financial investments held-to-maturity (“HTM”)

The fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, 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 and advances

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

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.

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 41. Lease commitments

The Group and the Bank have lease commitments in respect of equipment on hire and rental of premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments are as follows:

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Within one year	47,177	47,378	46,775	46,916
Between one and five years	119,198	123,950	118,678	123,851
More than five years	245,014	264,744	245,014	264,744
	<u>411,389</u>	<u>436,072</u>	<u>410,467</u>	<u>435,511</u>

Included in the above are lease rentals with the ultimate holding entity amounting to RM384,811,000 (2016: RM404,184,000).

## 42. Capital commitments

	Group and Bank	
	31.12.2017 RM'000	31.12.2016 RM'000
Property and equipment		
Contracted but not provided for in the financial statements	<u>88,459</u>	<u>85,773</u>

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 43. Commitments and contingencies

*The off-Balance Sheet and counterparties credit risk for the Group and the Bank are as follows:*

31 December 2017

Nature of item	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<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	-	-
	9,941,346	4,092,988	3,184,392

	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
	3,826,816	68,319	132,147	51,675
<b>Total</b>	13,768,162	68,319	4,225,135	3,236,067

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 43. Commitments and contingencies (continued)

*The off-Balance Sheet and counterparties credit risk for the Group and the Bank are as follows (continued):*

31 December 2016

Nature of item	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Credit related exposures</i>			
Direct credit substitutes	294,460	294,460	293,848
Transaction related contingent items	952,188	476,094	443,165
Short term self-liquidating trade related contingencies	341,524	68,305	67,309
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- not exceeding one year	591,031	118,206	88,979
- exceeding one year	1,792,008	896,004	715,873
Unutilised credit card lines	1,140,141	228,028	171,563
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	4,639,610	-	-
	9,750,962	2,081,097	1,780,737
		<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>
	<b>Principal Amount RM'000</b>		<b>Risk Weighted Asset RM'000</b>
<i>Derivative Financial Instruments</i>			
Foreign exchange related contracts			
- less than one year	3,117,570	117,445	163,823
Profit rate related contracts			
- less than one year	200,000	1,397	200
- one year to less than five years	400,000	2,729	9,497
- five years and above	236,027	3,001	18,971
	3,953,597	124,572	192,491
<b>Total</b>	13,704,559	124,572	2,273,588
		1,874,016	

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 44. Capital adequacy

Total capital and capital adequacy ratios of the Bank have been computed based on Bank Negara Malaysia (“BNM”)’s Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 4 August 2017 and Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued on 2 March 2017. The Bank is required to meet minimum Common Equity Tier I (“CET I”), Tier I and Total Capital adequacy ratios of 4.5%, 6.0% and 8.0% respectively in 2017. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer (“CCB”) of 2.5% above the minimum capital adequacy was introduced by BNM. The CCB is maintained in the form of CET I capital at 1.25% on 1 January 2017 and progressively increases by 0.625% each year to reach 2.5% on 1 January 2019.

As a result, the minimum regulatory capital adequacy ratios requirement for CET I capital ratio, Tier I capital ratio and Total Capital ratio are 5.750%, 7.250% and 9.250% respectively for year 2017 (2016: 5.125%, 6.625% and 8.625%). 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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Common Equity Tier I (“CET I”) Capital Ratio	12.729%	12.397%	12.701%	12.362%
Total Capital Ratio	16.435%	15.518%	16.411%	15.484%

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

	Group		Bank	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM’000	RM’000	RM’000	RM’000
Paid-up share capital	2,869,498	2,404,384	2,869,498	2,404,384
Share premium	-	264,790	-	264,790
Retained earnings	2,150,402	523,247	2,150,345	523,959
Other reserves*	(124,841)	1,193,045	(124,982)	1,192,822
Less: Deferred tax assets	(37,288)	(48,378)	(37,288)	(48,378)
Less: Investment in subsidiaries	-	-	(15,525)	(15,525)
<b>Total CET I and Tier I Capital</b>	<b>4,857,771</b>	<b>4,337,088</b>	<b>4,842,048</b>	<b>4,322,052</b>
Sukuk Murabahah	1,000,000	700,000	1,000,000	700,000
Collective assessment allowance and regulatory reserve ^	414,193	391,782	414,193	391,727
<b>Total Tier II Capital</b>	<b>1,414,193</b>	<b>1,091,782</b>	<b>1,414,193</b>	<b>1,091,727</b>
<b>Total Capital</b>	<b>6,271,964</b>	<b>5,428,870</b>	<b>6,256,241</b>	<b>5,413,779</b>

\* Other reserves exclude regulatory reserve amounting to RM64,645,000 (2016: RMNil).

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

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 44. Capital adequacy (continued)

The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	Group		Bank	
	31.12.2017 RM'000	31.12.2016 RM'000	31.12.2017 RM'000	31.12.2016 RM'000
Credit risk	37,442,256	33,908,778	37,437,855	33,904,311
Less: Credit risk absorbed by unrestricted investment accounts	(3,034,004)	(2,566,180)	(3,034,004)	(2,566,180)
	<u>34,408,252</u>	<u>31,342,598</u>	<u>34,403,851</u>	<u>31,338,131</u>
Market risk	602,089	609,931	586,043	609,931
Operational risk	3,152,951	3,031,801	3,132,745	3,014,802
	<u>38,163,292</u>	<u>34,984,330</u>	<u>38,122,639</u>	<u>34,962,864</u>

## 45. Related party transactions

### *Identity of related parties*

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiaries (see Note 13), holding company and substantial shareholders of the holding company.

(a) The related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows:

	Group		Bank	
	Transactions amount for 2017 RM'000	2016 RM'000	Transactions amount for 2017 RM'000	2016 RM'000
<i>Ultimate holding entity</i>				
<i>Income</i>				
Wakalah performance incentive fee	2,595	5,328	2,595	5,328
Office rental	78	73	78	73
Fees and commission	156	1	156	1

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 45. Related party transactions (continued)

(a) The related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows (continued):

	Group		Bank	
	Transactions amount for 2017 RM'000	2016 RM'000	Transactions amount for 2017 RM'000	2016 RM'000
<i>Ultimate holding entity</i>				
<i>(continued)</i>				
<u>Expenses</u>				
Income attributable to depositors	21,170	27,196	21,170	27,196
Finance cost on Subordinated Sukuk Murabahah	5,750	5,782	5,750	5,782
Office rental	23,947	22,942	23,947	22,942
Other rental	415	412	415	412
<i>Holding company</i>				
<u>Income</u>				
Office rental	1,009	986	1,009	986
Others	200	82	200	82
<u>Expenses</u>				
Income attributable to depositors	7	3	7	3
Income attributable to investment account holders	8,294	10,382	8,294	10,382
<i>Subsidiaries</i>				
<u>Income</u>				
Fees and commission	-	-	6,725	4,296
Office rental	-	-	363	358
Others	-	-	168	72
<u>Expenses</u>				
Fees and commission	-	-	4,140	2,458
Income attributable to depositors	-	-	239	232
<i>Other related companies</i>				
<u>Income</u>				
Income from financing, advances and others	101	547	101	547
Fees and commission income	204	49	204	49
Bancatakaful service fee	24,592	29,059	24,592	29,059
Others	81	61	81	61

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 45. Related party transactions (continued)

- (a) The related party transactions of the Group and the Bank, other than key management personnel compensation, are as follows (continued):

	Group		Bank	
	Transactions amount for 2017 RM'000	2016 RM'000	Transactions amount for 2017 RM'000	2016 RM'000
<i>Other related companies</i>				
<i>(continued)</i>				
<u>Expenses</u>				
Income attributable to depositors	13,787	11,243	13,787	11,243
Income attributable to investment account holders	1,559	1,230	1,559	1,230
Finance cost on Subordinated Sukuk Murabahah	2,750	2,765	2,750	2,765
Office rental	3,272	3,119	3,272	3,119
Other rental	42	42	42	42
Takaful fee	6,093	6,243	6,063	5,999
<i>Co-operative society in which the employees have interest</i>				
<u>Income</u>				
Income from financing, advances and others	2,379	2,389	2,379	2,389
<u>Expenses</u>				
Income attributable to depositors	6	4	6	4
Other rental	463	2,130	463	2,130
Others	193	173	193	173

- (b) The outstanding balances of the Group and the Bank with related parties, are as follows:

	Group		Bank	
	Net balance outstanding as at 31.12.2017 RM'000	31.12.2016 RM'000	Net balance outstanding as at 31.12.2017 RM'000	31.12.2016 RM'000
<i>Ultimate holding entity</i>				
<b>Amount due from</b>				
Other receivables	17	30	17	30

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 45. Related party transactions (continued)

(b) The outstanding balances of the Group and the Bank with related parties, are as follows (continued):

	Group		Bank	
	Net balance outstanding		Net balance outstanding	
	as at		as at	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
<i>Ultimate holding entity</i>				
<i>(continued)</i>				
<b>Amount due to</b>				
Deposits from customers	1,505,971	2,309,846	1,505,971	2,309,846
Income payable to depositors	873	1,438	873	1,438
Subordinated Sukuk Murabahah	100,000	100,000	100,000	100,000
Finance cost payable on Subordinated Sukuk Murabahah	1,118	1,103	1,118	1,103
Commitment and contingencies	2,380	60	2,380	60
Other payables	14	27	14	27
<b>Amount due from</b>				
Other receivables	161	175	161	175
<b>Amount due to</b>				
Deposits from customers	414	640	414	640
Investment account of customers	240,656	204,735	240,656	204,735
Income payable to investment account holders	1,160	1,242	1,160	1,242
Other payables	219	-	219	-
<b>Subsidiaries</b>				
<b>Amount due from</b>				
Redeemable non-cumulative preference shares	-	-	2,011	2,011
Others	-	-	843	70
<b>Amount due to</b>				
Deposits from customers	-	-	12,247	8,853
Income payable to depositors	-	-	47	48
Other payables	-	-	10	-

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 45. Related party transactions (continued)

(b) The outstanding balances of the Group and the Bank with related parties, are as follows (continued):

	Group		Bank	
	Net balance outstanding		Net balance outstanding	
	as at		as at	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
<i>Other related companies</i>				
<b>Amount due from</b>				
Financing, advances and others	782	3,590	782	3,590
Other receivables	76	-	76	-
<b>Amount due to</b>				
Deposits from customers	552,419	709,037	552,419	709,037
Investment account of customers	50,185	33,655	50,185	33,655
Income payable to depositors	1,722	2,381	1,722	2,381
Income payable to investment account holders	19	7	19	7
Subordinated Sukuk Murabahah	50,000	50,000	50,000	50,000
Finance cost payable on Subordinated Sukuk Murabahah	136	136	136	136
Commitment and contingencies	8,152	6,772	8,152	6,772
<i>Co-operative society in which the employees have interest</i>				
<b>Amount due from</b>				
Financing, advances and others	39,351	38,357	39,351	38,357
<b>Amount due to</b>				
Deposits from customers	87	2,138	87	2,138

# Bank Islam Malaysia Berhad

(Company No. 98127-X)

(Incorporated in Malaysia)

## 46. Credit transactions and exposures with Connected Parties

	Group and Bank	
	31.12.2017	31.12.2016
	RM'000	RM'000
Outstanding credit exposures with connected parties	<b>1,228,469</b>	2,235,730
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	<b>2.88%</b>	5.61%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	<b>0.001%</b>	0.001%

The above disclosure on Credit Transaction and Exposures with Connected Parties is presented in accordance with Para 9.1 of Bank Negara Malaysia's Revised Guidelines on Credit Transaction and Exposures with Connected Parties.

## 47. Subsequent event

There were no material events subsequent to the end of the financial year that require disclosure or adjustments to the financial statements.