

BANK ISLAM MALAYSIA BERHAD
[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2020**

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 | 14 |
| 5. Independent Auditors' Report | 15 |
| 6. Statements of Financial Position | 19 |
| 7. Statements of Profit or Loss and Other Comprehensive Income | 20 |
| 8. Consolidated Statement of Changes in Equity | 22 |
| 9. Statement of Changes in Equity | 24 |
| 10. Statements of Cash Flow | 26 |
| 11. Notes to the Financial Statements | 29 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Directors' Report for the financial year ended 31 December 2020

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 2020.

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.

Significant events during the financial year and subsequent events to the balance sheet date are disclosed in Note 46 and Note 47 to the financial statements respectively.

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

| | Group RM'000 | Bank RM'000 |
|-----------------------------|-------------------------|------------------------|
| Profit before zakat and tax | 728,213 | 726,836 |
| Zakat and tax expense | <u>(163,259)</u> | <u>(163,123)</u> |
| Profit for the year | <u><u>564,954</u></u> | <u><u>563,713</u></u> |

Reserves and provisions

There were no material transfers to or from reserves or provisions during the financial year under review except as disclosed in the financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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:

| | RM'000 |
|--|----------------|
| In respect of the financial year ended 31 December 2019 as reported in the Directors' Report of that year: | |
| Final dividend of approximately 6.05 sen per ordinary share paid on 29 June 2020 | 151,854 |
| In respect of the financial year ended 31 December 2020: | |
| Interim dividend of approximately 5.55 sen per ordinary share paid on 18 September 2020 | 141,897 |
| | <u>293,751</u> |

The Directors recommend a final dividend of 5.37 sen per ordinary share totalling RM139,640,000 for the financial year ended 31 December 2020.

Directors of the Bank

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

Tan Sri Dr. Ismail Hj. Bakar (Chairman) (appointed on 1 August 2020)

Dato' Sri Khazali Ahmad

Zahari @ Mohd Zin Idris

Mohamed Ridza Mohamed Abdulla

Datuk Nik Mohd Hasyudeen Yusoff

Noraini Che Dan

Azizan Ahmad

Mohd Yuzaidi Mohd Yusoff

Mashitah Haji Osman (appointed on 1 October 2020)

Datuk Zamani Abdul Ghani (Chairman) (resigned on 1 March 2020)

Directors of the subsidiaries

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

| Name of Company | Directors |
|---|--|
| Al-Wakalah Nominees (Tempatan) Sdn. Bhd. | Maria Mat Said Mohamad Jamali Haron |
| BIMB Investment Management Berhad | Mohamed Ridza Mohamed Abdulla Najmuddin Mohd Lutfi Dato' Ghazali Awang Dr. Mohd Hatta Dagap Datin Maznah Mahbob Azizan Abd Aziz |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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. | Zaharin Mohd Ali Maria Mat Said |

None of the Bank and subsidiaries' Directors holding office as at 31 December 2020 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 those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the Note 32 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.

Directors' interests in shares and debentures

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year.

Issue of shares and debentures

During the financial year, the Bank increased its issued and paid-up capital from 2,509,981,730 to 2,600,366,367 via issuance of 90,384,667 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan. There were no debentures issued during the financial year.

Options granted over unissued shares

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Indemnity and Takaful costs

Through the immediate holding company, BIMB Holdings Berhad has maintained a Directors' and Officers' Liability Takaful for the Directors and Officers of BIMB Holdings and its subsidiaries (excluding Syarikat Takaful Malaysia Keluarga Berhad and its subsidiaries) of up to an aggregate limit of RM50 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding the office. The Directors and Officers shall not be indemnified by such takaful for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. The amount of premium paid was RM231,372 (2019: RM219,430) with certain reimbursement made by the Directors and Officers.

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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Other Statutory Information (continued)

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 and Circular on the Application of MFRS.

2021 Business Plan and Outlook

Business Plan, Strategy and Future Outlook

Covid-19 is once again taking its toll on economic activities as the third wave prompts new restrictions, but the vaccine news is a game-changer for the outlook over the next two years. BNM opines that the Gross Domestic Product ("GDP") will rebound amidst low unemployment rate but with an improved Consumer Price Index ("CPI"). Such a positive outlook for 2021 will be backed by favourable global growth projection and a revival in domestic economic activities. In turn, this will bode well for financial market performance.

The pandemic should be seen as a window of opportunity to grow sustainably. In this trying time, our initiatives further reflect our commitment towards financial inclusivity which ensures development for all, as we seek to support economic recovery and safeguard the rakyat's livelihood. Therefore, as part of its business plan for 2021, the Bank is embarking on a 5-year roadmap to deliver the promise of technology, redefine growth and work in new ways to address the unprecedented challenges. By 2025, the Bank aspires to be a champion in offering Shariah Environmental, Social and Governance ("Shariah-ESG") total financial solution with leadership in digital banking and social finance. The plan mobilises six strategic objectives premised on the Bank's role as Value Based Intermediary ("VBI") namely Sustainable Prosperity, Value-based Culture, Community Empowerment, Customer Centricity, Real Economy and Digitalisation. The objectives will be supported key initiatives, directly focused efforts towards the end goal in 2025 such as to expand portfolio relating to real economy & green economy; implement integrated wealth management business model; accelerate digitalisation; promote social finance, and enforce cost management initiatives.

Against a strong backdrop of credit metrics with the recent reaffirmation of AA3/Stable/P1 by RAM Ratings recently, BHB is proceeding with its proposed group restructuring exercise that will unlock significant value for shareholders, as well as transferring its listing status to its subsidiary, Bank Islam. The exercise will see the Bank becoming the only full-fledged Islamic financial institution listed in Malaysia, having greater access to tap the capital markets for an exciting future expansion.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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 | 4 January 2021 | Long-term rating: AA3 Short-term rating: P1 Outlook: Stable |

Auditors

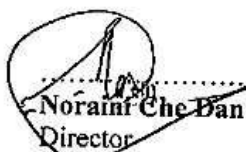
The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF1146), have indicated their willingness to accept reappointment.

The auditors' remuneration is disclosed in Note 31 to the financial statements.

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



.....
Tan Sri Dr. Ismail Hj. Bakar
Director



.....
Noraini Che Dan
Director

Kuala Lumpur,

Date: 26 March 2021

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

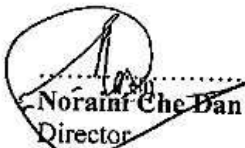
In the opinion of the Directors, the financial statements set out on pages 19 to 158 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act 2016 in Malaysia, and Shariah requirements so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2020 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:



.....
Tan Sri Dr. Ismail Hj. Bakar

Director



Noraini Che Dan
Director

Kuala Lumpur,

Date: 26 March 2021

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Report of the Shariah Supervisory Council

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين، والصلاة والسلام على سيدنا محمد الذي أرسله الله رحمة للعالمين هاديا مهديا، وسراجا منيرا وعلى آله وصحبه أجمعين ومن تبعهم بإحسان إلى يوم الدين، وبعد،

السلام عليكم ورحمة الله وبركاته
'Salam Sejahtera'

In carrying out the roles and responsibilities of the Shariah Supervisory Council (“SSC”) as prescribed in the Shariah Governance Policy Document (“SGPD”) 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 2020.

The Bank’s Management is responsible to ensure that its conducts 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 had obtained all the information and explanations which we considered necessary in providing us with sufficient evidences to give reasonable assurance that the Bank has complied with the Shariah rules and principles.

At the management level, the Head of Shariah (cum Secretary of the SSC), who functionally reports to the SSC, oversees the conduct and effectiveness of Shariah Division’s functions that carry out the roles and responsibilities related to Shariah secretariat, research and advisory. The Bank’s Shariah governance is further substantiated by Shariah Risk Management, Shariah Review and Shariah Audit that resides in the Risk Management Division, Compliance Division, and Internal Audit Division, and reports directly to the Chief Risk Officer, Chief Compliance Officer, and Chief Internal Auditor respectively.

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

Approvals

To ensure smoothness and timely execution of our business operation, we empower the Head of Shariah to approve a non-substantial variation of Shariah related matters, and the approvals are reported to us periodically for notification. At the same time, the Head of Shariah or his representative is also sitting as a member in the following committees to advise the Bank on matters relating Shariah rules and principles:

- i) Management Committee;
- ii) Sadaqa House and Zakat Committee;
- iii) Management Risk Control Committee;
- iv) Operational Risk Control Committee;
- v) Underwriting and Investment Committee;
- vi) Product Development Oversight Steering Committee;
- vii) Financing Committee A;
- viii) Financing Committee B; and
- ix) Tender Evaluation Committee for Vendor Management.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Shariah Governance

We had approved in our meetings, initiatives to strengthen the Shariah governance of the Bank, which include the review of the Shariah Compliance Guideline, Shariah Compliance Policy, Operational Risk Management Guideline and Shariah Compliance Review Guideline that aims, among others, to set out the Shariah governance framework within the Bank as well as to ensure our business operations are in line with Shariah rules and principles.

Shariah Risk Management

We observed that the Bank has been continuously implementing 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 controls in the respective functional areas.

Since the introduction of RCSA, a continuous process of identifying and assessing Shariah non-compliance risks at respective functional areas have been carried out by all Risk Controllers (“RCs”). The RCs are also mandated to drive appropriate controls to mitigate any occurrence of Shariah non-compliances in meeting the business objectives of their respective areas. The semi-annually RCSA result, which connotes Shariah non-compliance risk exposures of the Bank is also tabled in the Management Risk Control Committee and our meetings.

In addition to the RCSA, the Bank has established the Shariah Complaint Checklist to guide complaint handlers and product owners in identifying Shariah-related complaints lodged by customers. The checklist will be incorporated in the Bank’s existing documents and processes for the use of complaint handlers and product owners.

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. Shariah reviews are performed by Shariah Compliance Department to validate business activities, new product features, and services offered complies with Shariah rules and principles according to regulatory requirements while Shariah Audit provides independent assurance in order to add value and improve the degree of Shariah compliance in relation to such activities.

Both Shariah Review and Shariah Audit plans for the financial year were reviewed by us for their implementation. Their reports were deliberated in our meetings to confirm that the Bank has complied 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. During the year, the review and audit reports were presented to us covering the following entities/areas:

| Shariah Audit | Shariah Review |
|--------------------------------|--|
| 1) Product Management Division | 1) Assessment on the Bank’s compliance with BNM Shariah Contract Policy Documents - Bai’ al-Sarf, Wa’d and Rahn. |
| 2) Corporate Banking Division | 2) BNM Policy Document on Imposition of Fees and Charges on Financial Products and Services (<i>joint review with Compliance & Monitoring Testing</i>) |
| 3) Commercial Banking Division | 3) Bank Islam’s Readiness to Comply with SAC of BNM Ruling on Non-Compounding of Profit |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Shariah Review & Shariah Audit (continued)

| Shariah Audit | Shariah Review |
|--|--|
| 4) Assessment On The Bank's Compliance With The BNM Policy Documents - Rahn and Shariah Governance | 4) Decisions of SSC FY2019 |
| 5) Credit Administration Department | 5) Corporate Banking |
| 6) Treasury & Markets Division | 6) Commercial Banking |
| 7) Corporate Support Division | 7) Staff and Package Financing |
| 8) Bank Islam Card Centre | 8) Centralised Procurement |
| 9) Ar Rahn | 9) Commodity Trading Provider and Commodity Supplier |
| 10) Wealth Management Operations | 10) Sukuk - Urusharta Jemaah |
| 11) Commodity Trading Provider and Commodity Supplier | 11) Marketing of Third party product (Takaful): i) Takaful myClick Medicare ii) Takaful myClick Travel PA iii) Takaful myClick Term iv) mySalam PA Plan (Telemarketing) v) Takaful myMortgage |
| 12) Bank Islam Labuan Offshore Branch (BILOB)^ | 12) Zakat Simpanan & Pelaburan Service |
| 13) 44 Bank Islam Branches and 2 Ar Rahn Outlet^ | |

^ Only Shariah related findings were escalated for deliberation and decision.

Shariah Training & Awareness

During the year, ten (10) Shariah training and briefing sessions were held covering 894 among the Bank's employees nationwide inclusive of virtual onboarding programs for new staff. The coverage of the sessions includes Shariah governance updates, Shariah risk management and fundamentals of Shariah in business operations. This includes three (3) Shariah Town Hall sessions for all Risk Controllers ("RC") where the sessions provided updates to the RCs on new Shariah requirements issued by the regulators, our latest decisions and lessons learnt from new Shariah non-compliance events in the Bank.

In line with SGPD, the Bank has been continuously implementing Shariah e-learning program by enhancing the existing e-learning courseware on Philosophy and Fundamentals of Shariah and developing a new e-learning courseware relating to the applied Shariah contracts to all staff of the Bank.

The Bank has also continued to elevate the Shariah and Islamic banking knowledge of its staff and SSC members by engaging Islamic Banking & Finance Institute Malaysia ("IBFIM") for the Certified Professional Shariah Auditor ("CPSA") programme and Association of Shariah Advisors in Islamic Finance ("ASAS") for in-house certification programme of Certified Shariah Advisors ("CSA") and Certified Shariah Practitioner ("CSP"). This year, 15 candidates graduated from CSA and CSP including three (3) SSC members.

Shariah officers of the Bank were encouraged to enroll for certification programs, and during the financial year under review, the Head of Shariah has been awarded as a Certified Shariah Advisor and Auditor ("CSAA") by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Shariah Non-Compliant Events & Income

Throughout 2020, we confirmed one (1) incidence of Shariah non-compliance event i.e. Foreign Outward Telegraphic Transfer (“FOTT”) service provided for a potential Shariah non-compliant purpose.

We were also informed on the causes of the incidence and noted that the Bank has taken corrective as well as preventive measures in order to avoid the same incidence from occurring in the future. We also confirmed that the SNC event together with the rectification plan were presented to the Board of Directors and us and reported to BNM in accordance with the reporting requirement prescribed by the regulator.

Within the financial year, the Bank has collected Shariah non-compliant income amounting to RM59,960.46. A total of RM52,332.96 from the collected amount was purified and disposed to charitable causes upon our approval as further described in Note 23 (Sources and Uses of Charity Fund).

Business Zakat

In the financial year, the Bank has fulfilled its obligation to pay *zakat* on its business to state *zakat* authorities by adopting the growth capital computation method, 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 exclusive of depositors’ fund and Investment Account holders’ fund.

Several *zakat* authorities had mandated distribution of a portion of the *zakat* paid by the Bank on the based on their agent (*wakil*) for distribution to eligible beneficiaries (*asnaf*) as guided by the Business Zakat Guideline that was approved by us.

Safeguarding the Investment Account Holders (“IAH”) Interest

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

Sadaqa House Initiative

In protecting the interest of Sadaqa House donors, we confirmed that the fund management and distribution of Sadaqa House are in accordance with Shariah rules and principles. We have approved the Sadaqa House Management Guideline that governs the conduct and management of Sadaqa House fund to ensure Sadaqa House operates in line with Shariah rules and principles. The Sadaqa House and Zakat Committee that is chaired by the General Manager, Strategic Relations has been mandated to oversee the conduct of the Sadaqa House initiative to be in line with Shariah rules and principles in accordance with the Sadaqa House Management Guideline approved by us.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

We had also reviewed the financial statement of the Bank and confirmed that the financial statement complies 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 one (1) Shariah non-compliance incidence mentioned above, during the financial year ended 31 December 2020 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;
- 4) All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles were disposed to charitable causes and refunded to the deserving counterparties.

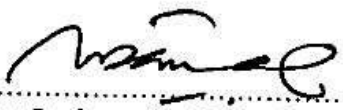
On that note, we, members of Shariah Supervisory Council of Bank Islam Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Bank for the year ended 31 December 2020 have been conducted in conformity with the Shariah rules and principles.

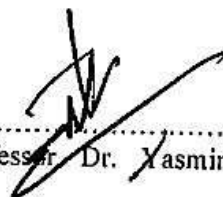
We bear witness only to what we know, and we could not well guard against the unseen! (Surah Yusuf, verse:81)


Allah knows best.



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


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


.....
Assistant Professor Dr. Uzaimah Ibrahim


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


.....
Professor Dr. Asmadi Mohamed Naim


.....
Dr. Shamsiah Mohamad

Kuala Lumpur,

Date: 26 March 2021

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[Registration No. 198301002944 (98127-X)]

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Statutory Declaration

pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Azizan Abd Aziz**, 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 19 to 158 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named Azizan Abd Aziz, MIA CA (32474) in Kuala Lumpur on 26 March 2021.



.....
Azizan Abd Aziz

Before me,



568-8-39, Tkt 8
Kompleks Mutiara
Batu 3½ Jalan Ipoh
51200 Kuala Lumpur



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 198301002944 (98127-X))

Our opinion

In our opinion, the financial statements of Bank Islam Malaysia Berhad (“the Bank”) and its subsidiaries (“the Group”) give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2020, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Bank, and the statements of profit or loss, statements of other comprehensive income, consolidated statement of changes in equity, statement of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 19 to 158.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 198301002944 (98127-X))

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors' Report, Report of the Shariah Supervisory Council and Annual Report, which we obtained prior to the date of this auditors' report, and Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

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 that we 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 the 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 Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 198301002944 (98127-X))

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.

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:

- (a) 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.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Bank's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) 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 Group's or on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BANK ISLAM MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 198301002944 (98127-X))

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: (continued)

- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) 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.

OTHER MATTERS

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


PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants


ONG CHING CHUAN
02907/11/2021 J
Chartered Accountant

Kuala Lumpur
26 March 2021

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Financial Position as at 31 December 2020

| | Note | Group | | Bank | |
|---|------|-------------------|-------------------|-------------------|-------------------|
| | | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Assets | | | | | |
| Cash and short-term funds | 3 | 5,216,376 | 2,814,333 | 5,216,280 | 2,813,456 |
| Deposits and placements with banks and other financial institutions | 4 | 361 | 658,053 | - | 658,053 |
| Financial assets at fair value through profit or loss | 5 | 1,181,200 | 663,068 | 1,175,440 | 657,443 |
| Derivative financial assets | 6 | 61,665 | 33,326 | 61,665 | 33,326 |
| Financial assets at fair value through other comprehensive income | 7 | 12,557,991 | 12,146,640 | 12,558,729 | 12,147,378 |
| Financing, advances and others | 8 | 54,670,635 | 49,472,522 | 54,670,635 | 49,472,522 |
| Other financial assets at amortised cost | 9 | 207,349 | 145,217 | 196,588 | 140,562 |
| Statutory deposits with Bank Negara Malaysia | 10 | 192,425 | 1,170,136 | 192,425 | 1,170,136 |
| Current tax assets | | 106,773 | 32,003 | 106,773 | 32,002 |
| Deferred tax assets | 11 | 1,511 | 33,774 | - | 32,268 |
| Right-of-use assets | 12 | 209,736 | 229,135 | 209,736 | 229,135 |
| Investments in subsidiaries | 13 | - | - | 15,525 | 15,525 |
| Property and equipment | 14 | 231,000 | 195,595 | 230,516 | 195,100 |
| Total assets | | 74,637,022 | 67,593,802 | 74,634,312 | 67,596,906 |
| Liabilities and equity | | | | | |
| Deposits from customers | 15 | 51,077,262 | 47,408,738 | 51,095,451 | 47,476,872 |
| Investment accounts of customers | 16 | 12,368,528 | 10,240,373 | 12,368,897 | 10,240,373 |
| Derivative financial liabilities | 6 | 105,872 | 36,746 | 105,872 | 36,746 |
| Bills and acceptance payable | | 29,621 | 49,084 | 29,621 | 49,084 |
| Recourse obligations on financing sold to Cagamas | 17 | 1,501,187 | 1,501,187 | 1,501,187 | 1,501,187 |
| Subordinated Sukuk Murabahah | 18 | 1,713,164 | 1,308,694 | 1,713,164 | 1,308,694 |
| Other liabilities | 19 | 1,136,863 | 991,540 | 1,121,885 | 931,685 |
| Lease liabilities | 12 | 312,429 | 325,559 | 312,429 | 325,559 |
| Zakat and taxation | 20 | 31,952 | 17,428 | 31,776 | 17,142 |
| Deferred tax liabilities | 11 | 74,445 | - | 74,445 | - |
| Total liabilities | | 68,351,323 | 61,879,349 | 68,354,727 | 61,887,342 |
| Equity | | | | | |
| Share capital | 21 | 3,306,118 | 3,012,368 | 3,306,118 | 3,012,368 |
| Reserves | 22 | 2,979,581 | 2,702,085 | 2,973,467 | 2,697,196 |
| Total equity | | 6,285,699 | 5,714,453 | 6,279,585 | 5,709,564 |
| Total liabilities and equity | | 74,637,022 | 67,593,802 | 74,634,312 | 67,596,906 |
| Restricted investment accounts managed by the Bank | 16 | 11,915 | 35,062 | 11,915 | 35,062 |
| Total Islamic banking assets owned and managed by the Bank | | 74,648,937 | 67,628,864 | 74,646,227 | 67,631,968 |
| Commitments and contingencies | 42 | 20,189,496 | 17,414,181 | 20,189,496 | 17,414,181 |

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Profit or Loss for the financial year ended 31 December 2020

| | Note | Group | | Bank | |
|---|------|--------------------|----------------|--------------------|----------------|
| | | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Income derived from investment of depositors' funds | 24 | 2,504,013 | 2,757,704 | 2,504,013 | 2,757,704 |
| Income derived from investment account funds | 25 | 513,934 | 395,664 | 513,934 | 395,664 |
| Income derived from investment of shareholders' funds | 26 | 460,059 | 490,882 | 436,313 | 462,227 |
| Net allowance for impairment on financing and advances, net of recoveries | 27 | (208,671) | (83,688) | (208,671) | (83,688) |
| Loss on modification of financial assets | | (136,380) | - | (136,380) | - |
| Net allowance for impairment on other financial assets | | 2,757 | (3,760) | 2,757 | (3,760) |
| Direct expenses | | (13,660) | (16,444) | (13,660) | (16,444) |
| Total distributable income | | 3,122,052 | 3,540,358 | 3,098,306 | 3,511,703 |
| Wakalah fees from restricted investment accounts | 16 | 576 | 446 | 576 | 446 |
| Income attributable to depositors | 28 | (1,006,479) | (1,376,324) | (1,006,700) | (1,376,599) |
| Income attributable to investment account holders | 29 | (222,026) | (175,621) | (222,026) | (175,621) |
| Total net income | | 1,894,123 | 1,988,859 | 1,870,156 | 1,959,929 |
| Personnel expenses | 30 | (663,367) | (662,393) | (649,361) | (648,838) |
| Other overhead expenses | 31 | (411,085) | (395,006) | (402,502) | (381,653) |
| | | 819,671 | 931,460 | 818,293 | 929,438 |
| Finance cost | 34 | (91,458) | (87,980) | (91,457) | (87,980) |
| Profit before zakat and tax | | 728,213 | 843,480 | 726,836 | 841,458 |
| Zakat | | (11,770) | (11,000) | (11,815) | (10,796) |
| Tax expense | 35 | (151,489) | (204,871) | (151,308) | (204,659) |
| Profit for the year | | 564,954 | 627,609 | 563,713 | 626,003 |
| Earnings per share (sen) | 36 | 22.19 | 25.00 | | |

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Other Comprehensive Income for the financial year ended 31 December 2020

| | Group | | Bank | |
|---|-----------------|----------------|-----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Profit for the year | <u>564,954</u> | <u>627,609</u> | <u>563,713</u> | <u>626,003</u> |
| Other comprehensive income, net of tax: | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Currency translation differences in respect of foreign operations | 7,198 | 4,129 | 7,214 | 4,086 |
| Movement in fair value reserve (debt securities): | | | | |
| Net change in fair value | 248,060 | 324,742 | 248,060 | 324,794 |
| Changes in expected credit loss | (138) | 37 | (138) | 37 |
| Net amount transferred to profit or loss | (271,311) | (96,607) | (271,311) | (96,607) |
| Income tax effect relating to components of other comprehensive income | 5,492 | (53,040) | 5,492 | (53,040) |
| | <u>(10,699)</u> | <u>179,261</u> | <u>(10,683)</u> | <u>179,270</u> |
| Items that will not be reclassified to profit or loss | | | | |
| Movement in fair value reserve (equity instrument): | | | | |
| Net change in fair value | <u>16,992</u> | <u>11,441</u> | <u>16,992</u> | <u>11,389</u> |
| Other comprehensive income for the year, net of tax | <u>6,293</u> | <u>190,702</u> | <u>6,309</u> | <u>190,659</u> |
| Total comprehensive income for the year | <u>571,247</u> | <u>818,311</u> | <u>570,022</u> | <u>816,662</u> |

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Consolidated Statement of Changes in Equity for the financial year ended 31 December 2020

| Group | Note | ← Attributable to equity holders of the Bank → | | | | |
|--|------|--|----------------------------|-----------------------------|--------------------------------|------------------------|
| | | ← Non-distributable → | | Distributable | | Total equity RM'000 |
| | | Share capital RM'000 | Share premium RM'000 | Other Reserves RM'000 | Retained earnings RM'000 | |
| At 1 January 2020 | | 3,012,368 | - | 107,265 | 2,594,820 | 5,714,453 |
| Profit for the year | | - | - | - | 564,954 | 564,954 |
| Currency translation difference in respect of foreign operations | | - | - | 7,198 | - | 7,198 |
| Fair value reserve (debt instruments): | | | | | | |
| Net change in fair value | | - | - | 248,060 | - | 248,060 |
| Changes in expected credit losses | | - | - | (138) | - | (138) |
| Net amount transferred to profit or loss | | - | - | (271,311) | - | (271,311) |
| Income tax effect relating to components of other comprehensive income | | - | - | 5,492 | - | 5,492 |
| Fair value reserve (equity instruments): | | | | | | |
| Net change in fair value | | - | - | 16,992 | - | 16,992 |
| Total comprehensive income for the year | | - | - | 6,293 | 564,954 | 571,247 |
| Transfer from regulatory reserve | 22 | - | - | (25,000) | 25,000 | - |
| Dividends paid on ordinary shares | 37 | - | - | - | (293,751) | (293,751) |
| Issue of shares pursuant to Dividend Reinvestment Plan | | 293,750 | - | - | - | 293,750 |
| At 31 December 2020 | | 3,306,118 | - | 88,558 | 2,891,023 | 6,285,699 |

Note 22

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Consolidated Statement of Changes in Equity for the financial year ended 31 December 2020 (continued)

| Group | Note | ← Attributable to equity holders of the Bank → | | | | Total Equity RM'000 |
|--|------|--|---|-----------------------------|---|------------------------|
| | | Share capital RM'000 | Non-distributable Share premium RM'000 | Other reserves RM'000 | Distributable Retained earnings RM'000 | |
| At 1 January 2019 | | 3,012,368 | - | (98,437) | 2,362,476 | 5,276,407 |
| Effect upon adoption of MFRS 16 (net of tax) | | - | - | - | (67,316) | (67,316) |
| Adjusted total equity at 1 January 2019 | | 3,012,368 | - | (98,437) | 2,295,160 | 5,209,091 |
| Profit for the year | | - | - | - | 627,609 | 627,609 |
| Currency translation difference in respect of foreign operations | | - | - | 4,129 | - | 4,129 |
| Fair value reserve (debt instruments): | | | | | | |
| Net change in fair value | | - | - | 324,742 | - | 324,742 |
| Changes in expected credit losses | | - | - | 37 | - | 37 |
| Net amount transferred to profit or loss | | - | - | (96,607) | - | (96,607) |
| Income tax effect relating to components of other comprehensive income | | - | - | (53,040) | - | (53,040) |
| Fair value reserve (equity instruments): | | | | | | |
| Net change in fair value | | - | - | 11,441 | - | 11,441 |
| Total comprehensive income for the year | | - | - | 190,702 | 627,609 | 818,311 |
| Transfer to regulatory reserve | 22 | - | - | 15,000 | (15,000) | - |
| Dividends paid on ordinary shares | 37 | - | - | - | (312,949) | (312,949) |
| At 31 December 2019 | | 3,012,368 | - | 107,265 | 2,594,820 | 5,714,453 |

Note 22

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statement of Changes in Equity for the financial year ended 31 December 2020

| Bank | Note | ← Attributable to equity holders of the Bank → | | | Total Equity RM'000 |
|--|------|--|-------------------------|--------------------------|------------------------|
| | | Share Capital RM'000 | Share Premium RM'000 | Other reserves RM'000 | |
| At 1 January 2020 | | 3,012,368 | - | 107,398 | 5,709,564 |
| Profit for the year | | - | - | - | 563,713 |
| Currency translation difference in respect of foreign operations | | - | - | 7,214 | 7,214 |
| Fair value reserve (debt instruments): | | | | | |
| Net change in fair value | | - | - | 248,060 | 248,060 |
| Changes in expected credit losses | | - | - | (138) | (138) |
| Net amount transferred to profit or loss | | - | - | (271,311) | (271,311) |
| Income tax effect relating to components of other comprehensive income | | - | - | 5,492 | 5,492 |
| Fair value reserve (equity instruments): | | | | | |
| Net change in fair value | | - | - | 16,992 | 16,992 |
| Total comprehensive income for the year | | - | - | 6,309 | 570,022 |
| Transfer from regulatory reserve | 22 | - | - | (25,000) | 25,000 |
| Dividends paid on ordinary shares | 37 | - | - | - | (293,751) |
| Issue of shares pursuant to Dividend Reinvestment Plan | | 293,750 | - | - | 293,750 |
| At 31 December 2020 | | 3,306,118 | - | 88,707 | 6,279,585 |

Note 22

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statement of Changes in Equity for the financial year ended 31 December 2020 (continued)

| Bank | Note | ← Attributable to equity holders of the Bank → | | | | |
|--|------|--|----------------------------|-----------------------------|--------------------------------|------------------------|
| | | ← Non-distributable → | | Distributable | | Total Equity RM'000 |
| | | Share capital RM'000 | Share Premium RM'000 | Other reserves RM'000 | Retained earnings RM'000 | |
| At 1 January 2019 | | 3,012,368 | - | (98,261) | 2,359,060 | 5,273,167 |
| Effect upon adoption of MFRS 16 (net of tax) | | - | - | - | (67,316) | (67,316) |
| Adjusted total equity at 1 January 2019 | | 3,012,368 | - | (98,261) | 2,291,744 | 5,205,851 |
| Profit for the year | | - | - | - | 626,003 | 626,003 |
| Currency translation difference in respect of foreign operations | | - | - | 4,086 | - | 4,086 |
| Fair value reserve (debt instruments): | | | | | | |
| Net change in fair value | | - | - | 324,794 | - | 324,794 |
| Changes in expected credit losses | | - | - | 37 | - | 37 |
| Net amount transferred to profit or loss | | - | - | (96,607) | - | (96,607) |
| Income tax effect relating to components of other comprehensive income | | - | - | (53,040) | - | (53,040) |
| Fair value reserve (equity instruments): | | | | | | |
| Net change in fair value | | - | - | 11,389 | - | 11,389 |
| Total comprehensive income for the year | | - | - | 190,659 | 626,003 | 816,662 |
| Transfer to regulatory reserve | 22 | - | - | 15,000 | (15,000) | - |
| Dividends paid on ordinary shares | 37 | - | - | - | (312,949) | (312,949) |
| At 31 December 2019 | | 3,012,368 | - | 107,398 | 2,589,798 | 5,709,564 |

Note 22

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Cash Flow for the financial year ended 31 December 2020

| | Group | | Bank | |
|--|------------------|----------------|------------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Cash flows from operating activities | | | | |
| Profit before zakat and tax | 728,213 | 843,480 | 726,836 | 841,458 |
| Adjustments for: | | | | |
| Depreciation of property and equipment | 56,546 | 52,049 | 56,341 | 51,823 |
| Depreciation of right-of-use assets | 18,348 | 15,141 | 18,317 | 15,141 |
| Net gain on disposal of property and equipment | (3) | (421) | (3) | (421) |
| Property and equipment written-off | 925 | 82 | 925 | 82 |
| Allowance for impairment on financing, advances and others | 288,187 | 190,829 | 288,187 | 190,829 |
| Losses on modification of financial assets | 136,380 | - | 136,380 | - |
| Net allowance for impairment on other financial assets | (2,757) | 3,760 | (2,757) | 3,760 |
| Net gain on sale of financial assets at FVTPL | (528) | (26,178) | (528) | (26,178) |
| Net gain on sale of financial assets at FVOCI | (271,311) | (96,607) | (271,311) | (96,607) |
| Fair value loss/(gain) on FVTPL | 6,717 | (11,164) | 6,713 | (11,158) |
| Dividends from subsidiary | - | - | (500) | - |
| Dividends from financial assets at FVTPL | (13,860) | (8,913) | (13,722) | (8,738) |
| Dividends from financial assets at FVOCI | (503) | (545) | (503) | (545) |
| Income from rebate on investment in unit trust | (979) | - | (979) | - |
| Net derivative (gain)/ loss | (31) | 36 | (31) | 36 |
| Finance cost on Subordinated Sukuk Murabahah | 73,622 | 69,940 | 73,622 | 69,940 |
| Profit expense on lease | 17,836 | 18,040 | 17,835 | 18,040 |
| Operating profit before changes in assets and liabilities | 1,036,802 | 1,049,529 | 1,034,822 | 1,047,462 |
| Changes in assets and liabilities: | | | | |
| Financing, advances and others | (5,622,680) | (3,982,671) | (5,622,680) | (3,982,671) |
| Statutory deposits with Bank Negara Malaysia | 977,711 | 432,148 | 977,711 | 432,148 |
| Bills and other receivables | (87,545) | (19,150) | (81,439) | (17,004) |
| Deposits from customers | 3,668,524 | (2,486,494) | 3,618,579 | (2,432,327) |
| Investment accounts of customers | 2,128,155 | 5,063,554 | 2,128,524 | 5,063,554 |
| Bills and acceptance payable | (19,463) | 7,970 | (19,463) | 7,970 |
| Other liabilities | 214,455 | 302,592 | 259,327 | 253,157 |
| Cash generated from operations | 2,295,959 | 367,478 | 2,295,381 | 372,289 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Cash Flow for the financial year ended 31 December 2020 (continued)

| | Group | | Bank | |
|--|------------------|--------------------|------------------|--------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Zakat paid | (10,862) | (13,589) | (10,795) | (13,525) |
| Tax paid | (100,444) | (238,032) | (100,261) | (237,864) |
| Tax refund | - | 1,788 | - | 1,734 |
| Net cash generated from operating activities | 2,184,653 | 117,645 | 2,184,325 | 122,634 |
| Cash flows from investing activities | | | | |
| Purchase of property and equipment | (92,879) | (58,912) | (92,684) | (58,854) |
| Proceeds from disposal of property and equipment | 5 | 423 | 5 | 423 |
| Dividends from subsidiary | - | - | 500 | - |
| Dividends from financial assets at FVTPL | 13,860 | 8,913 | 13,722 | 8,738 |
| Dividends from financial assets at FVOCI | 503 | 545 | 503 | 545 |
| Income from rebate on investment in unit trust | 979 | - | 979 | - |
| Net proceeds from disposal/ purchase of securities | (670,896) | (716,851) | (670,757) | (716,606) |
| Net cash used in investing activities | (748,428) | (765,882) | (747,732) | (765,754) |
| Cash flows from financing activities | | | | |
| Issuance of Subordinated Sukuk Murabahah | 1,100,000 | - | 1,100,000 | - |
| Dividend paid on ordinary shares | (293,751) | (312,949) | (293,751) | (312,949) |
| Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan | 293,750 | - | 293,750 | - |
| Redemption of Subordinated Sukuk Murabahah | (700,000) | - | (700,000) | - |
| Finance cost paid on Subordinated Sukuk Murabahah | (69,152) | (69,880) | (69,152) | (69,880) |
| Finance lease paid on right-of-use assets | (29,920) | (25,331) | (29,883) | (25,331) |
| Net cash generated from/ (used in) financing activities* | 300,927 | (408,160) | 300,964 | (408,160) |
| Net increase/(decrease) in cash and cash equivalents | 1,737,152 | (1,056,397) | 1,737,557 | (1,051,280) |
| Cash and cash equivalents at 1 January | 3,472,386 | 4,524,654 | 3,471,509 | 4,518,703 |
| Exchange difference on translation | 7,199 | 4,129 | 7,214 | 4,086 |
| Cash and cash equivalents at 31 December | 5,216,737 | 3,472,386 | 5,216,280 | 3,471,509 |
| Cash and cash equivalents comprise: | | | | |
| Cash and short-term funds | 5,216,376 | 2,814,333 | 5,216,280 | 2,813,456 |
| Deposits and placements with banks and other financial institutions | 361 | 658,053 | - | 658,053 |
| | 5,216,737 | 3,472,386 | 5,216,280 | 3,471,509 |

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

The notes on pages 29 to 158 are an integral part of these financial statements.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 31 December 2020

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 26 March 2021.

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.

This is the first set of the Group’s and of the Bank’s annual financial statements in which the impact of COVID-19 (“pandemic”) was considered. The Government has introduced certain measures to assist customers experiencing temporary financial constraints due to the pandemic. The key measures affecting regulatory and accounting treatment and classifications are as follows:

- (i) Moratorium repayment on financing:
 - The Bank has granted an automatic repayment moratorium on all individuals’ and small-medium enterprises’ (“SMEs”) financing (except for credit card balances) for a period of six months from 1 April 2020. The automatic moratorium applied to financing not in arrears exceeding 90 days as at 1 April 2020 and denominated in Malaysian Ringgit. This measure is extended beyond 1 October 2020 to viable customers on a case-to-case basis.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

(i) Moratorium repayment on financing; (continued)

- For credit card balances, the Bank offered the option to convert the balances to term financing.
- For corporate customers, the Bank granted assistance through repayment moratorium or additional working capital or rescheduling and restructuring of existing facilities. This is to enable viable corporations in preserving jobs and resuming economic activities when conditions stabilise and improve.

The financial impact of the moratorium repayment is disclosed in Note 2.17.

(ii) Definition of defaulted exposures under the policy documents on Capital Adequacy Framework for Islamic Banks for which assistance is granted:

- The determination of “days past due” is based on the new repayment terms of rescheduled and restructured financing.
- Individuals or SMEs are not considered to be in default based on the “unlikeliness to repay” at the time of when the assistance was granted, except for when customers are subject to bankruptcy action.
- Corporates “unlikeliness to repay” are based on holistic assessment of all relevant factors and information, not on the act of accepting assistance from the Bank.

The regulatory capital treatment above shall apply to financing denominated in Malaysian Ringgit that meet the following criteria;

- The principal or profit or both, is not in arrears exceeding 90 days at the application date of assistance.
- The application is received on or before 30 June 2021.

(iii) Classification in the Central Credit Reference Information System (“CCRIS”)

The following shall apply for rescheduled and restructured financing with arrears not exceeding 90 days at the application date of assistance received on or before 30 June 2021:

- The financing need not be reported as (R&R) in CCRIS; and
- The financing need not be reported as credit-impaired in CCRIS

However, financing with multiple R&R (more than one R&R are made from 1 April 2020 until 30 June 2021) is excluded from the above treatment as it is deemed as non-viable financing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Statement of compliance (continued)

(iv) Bank Negara Malaysia (“BNM”) allows financial institutions to drawdown certain prudential buffers as below:

- Drawdown the capital conservation buffer of 2.5%;
- Operate below the minimum Liquidity Coverage Ratio (“LCR”) of 100%;
- Reduce the regulatory reserves held against expected credit losses to 0%; and
- Minimum Net Stable Funding Ratio (“NSFR”) is lowered to 80% from 100% effective 1 July 2020.

BNM requires financial institutions to restore the minimum regulatory requirements by 30 September 2021.

Other than as described above, the adoption of other accounting standards, interpretations and amendments did not have any significant impact on the Group and the Bank.

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 2021

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16, *Interest Rate Benchmark Reform-Phase 2*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Annual improvements to MFRS Standards 2018-2020
- Amendments to MFRS 3, *Business Combinations*
- Amendments to MFRS 116, *Property, Plant and Equipment*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- Amendments to MFRS 101, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*
- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 17, *Insurance Contract*

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 annual periods beginning or after 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 on the respective effective dates.

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.

(b) Basis of measurement

The financial statements have been prepared on the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss (“FVTPL”) and fair value through other comprehensive income (“FVOCI”), 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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (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 2.22 and Note 40 – Fair value of financial instruments
- Note 2.9 – Impairment
- Note 11 – 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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

(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 at FVOCI 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.

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 FVOCI 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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

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 maturing within one month.

2.5 Financial instruments

Financial instruments are classified and measured using accounting policies as mentioned below. The Group and the Bank have consider the impact of the pandemic and there is no changes to the Group's and the Bank's business model for managing the financial instruments.

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 and 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.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and measured at: amortised cost; FVOCI - debt instrument; FVOCI - equity instrument; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group and the Bank change its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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

Included in financial assets measured at amortised cost are financing, advances and others which 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, construction-based contract (Istisna') and Ar-Rahnu contract.

These financing contracts are recorded in the financial statements as financial assets measured at amortised cost based on concept of 'substance over form' and in accordance with MFRS 9.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Classification and subsequent measurement (continued)

(b) Financial assets at FVOCI

(i) FVOCI – debt instrument

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

These assets are subsequently measured at fair value. 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 profit income, 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 OCI 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.

(ii) FVOCI – equity instrument

On initial recognition of an equity instrument that is not held for trading, the Group and the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(c) Financial assets at FVTPL

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group and the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Classification and subsequent measurement (continued)

Financial assets - Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual profit income, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's and the Bank's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and profit (“SPPI”)

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

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

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and profit (“SPPI”) (continued)

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and profit on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual profit (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

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. In the event of an embedded derivatives, the host contract that is not a financial assets are recognised separately and accounted for in accordance with the 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, 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.

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

[Registration No. 198301002944 (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 (“UA”) 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 UA 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 (“RA”) 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.

RA is accounted for as off balance sheet as the Bank has no risk and reward in respect of the assets related to the RA or to the residual cash flows from those assets except for the fee income generated by the Bank for managing the RA. The Bank also has no ability to exercise power over the RA to affect the amount of the Bank’s return. The RA is structured under the Wakalah contract whereby the 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 and the Bank 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.

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. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the allowance for impairment; and
- the premium received on initial recognition less cumulative income recognised in accordance with the principal of MFRS 15.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

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.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.6 Property and equipment (continued)

(a) *Recognition and measurement (continued)*

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 and 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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.7 Leases

Leases with non-cancellable agreements or either party has an economic incentives not to terminate the lease such that it would incur significant penalty, are recognised as Right-Of-Use (“ROU”) assets and corresponding liabilities at the date at which the leased assets are available for use by the Group and the Bank. The right-of-use assets are depreciated over the lease term on a straight-line basis.

The associated lease liabilities are measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate. The weighted average incremental borrowing rate applied for the Group and the Bank was at 5.7%.

Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lessee accounting

The Group and the Bank first consider whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’.

To apply this definition, the Group and the Bank assesses whether the contract meets three key evaluations which are whether:

- * the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group and the Bank;
- * the Group and the Bank have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; or
- * the Group and the Bank have the right to direct the use of the identified asset throughout the period of use.

The Group and the Bank assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group and the Bank recognises a right-of-use asset and a lease liability on the statement of financial position. The ROU asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group and the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group and the Bank depreciates the ROU assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The Group and the Bank also assesses the ROU asset for impairment when such indicators exist.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.7 Leases (continued)

Lessee accounting (continued)

Measurement and recognition of leases as a lessee (continued)

At the commencement date, the Group and the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the profit rate implicit in the lease if that rate is readily available or the Group's or Bank's incremental financing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for profit expense. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the ROU asset, or profit and loss if the ROU asset is already reduced to zero.

The Group and the Bank have elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a ROU asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Lessor accounting

As a lessor, the Group and the Bank classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Leases, where the Group and 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.

When the Group and the Bank are an intermediate lessor, it assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is short-term lease to which the Group and the Bank apply the exemption described above, then it classifies the sublease as an operating lease.

2.8 Bills and other receivables

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.9 Impairment

Impairment of financial assets

(i) Impairment of financial assets

The Group and the Bank recognise allowance for impairment or allowance for expected credit loss “ECL” on financial assets measured at amortised cost, financial guarantee contracts, financing commitments and debt securities measured at FVOCI, but not to investments in equity instruments.

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

The Group and the Bank have considered the impact of the pandemic and has taken into account the economic and financial measures announced by the Government in estimating the ECL on the financial assets.

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

- i) Stage 1: 12-months ECL (“Stage 1”)
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon recognition, the portion of lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- ii) Stage 2: Lifetime ECL - not credit impaired (“Stage 2”)
For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- iii) Stage 3: Lifetime ECL - credit impaired (“Stage 3”)
Financial assets are assessed as credit impaired when one or more events that have a negative impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised.

The Group and the Bank consider the economic and financial measures announced by the Government, i.e. automatic moratorium as well as rescheduling and restructuring for eligible customers are granted as part of an unprecedented government effort to support the economy amid the pandemic, rather than in response to the financial circumstances of individual customers. Judgement is exercised in determining the significant increase in credit risk for customers receiving relief assistance and do not automatically result in a stage transfer.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.9 Impairment (continued)

Impairment of financial assets (continued)

(i) Impairment of financial assets (continued)

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

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

The Group and the Bank assess whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets 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.

(ii) Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and the Bank expect to receive).

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

(iii) Incorporation of forward-looking information

Relevant macroeconomic factors are incorporated in the risk parameters as appropriate. The key macroeconomics variables ("MEV") that are incorporated in determining ECLs include, but not limited to, Kuala Lumpur Composite Index ("KLCI"), Unemployment Rate, House Price Index ("HPI"), Consumer Price Index ("CPI"), and Industrial Production Index ("IPI"). To reflect the impact of the pandemic, the Group and the Bank extend the MEV to, among others, Gross Domestic Product ("GDP").

Forward-looking macroeconomic forecasts are generated by the Group's and the Bank's Economist as part of the ECL process. An economic forecast is accompanied with three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one upside and one downside. The Group and the Bank have revised the probability of occurring as below:

| Economic scenarios | As previously disclosed | Revised |
|--------------------|-------------------------|---------|
| Base case | 60% | 60% |
| Upside | 30% | 20% |
| Downside | 10% | 20% |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.9 Impairment (continued)

Impairment of financial assets (continued)

(iii) Incorporation of forward-looking information (continued)

Selected MEVs are projected over the forecast period, and they could have a material impact in determining ECLs. Forecasted MEVs are derived by Economist using time series econometrics. The data series are procured from the official source such as Department of Statistics Malaysia (“DOSM”), BNM and other government agencies. Prior to MEV forecast, Economists would gather his or her intelligence from discussion with the policy makers, institutional investors and other news flow (main stream and social media) in order to form an opinion. The opinion may cover the economic policies, business cycle and financial market condition. This will be the main input before embarking MEV forecast exercise.

The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

(iv) Credit impaired financial assets

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

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in profit or principal payments;
- the restructuring of a financing or advance by the Group and the Bank on terms that the Group and the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- based on external credit assessment institutions rating which indicates high likelihood of default.

(v) Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in other comprehensive income.

(vi) Restructured financing

A financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated financing is a substantially different instrument. Where such financing are derecognised, the renegotiated contract is a new financing and impairment is assessed in accordance with the Group’s and the Bank’s accounting policy.

Where the renegotiation of such financing are not derecognised, the gross carrying amount is recalculated based on the revised cash flows with gain or loss on modification recognised in profit or loss. Impairment continues to be assessed for significant increases in credit risk compared to the initial origination credit risk rating.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.9 Impairment (continued)

Impairment of financial assets (continued)

(vii) Write-off

The gross carrying amount of a financial asset is written-off when the Group and the Bank have no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group and the Bank have a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For commercial and corporate customers, the Group and the Bank individually make an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group and the Bank expect no significant recovery from the amount written-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's and the Bank's procedures for recovery of amounts due.

Impairment of 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.

2.10 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.

2.11 Provisions

A provision is recognised if, as a result of a past event, the Group and the Bank have 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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.12 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.

2.13 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.

2.14 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.

2.15 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.

Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period. Distributions to holders of an equity instrument is recognised directly in equity.

2.16 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 effective profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.16 Recognition of income (continued)

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 tax, discounts on satisfaction of performance obligations and 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.

2.17 Material profit or loss items

The Group and the Bank have identified item which is material due to the significance of their nature and/ or their amount. This is listed separately here to provide a better understanding of the financial performance of the Group and of the Bank.

| | Group and Bank | |
|--|------------------|----------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Loss on modification of financial assets | <u>(136,380)</u> | <u>-</u> |

During the financial period, the Group and the Bank granted an automatic moratorium on certain financing repayments (except for credit card balances), to individuals and small and medium enterprises (SMEs) for a period of six months from 1 April 2020. The automatic moratorium was applicable to financing that are not in arrears exceeding 90 days and denominated in Malaysian Ringgit. This measure was to assist customers experiencing temporary financial constraints due to the COVID-19 pandemic.

Following the end of the six-month blanket moratorium, the Group and the Bank continue to support financing customers that face difficulties in fulfilling their financial obligation, through the Targeted Repayment Assistance ("TRA") program.

As a result of the payment moratorium and TRA, the Group and the Bank recognised a one-off loss of RM136,380,000 arising from the modification of the expected cash flows of the financing.

The following table includes a summary of information for financial assets with lifetime ECL whose cash flows were modified during the financial year as part of the Group and Bank's restructuring activities and their respective effect on the Group and the Bank's financial performance:

| | Group and Bank | |
|------------------------------------|------------------|----------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Financing, advances and others: | | |
| Amortised cost before modification | 1,881,218 | - |
| Net modification loss | <u>1,867,943</u> | <u>-</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 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.

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 and termination benefits 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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

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 and the Bank have access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group and the Bank measure 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 and the Bank use 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.

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 and the Bank 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 and the Bank recognise 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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

3. Cash and short-term funds

| | Group | | Bank | |
|---|------------------|------------------|------------------|------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Cash and balances with banks and other financial institutions | 725,644 | 821,600 | 725,548 | 821,071 |
| Money at call and interbank placements with remaining maturity not exceeding one month | 4,490,732 | 1,992,733 | 4,490,732 | 1,992,385 |
| | <u>5,216,376</u> | <u>2,814,333</u> | <u>5,216,280</u> | <u>2,813,456</u> |

All bank balances are assessed to have low credit risk as they are held with reputable banking institutions and the identified expected credit loss was immaterial.

Cash and bank balances of the Group includes restricted cash amounting to RM4,423,000 (2019: RM54,764,000) which is attributed to the creation of units of the funds. Accordingly, amount due to trustee was recognised and disclosed in Note 19 to the financial statements.

4. Deposits and placements with banks and other financial institutions

| | Group | | Bank | |
|------------------------|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Bank Negara Malaysia | - | 658,053 | - | 658,053 |
| Licensed Islamic Banks | 361 | - | - | - |
| | <u>361</u> | <u>658,053</u> | <u>-</u> | <u>658,053</u> |

Deposits and placements balances of the Group includes restricted cash amounting to RM361,000 (2019: RM Nil) which is attributed to one of the subsidiary's customer placement with the Bank.

5. Financial assets at fair value through profit and loss ("FVTPL")

| | Group | | Bank | |
|---------------------------------|------------------|----------------|------------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Money market instruments | | | | |
| Malaysian Government | | | | |
| Investment Issues | 602,925 | 274,162 | 602,925 | 274,162 |
| Unit trust | 238,490 | 239,130 | 232,730 | 233,505 |
| Malaysian Islamic Treasury | | | | |
| Bills | 243,618 | 99,571 | 243,618 | 99,571 |
| Islamic Commercial Paper | 30,051 | 50,189 | 30,051 | 50,189 |
| Corporate Sukuk | 66,116 | 16 | 66,116 | 16 |
| | <u>1,181,200</u> | <u>663,068</u> | <u>1,175,440</u> | <u>657,443</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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. 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 | 2020 | |
|-------------------|------------------------------|------------------|-----------------------|
| | | Fair value | |
| | | Assets RM'000 | Liabilities RM'000 |
| Forward contracts | 8,518,422 | 59,494 | (104,228) |
| Profit rate swaps | 114,056 | 2,171 | (1,644) |
| | 8,632,478 | 61,665 | (105,872) |

| Group and Bank | Notional amount RM'000 | 2019 | |
|-------------------|------------------------------|------------------|-----------------------|
| | | Fair value | |
| | | Assets RM'000 | Liabilities RM'000 |
| Forward contracts | 6,255,520 | 31,626 | (35,927) |
| Profit rate swaps | 147,098 | 1,700 | (819) |
| | 6,402,618 | 33,326 | (36,746) |

7. Financial assets at fair value through other comprehensive income ("FVOCI")

| | Group | | Bank | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Financial assets at FVOCI: | | | | |
| (a) Debt instrument* | 12,494,040 | 12,099,681 | 12,494,040 | 12,099,681 |
| (b) Equity instrument | 63,951 | 46,959 | 64,689 | 47,697 |
| | 12,557,991 | 12,146,640 | 12,558,729 | 12,147,378 |

* Included in debt instruments are investment made in Malaysian Government Securities ("MGS") and Malaysian Government Investment Issues ("MGII") amounting to RM600,000,000 (2019: RM Nil) as part of the Bank's Statutory Reserves Requirements ("SRR") compliance.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

7. Financial assets at fair value through other comprehensive income (“FVOCI”) (continued)

(a) Debt instrument at FVOCI

| | Group and Bank | |
|--|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 |
| Money market instruments | | |
| Malaysian Government Investment Issues | 2,919,864 | 2,253,390 |
| Corporate Sukuk | 9,314,815 | 9,615,420 |
| Islamic Commercial Papers | 259,361 | 230,871 |
| | <u>12,494,040</u> | <u>12,099,681</u> |

Movement of allowance for impairment on financial assets at FVOCI income:

| | Group and Bank | |
|-------------------------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Stage 1 | | |
| At 1 January | 265 | 302 |
| Net allowances made during the year | 138 | (37) |
| At 31 December | <u>403</u> | <u>265</u> |

(b) Equity instrument at FVOCI

| | Group | | Bank | |
|------------------------|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Quoted Shares | | | | |
| - outside Malaysia# | <u>13,755</u> | <u>8,978</u> | <u>13,755</u> | <u>8,978</u> |
| Unquoted Shares | | | | |
| - in Malaysia* | 50,194 | 37,979 | 50,932 | 38,717 |
| - outside Malaysia | 2 | 2 | 2 | 2 |
| | <u>50,196</u> | <u>37,981</u> | <u>50,934</u> | <u>38,719</u> |
| | <u>63,951</u> | <u>46,959</u> | <u>64,689</u> | <u>47,697</u> |

Equity instrument at FVOCI mainly comprise the following significant individual investment:

| | Fair value | | Dividend income | |
|---------------------------------------|----------------|----------------|-----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| #Amana Bank Limited | 13,755 | 8,978 | 503 | 545 |
| *Payment Networks Malaysia Sdn Bhd | <u>49,478</u> | <u>37,264</u> | <u>-</u> | <u>-</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others

(a) By type and Shariah contract

| Group and Bank 2020 | 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 | Istisna' RM'000 | Ar- Rahnu RM'000 | Total RM'000 |
|--|------------------------------------|---------------------|---------------------------|---------------------------|---------------------------|---|--------------------|------------------------|-------------------|
| Cash line | - | - | - | 1,465 | 1,287,126 | - | - | - | 1,288,591 |
| Term financing | | | | | | | | | |
| House financing | 3,238,398 | - | - | - | 18,280,073 | - | 45,780 | - | 21,564,251 |
| Syndicated financing | - | - | - | - | 1,459,016 | - | - | - | 1,459,016 |
| Leasing financing | - | - | - | - | - | 114,300 | - | - | 114,300 |
| Bridging financing | - | - | - | - | - | - | 47,380 | - | 47,380 |
| Personal financing | - | - | - | 5,256 | 16,816,181 | - | - | - | 16,821,437 |
| Other term financing | 487,567 | 1,411,820 | - | 15 | 10,736,190 | - | 1,119 | - | 12,636,711 |
| Staff financing | 46,367 | 15,847 | - | - | 307,861 | - | 7,584 | - | 377,659 |
| Credit cards | - | - | - | - | 447,471 | - | - | - | 447,471 |
| Trade bills discounted | - | 631,567 | 31,221 | 3,034 | 164,888 | - | - | - | 830,710 |
| Trust receipts | - | 5,584 | 5 | - | - | - | - | - | 5,589 |
| Pawn broking | - | - | - | - | - | - | - | 5,481 | 5,481 |
| | 3,772,332 | 2,064,818 | 31,226 | 9,770 | 49,498,806 | 114,300 | 101,863 | 5,481 | 55,598,596 |
| Allowance for impairment on financing, advances and others | | | | | | | | | |
| - Stage 1 | | | | | | | | | (653,983) |
| - Stage 2 | | | | | | | | | (151,446) |
| - Stage 3 | | | | | | | | | (122,532) |
| Net financing, advances and others | | | | | | | | | 54,670,635 |

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

| Group and Bank 2019 | 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 | Istisna' RM'000 | Ar- Rahnu RM'000 | Total RM'000 |
|--|------------------------------------|---------------------|---------------------------|---------------------------|---------------------------|---|--------------------|------------------------|-------------------|
| At amortised cost | | | | | | | | | |
| Cash line | - | - | - | 1,497 | 1,429,391 | - | - | - | 1,430,888 |
| Term financing | | | | | | | | | |
| House financing | 3,422,625 | - | - | - | 16,194,868 | - | 47,072 | - | 19,664,565 |
| Syndicated financing | - | - | - | - | 1,032,250 | - | - | - | 1,032,250 |
| Leasing financing | - | - | - | - | - | 111,653 | - | - | 111,653 |
| Bridging financing | - | - | - | - | - | - | 52,122 | - | 52,122 |
| Personal financing | - | - | - | 6,680 | 14,614,052 | - | - | - | 14,620,732 |
| Other term financing | 721,670 | 1,290,035 | - | 24 | 9,591,672 | - | 1,130 | - | 11,604,531 |
| Staff financing | 52,414 | 10,872 | - | - | 179,838 | - | 8,372 | - | 251,496 |
| Credit cards | - | - | - | - | 492,829 | - | - | - | 492,829 |
| Trade bills discounted | - | 772,494 | 113,840 | - | - | - | - | - | 886,334 |
| Trust receipts | - | 5,269 | - | 193 | - | - | - | - | 5,462 |
| Pawn broking | - | - | - | - | - | - | - | 71,107 | 71,107 |
| | 4,196,709 | 2,078,670 | 113,840 | 8,394 | 43,534,900 | 111,653 | 108,696 | 71,107 | 50,223,969 |
| Allowance for impairment on financing, advances and others | | | | | | | | | |
| - Stage 1 | | | | | | | | | (431,135) |
| - Stage 2 | | | | | | | | | (148,115) |
| - Stage 3 | | | | | | | | | (172,197) |
| Net financing, advances and others | | | | | | | | | 49,472,522 |

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

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

| | | Group | |
|----------------------------------|------|-------------------|------------------|
| | Note | 2020 RM'000 | 2019 RM'000 |
| House financing | | | |
| Unrestricted Investment Accounts | 16 | 8,740,902 | 6,726,143 |
| Sold to Cagamas with recourse | 17 | 1,501,187 | 1,501,187 |
| | | <u>10,242,089</u> | <u>8,227,330</u> |
| Personal financing | | | |
| Unrestricted Investment Accounts | 16 | 3,627,626 | 3,514,230 |

(b) By type of customer

| | Group and Bank | |
|--|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 |
| Domestic non-bank financial institutions | 1,473,316 | 1,595,043 |
| Domestic business enterprise | 9,859,263 | 8,384,026 |
| Small & medium enterprises | 1,799,003 | 2,017,946 |
| Government & statutory bodies | 743,051 | 729,905 |
| Individuals | 41,353,603 | 37,227,020 |
| Other domestic entities | 102,008 | 71,582 |
| Foreign entities | 268,352 | 198,447 |
| | <u>55,598,596</u> | <u>50,223,969</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(c) By profit rate sensitivity

| | Group and Bank | |
|-----------------|-------------------|-------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Fixed rate | | |
| House financing | 732,437 | 985,880 |
| Others | 3,859,673 | 3,700,354 |
| Floating rate | | |
| House financing | 21,485,764 | 19,299,203 |
| Others | 29,520,722 | 26,238,532 |
| | <u>55,598,596</u> | <u>50,223,969</u> |

(d) By remaining contractual maturity

| | Group and Bank | |
|-------------------------------------|-------------------|-------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Maturity within one year | 3,660,883 | 4,615,374 |
| More than one year to three years | 1,516,856 | 1,265,070 |
| More than three years to five years | 3,272,167 | 3,230,831 |
| More than five years | 47,148,690 | 41,112,694 |
| | <u>55,598,596</u> | <u>50,223,969</u> |

(e) By geographical distribution

| | Group and Bank | |
|----------------------|-------------------|-------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Central Region | 25,745,132 | 23,794,695 |
| Eastern Region | 8,757,468 | 7,861,683 |
| Northern Region | 7,431,066 | 6,673,024 |
| Southern Region | 9,416,361 | 8,278,422 |
| East Malaysia Region | 4,248,569 | 3,616,145 |
| | <u>55,598,596</u> | <u>50,223,969</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(f) By sector

| | Group and Bank | |
|---|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 |
| Primary agriculture | 1,044,451 | 1,266,687 |
| Mining and quarrying | 67,305 | 38,712 |
| Manufacturing (including agro-based) | 1,001,272 | 881,445 |
| Electricity, gas and water supply | 2,032,684 | 1,863,658 |
| Wholesale & retail trade, and restaurants & hotels | 951,149 | 927,772 |
| Construction | 2,736,468 | 2,238,954 |
| Transport, storage and communications | 681,659 | 918,959 |
| Finance, insurance, real estate and business activities | 4,557,954 | 3,731,211 |
| Education, health and others | 1,168,902 | 1,126,374 |
| Household sectors | 41,356,752 | 37,230,197 |
| | <u>55,598,596</u> | <u>50,223,969</u> |

(g) Movement in impaired financing and advances (“impaired financing”)

| | Group and Bank | |
|--|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| At 1 January | 433,001 | 425,937 |
| Classified as impaired during the year | 311,012 | 701,221 |
| Reclassified as not impaired during the year | (190,989) | (372,172) |
| Amount recovered | (67,114) | (97,001) |
| Amount written-off | (112,676) | (224,984) |
| At 31 December | <u>373,234</u> | <u>433,001</u> |
| Gross impaired financing as a percentage of gross financing, advances and others | <u>0.67%</u> | <u>0.86%</u> |

The contractual amount outstanding on financing and advances that were written-off during the year are still subject to enforcement activity.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(h) Impaired financing by geographical distribution

| | Group and Bank | |
|----------------------|----------------|----------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Central Region | 174,617 | 181,730 |
| Eastern Region | 86,291 | 101,743 |
| Northern Region | 78,220 | 79,976 |
| Southern Region | 19,167 | 47,527 |
| East Malaysia Region | 14,939 | 22,025 |
| | <u>373,234</u> | <u>433,001</u> |

(i) Impaired financing by sector

| | Group and Bank | |
|---|----------------|----------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Manufacturing (including agro-based) | 28,328 | 45,715 |
| Wholesale & retail trade, and hotels & restaurants | 89,812 | 97,043 |
| Construction | 36,220 | 29,361 |
| Transport, storage and communications | 17,801 | 10,217 |
| Finance, insurance, real estate and business activities | 6,141 | 8,125 |
| Education, health & others | 3,969 | 8,179 |
| Household sectors | 190,963 | 234,361 |
| | <u>373,234</u> | <u>433,001</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

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

| Group and Bank | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| At 1 January 2019 | 416,450 | 129,402 | 243,853 | 789,705 |
| Transfer to Stage 1 | 1,931 | (1,798) | (133) | - |
| Transfer to Stage 2 | (6,868) | 9,175 | (2,307) | - |
| Transfer to Stage 3 | (461) | (8,696) | 9,157 | - |
| Net allowance made during the year | (59,446) | 45,272 | 149,340 | 135,166 |
| New financial assets originated or purchased | 127,923 | 2,567 | 2,411 | 132,901 |
| Financial assets that have been derecognised | (44,291) | (27,807) | (5,140) | (77,238) |
| Write-offs | - | - | (224,984) | (224,984) |
| Exchange differences | (4,103) | - | - | (4,103) |
| At 31 December 2019/1 January 2020 | 431,135 | 148,115 | 172,197 | 751,447 |
| Transfer to Stage 1 | 1,245 | (1,179) | (66) | - |
| Transfer to Stage 2 | (7,782) | 10,508 | (2,726) | - |
| Transfer to Stage 3 | (264) | (7,659) | 7,923 | - |
| Net allowance made during the year | 134,059 | 13,592 | 60,558 | 208,209 |
| New financial assets originated or purchased | 139,295 | 6,403 | 686 | 146,384 |
| Financial assets that have been derecognised | (44,708) | (18,334) | (3,364) | (66,406) |
| Write-offs | - | - | (112,676) | (112,676) |
| Exchange differences | 1,003 | - | - | 1,003 |
| At 31 December 2020 | 653,983 | 151,446 | 122,532 | 927,961 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

(k) Effect of modifications on the measurement of allowance for impaired financing, advances and others

The following table discloses information on financing and advances that were modified but not derecognised during the year, for which the allowance for impaired financing, advances and others were measured at a lifetime ECL at the beginning of the year, and at the end of the year had changed to a 12-months ECL:

| | Group and Bank | |
|--|----------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Amortised cost before the modification | 431 | 10,405 |
| Gross carrying amount at end of reporting period | <u>439</u> | <u>10,268</u> |

9. Other financial assets at amortised cost

| | Group | | Bank | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sukuk | 5,289 | 5,684 | 5,289 | 5,684 |
| Other receivables | 168,256 | 116,813 | 157,952 | 112,856 |
| Deposit and prepayments | 41,012 | 32,846 | 40,457 | 32,071 |
| Related companies* | <u>1,056</u> | <u>1,033</u> | <u>1,154</u> | <u>1,110</u> |
| | 215,613 | 156,376 | 204,852 | 151,721 |
| Less: Allowance for impairment | | | | |
| Stage 3 | | | | |
| -Sukuk | (5,289) | (5,684) | (5,289) | (5,684) |
| -Other receivables | <u>(2,975)</u> | <u>(5,475)</u> | <u>(2,975)</u> | <u>(5,475)</u> |
| | <u>207,349</u> | <u>145,217</u> | <u>196,588</u> | <u>140,562</u> |

* 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.

10. 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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

11. Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

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

| | Group | | Bank | |
|---------------------------------|------------------|----------------|------------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Deferred tax assets | 1,511 | 33,774 | - | 32,268 |
| Deferred tax liabilities | (74,445) | - | (74,445) | - |
| | (72,934) | 33,774 | (74,445) | 32,268 |
| Deferred tax assets: | | | | |
| Provisions | 32,505 | 33,347 | 32,520 | 33,347 |
| Impairment allowances | 86,457 | 33,108 | 86,457 | 33,108 |
| Leases | 24,673 | 23,142 | 24,646 | 23,142 |
| Tax losses | 1,510 | 1,510 | - | - |
| Offsetting | (143,634) | (57,333) | (143,623) | (57,329) |
| Total deferred tax assets | 1,511 | 33,774 | - | 32,268 |
| Deferred tax liabilities: | | | | |
| Property and equipment | (6,370) | (3,462) | (6,359) | (3,458) |
| Change in fair value reserves | (48,379) | (53,871) | (48,379) | (53,871) |
| Deferred income from moratorium | (163,330) | - | (163,330) | - |
| Offsetting | 143,634 | 57,333 | 143,623 | 57,329 |
| Total deferred tax liabilities | (74,445) | - | (74,445) | - |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

11. Deferred tax assets (continued)

The movement in temporary differences during the year are as follows:

| | Provisions RM'000 | Impairment allowances RM'000 | Leases RM'000 | Unabsorb- ed Capital Allowances RM'000 | Deferred income from moratorium RM'000 | Tax losses RM'000 | Property and equipment RM'000 | Change in fair value reserve RM'000 | Total RM'000 |
|--|----------------------|------------------------------------|------------------|---|---|-------------------------|--|--|------------------|
| Group | | | | | | | | | |
| At 1 January 2019 | 29,787 | 26,860 | - | 829 | - | 1,308 | (6,568) | (831) | 51,385 |
| Effect upon adoption of MFRS 16 | - | - | 21,258 | - | - | - | - | - | 21,258 |
| At 1 January 2019 | 29,787 | 26,860 | 21,258 | 829 | - | 1,308 | (6,568) | (831) | 72,643 |
| Recognised in profit or loss | 3,560 | 6,248 | 1,884 | (829) | - | 202 | 3,106 | - | 14,171 |
| Recognised in other comprehensive income | - | - | - | - | - | - | - | (53,040) | (53,040) |
| At 31 December 2019/ 1 January 2020 | 33,347 | 33,108 | 23,142 | - | - | 1,510 | (3,462) | (53,871) | 33,774 |
| Recognised in profit or loss | (842) | 53,349 | 1,531 | - | (163,330) | - | (2,908) | - | (112,200) |
| Recognised in other comprehensive income | - | - | - | - | - | - | - | 5,492 | 5,492 |
| At 31 December 2020 | 32,505 | 86,457 | 24,673 | - | (163,330) | 1,510 | (6,370) | (48,379) | (72,934) |
| Bank | | | | | | | | | |
| At 1 January 2019 | 29,532 | 26,860 | - | 829 | - | - | (6,548) | (831) | 49,842 |
| Effect upon adoption of MFRS 16 | - | - | 21,258 | - | - | - | - | - | 21,258 |
| At 1 January 2019 | 29,532 | 26,860 | 21,258 | 829 | - | - | (6,548) | (831) | 71,100 |
| Recognised in profit or loss | 3,815 | 6,248 | 1,884 | (829) | - | - | 3,090 | - | 14,208 |
| Recognised in other comprehensive income | - | - | - | - | - | - | - | (53,040) | (53,040) |
| At 31 December 2019/ 1 January 2020 | 33,347 | 33,108 | 23,142 | - | - | - | (3,458) | (53,871) | 32,268 |
| Recognised in profit or loss | (827) | 53,349 | 1,504 | - | (163,330) | - | (2,901) | - | (112,205) |
| Recognised in other comprehensive income | - | - | - | - | - | - | - | 5,492 | 5,492 |
| At 31 December 2020 | 32,520 | 86,457 | 24,646 | - | (163,330) | - | (6,359) | (48,379) | (74,445) |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

11. Deferred tax assets (continued)

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

| | Group | | Bank | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Unabsorbed capital allowance | 131,819 | 131,819 | 131,784 | 131,784 |
| Unutilised tax losses | 1,251 | 1,251 | - | - |
| Deductible temporary differences | 329 | 329 | - | - |
| | <u>133,399</u> | <u>133,399</u> | <u>131,784</u> | <u>131,784</u> |

Under the current tax legislation, the unutilised tax losses will expire in year 2025 where the unutilised capital allowance do not expire.

The Bank's unabsorbed capital allowances of RM131,784,000 (2019: RM131,784,000) is in respect of its leasing business, whereby management considered it is uncertain whether the Bank is able to utilise the benefits in the future. As such, deferred tax assets have not been recognised.

12. Rights-of-use assets and lease liabilities

The statement of financial position shows the following amounts relating to leases:

| | Group and Bank | |
|----------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Right-of-use assets: | | |
| Buildings | <u>209,736</u> | <u>229,135</u> |
| Lease liabilities | <u>312,429</u> | <u>325,559</u> |

The statement of profit or loss shows the following amounts relating to leases:

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Depreciation charge on right-of-use assets | 18,348 | 15,141 | 18,317 | 15,141 |
| Finance cost | 17,836 | 18,040 | 17,835 | 18,040 |
| Expenses relating to short-term leases | <u>35,192</u> | <u>36,119</u> | <u>35,477</u> | <u>35,979</u> |

The nature of the Group's and the Bank's leasing activities recognised in the statement of financial position are described as below:

| | No. of leases | Range of remaining terms | Average remaining lease terms | No. of leases with termination option |
|----------------------------|---------------|--------------------------|-------------------------------|---------------------------------------|
| Right-of-use assets | | | | |
| Buildings | 8 | 0.3 - 15.5 years | 13.97 years | 8 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

12. Rights-of-use assets and lease liabilities (continued)

Future minimum lease payments at 31 December 2020 are as follows:

| | Minimum lease payment due | | | Total RM'000 |
|-------------------------|---------------------------|-----------------------|---------------------|-----------------|
| | Within 1 year RM'000 | 1 – 3 years RM'000 | > 5 years RM'000 | |
| 31 December 2020 | | | | |
| Lease payment | 30,639 | 81,604 | 365,537 | 477,780 |
| Finance cost | 17,203 | 47,918 | 100,230 | 165,351 |
| Net present value | 13,436 | 33,686 | 265,307 | 312,429 |
| 31 December 2019 | | | | |
| Lease payment | 30,146 | 85,693 | 393,035 | 508,874 |
| Finance cost | 17,890 | 49,852 | 115,573 | 183,315 |
| Net present value | 12,256 | 35,841 | 277,462 | 325,559 |

13. Investments in subsidiaries

| | Bank | |
|-----------------------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| At cost | | |
| Unquoted shares in Malaysia | 16,447 | 16,447 |
| Less: Accumulated impairment loss | (922) | (922) |
| | <u>15,525</u> | <u>15,525</u> |

Details of subsidiaries are as follows:

| Name of Company | Principal activities | Effective ownership interest | |
|--|--|------------------------------|-----------|
| | | 2020 % | 2019 % |
| 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. and its subsidiary: | Provides services as a Labuan registered trust company | 100 | 100 |
| 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

[Registration No. 198301002944 (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 2020 | 14,784 | 35,764 | 135,352 | 102,239 | 445,043 | 943 | 4,362 | 23,428 | 761,915 |
| Additions | - | 646 | 2,370 | 4,478 | 32,100 | - | 2,130 | 51,155 | 92,879 |
| Reclassifications | - | 372 | 1,782 | 351 | 17,908 | - | (2,505) | (17,908) | - |
| Disposals | - | - | (81) | (85) | (903) | - | - | - | (1,069) |
| Written-off | - | (749) | (2,770) | (4,391) | (13,584) | - | - | - | (21,494) |
| Exchange difference | - | - | (5) | (7) | (6) | - | - | - | (18) |
| At 31 December 2020 | 14,784 | 36,033 | 136,648 | 102,585 | 480,558 | 943 | 3,987 | 56,675 | 832,213 |
| <i>Accumulated depreciation</i> | | | | | | | | | |
| At 1 January 2020 | 2,174 | 27,857 | 101,793 | 89,781 | 344,014 | 701 | - | - | 566,320 |
| Depreciation for the year | 174 | 1,849 | 8,871 | 5,881 | 39,678 | 93 | - | - | 56,546 |
| Disposals | - | - | (81) | (85) | (901) | - | - | - | (1,067) |
| Written-off | - | (583) | (2,092) | (4,342) | (13,552) | - | - | - | (20,569) |
| Exchange difference | - | - | (5) | (6) | (6) | - | - | - | (17) |
| At 31 December 2020 | 2,348 | 29,123 | 108,486 | 91,229 | 369,233 | 794 | - | - | 601,213 |
| <i>Net carrying amount</i> | | | | | | | | | |
| At 31 December 2020 | 12,436 | 6,910 | 28,162 | 11,356 | 111,325 | 149 | 3,987 | 56,675 | 231,000 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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>Cost</i> | | | | | | | | | |
| At 1 January 2019 | 14,784 | 34,604 | 130,884 | 98,773 | 388,379 | 943 | 4,846 | 36,874 | 710,087 |
| Additions | - | 917 | 2,645 | 3,795 | 26,501 | - | 3,272 | 21,782 | 58,912 |
| Reclassifications | - | 511 | 2,609 | 607 | 35,257 | - | (3,756) | (35,228) | - |
| Disposals | - | - | - | (20) | (4,998) | - | - | - | (5,018) |
| Written-off | - | (268) | (783) | (911) | (93) | - | - | - | (2,055) |
| Exchange difference | - | - | (3) | (5) | (3) | - | - | - | (11) |
| At 31 December 2019 | 14,784 | 35,764 | 135,352 | 102,239 | 445,043 | 943 | 4,362 | 23,428 | 761,915 |
| <i>Accumulated depreciation</i> | | | | | | | | | |
| At 1 January 2019 | 2,000 | 26,124 | 92,723 | 84,438 | 315,378 | 608 | - | - | 521,271 |
| Depreciation for the year | 174 | 1,989 | 9,829 | 6,263 | 33,701 | 93 | - | - | 52,049 |
| Disposals | - | - | - | (18) | (4,998) | - | - | - | (5,016) |
| Written-off | - | (256) | (756) | (897) | (64) | - | - | - | (1,973) |
| Exchange difference | - | - | (3) | (5) | (3) | - | - | - | (11) |
| At 31 December 2019 | 2,174 | 27,857 | 101,793 | 89,781 | 344,014 | 701 | - | - | 566,320 |
| <i>Net carrying amount</i> | | | | | | | | | |
| At 31 December 2019 | 12,610 | 7,907 | 33,559 | 12,458 | 101,029 | 242 | 4,362 | 23,428 | 195,595 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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>Cost</i> | | | | | | | | | |
| At 1 January 2020 | 14,784 | 35,526 | 135,263 | 101,929 | 442,917 | 943 | 4,362 | 23,428 | 759,152 |
| Additions | - | 646 | 2,370 | 4,470 | 31,913 | - | 2,130 | 51,155 | 92,684 |
| Reclassifications | - | 372 | 1,782 | 351 | 17,908 | - | (2,505) | (17,908) | - |
| Disposals | - | - | (81) | (85) | (903) | - | - | - | (1,069) |
| Written-off | - | (749) | (2,770) | (4,391) | (13,584) | - | - | - | (21,494) |
| Exchange difference | - | - | (5) | (5) | (1) | - | - | - | (11) |
| At 31 December 2020 | 14,784 | 35,795 | 136,559 | 102,269 | 478,250 | 943 | 3,987 | 56,675 | 829,262 |
| <i>Accumulated depreciation</i> | | | | | | | | | |
| At 1 January 2020 | 2,174 | 27,646 | 101,727 | 89,486 | 342,318 | 701 | - | - | 564,052 |
| Depreciation for the year | 174 | 1,833 | 8,862 | 5,877 | 39,502 | 93 | - | - | 56,341 |
| Disposals | - | - | (81) | (85) | (901) | - | - | - | (1,067) |
| Written-off | - | (583) | (2,092) | (4,342) | (13,552) | - | - | - | (20,569) |
| Exchange difference | - | - | (5) | (5) | (1) | - | - | - | (11) |
| At 31 December 2020 | 2,348 | 28,896 | 108,411 | 90,931 | 367,366 | 794 | - | - | 598,746 |
| <i>Net carrying amount</i> | | | | | | | | | |
| At 31 December 2020 | 12,436 | 6,899 | 28,148 | 11,338 | 110,884 | 149 | 3,987 | 56,675 | 230,516 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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>Cost</i> | | | | | | | | | |
| At 1 January 2019 | 14,784 | 34,369 | 130,801 | 98,433 | 386,328 | 943 | 4,846 | 36,874 | 707,378 |
| Additions | - | 914 | 2,639 | 3,794 | 26,453 | - | 3,272 | 21,782 | 58,854 |
| Reclassifications | - | 511 | 2,609 | 636 | 35,228 | - | (3,756) | (35,228) | - |
| Disposals | - | - | - | (20) | (4,998) | - | - | - | (5,018) |
| Written-off | - | (268) | (783) | (911) | (93) | - | - | - | (2,055) |
| Exchange difference | - | - | (3) | (3) | (1) | - | - | - | (7) |
| At 31 December 2019 | 14,784 | 35,526 | 135,263 | 101,929 | 442,917 | 943 | 4,362 | 23,428 | 759,152 |
| <i>Accumulated depreciation</i> | | | | | | | | | |
| At 1 January 2019 | 2,000 | 25,936 | 92,666 | 84,115 | 313,900 | 608 | - | - | 519,225 |
| Depreciation for the year | 174 | 1,966 | 9,820 | 6,260 | 33,510 | 93 | - | - | 51,823 |
| Disposals | - | - | - | (18) | (4,998) | - | - | - | (5,016) |
| Written-off | - | (256) | (756) | (868) | (93) | - | - | - | (1,973) |
| Exchange difference | - | - | (3) | (3) | (1) | - | - | - | (7) |
| At 31 December 2019 | 2,174 | 27,646 | 101,727 | 89,486 | 342,318 | 701 | - | - | 564,052 |
| <i>Net carrying amount</i> | | | | | | | | | |
| At 31 December 2019 | 12,610 | 7,880 | 33,536 | 12,443 | 100,599 | 242 | 4,362 | 23,428 | 195,100 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

15. Deposits from customers

(a) By type of deposit

| | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Savings Deposit | | | | |
| <i>Qard</i> | 6,051,242 | 4,681,710 | 6,051,242 | 4,681,710 |
| Demand Deposit | | | | |
| <i>Qard</i> | 11,742,875 | 10,967,942 | 11,752,697 | 11,029,237 |
| Term Deposit | 33,163,038 | 31,653,852 | 33,171,405 | 31,660,691 |
| Special Investment Deposit <i>Mudharabah</i> | 3,662 | 3,915 | 3,662 | 3,915 |
| General Investment Deposit <i>Mudharabah</i> | 176,359 | 209,693 | 176,359 | 209,693 |
| Term Deposit-i <i>Tawarruq</i> | 31,496,106 | 30,448,694 | 31,504,473 | 30,455,533 |
| Negotiable Islamic Debt Certificates (NIDC) | 1,486,911 | 991,550 | 1,486,911 | 991,550 |
| Others | <u>120,107</u> | <u>105,234</u> | <u>120,107</u> | <u>105,234</u> |
| Total Deposits | <u>51,077,262</u> | <u>47,408,738</u> | <u>51,095,451</u> | <u>47,476,872</u> |

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

| | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Due within six months | 18,093,028 | 12,162,445 | 18,093,941 | 12,163,806 |
| More than six months to one year | 9,960,654 | 7,726,707 | 9,962,675 | 7,727,809 |
| More than one year to three years | 2,336,348 | 9,056,935 | 2,341,781 | 9,061,311 |
| More than three years to five years | <u>2,773,008</u> | <u>2,707,765</u> | <u>2,773,008</u> | <u>2,707,765</u> |
| | <u>33,163,038</u> | <u>31,653,852</u> | <u>33,171,405</u> | <u>31,660,691</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

15. Deposits from customers (continued)

(c) By type of customers

| | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Domestic non-bank financial institutions | 6,901,831 | 7,823,994 | 6,920,020 | 7,892,128 |
| Business enterprises | 20,921,604 | 19,656,635 | 20,921,604 | 19,656,635 |
| Government and statutory bodies | 13,033,032 | 11,479,529 | 13,033,032 | 11,479,529 |
| Individuals | 7,042,432 | 5,893,922 | 7,042,431 | 5,893,922 |
| Domestic banking institutions | 718,962 | 149,839 | 718,962 | 149,839 |
| Others | 2,459,401 | 2,404,819 | 2,459,402 | 2,404,819 |
| | <u>51,077,262</u> | <u>47,408,738</u> | <u>51,095,451</u> | <u>47,476,872</u> |

16. Investment accounts of customers

(a) By type and Shariah contract

| | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Unrestricted investment accounts | | | | |
| Without maturity: | | | | |
| <i>Mudharabah</i> | 5,113,275 | 3,211,343 | 5,113,275 | 3,211,343 |
| - <i>Savings</i> | 4,446,643 | 2,880,046 | 4,446,643 | 2,880,046 |
| - <i>Demand</i> | 666,632 | 331,297 | 666,632 | 331,297 |
| With maturity: | | | | |
| <i>Wakalah</i> | 7,255,253 | 7,029,030 | 7,255,622 | 7,029,030 |
| | <u>12,368,528</u> | <u>10,240,373</u> | <u>12,368,897</u> | <u>10,240,373</u> |
| Restricted investment accounts ("RA") managed by the Bank[^] | | | | |
| With maturity: | | | | |
| <i>Wakalah</i> | 11,915 | 35,062 | 11,915 | 35,062 |
| | <u>11,915</u> | <u>35,062</u> | <u>11,915</u> | <u>35,062</u> |

[^] Included in RA 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 RA, with underlying assets amounting to RM11,915,000 (2019: RM35,062,000).

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

16. Investment accounts of customers (continued)

(b) By type of customers

| | Group | | Bank | |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Individuals | 4,840,308 | 3,448,415 | 4,840,308 | 3,448,415 |
| Government and statutory bodies | 4,385,196 | 3,747,895 | 4,385,196 | 3,747,895 |
| Business Enterprises | 1,130,539 | 769,038 | 1,130,539 | 769,038 |
| Non-bank financial institutions | 1,861,096 | 2,182,680 | 1,861,465 | 2,182,680 |
| International Islamic Bank | - | 10,001 | - | 10,001 |
| Others | 151,389 | 82,344 | 151,389 | 82,344 |
| | 12,368,528 | 10,240,373 | 12,368,897 | 10,240,373 |

(c) Movement of investment accounts of customers

| Group | Unrestricted investment accounts | | | Restricted investment accounts |
|---|----------------------------------|-------------------|-------------------|--------------------------------|
| | Mudharabah RM'000 | Wakalah RM'000 | Total RM'000 | Wakalah RM'000 |
| As at 1 January 2019 | 2,594,846 | 2,581,973 | 5,176,819 | 78,717 |
| <i>Funding inflows/ outflows:</i> | | | | |
| Net movement | 606,511 | - | 606,511 | - |
| New placement | - | 8,442,709 | 8,442,709 | - |
| Redemption/Principal repayment | - | (4,161,287) | (4,161,287) | (48,030) |
| Income from investment | 148,478 | 247,186 | 395,664 | 4,821 |
| <i>Bank's share of profit:</i> | | | | |
| Profit distributed to Mudharib | (138,492) | - | (138,492) | - |
| Wakalah fees | - | (81,551) | (81,551) | (446) |
| As at 31 December 2019/ 1 January 2020 | 3,211,343 | 7,029,030 | 10,240,373 | 35,062 |
| <i>Funding inflows/ outflows:</i> | | | | |
| Net movement | 1,891,324 | - | 1,891,324 | - |
| New placement | - | 7,231,351 | 7,231,351 | - |
| Redemption /Principal repayment | - | (7,216,546) | (7,216,546) | (23,849) |
| Income from investment | 167,812 | 339,397 | 507,209 | 1,278 |
| <i>Bank's share of profit:</i> | | | | |
| Profit distributed to Mudharib | (157,204) | - | (157,204) | - |
| Wakalah fees | - | (127,979) | (127,979) | (576) |
| As at 31 December 2020 | 5,113,275 | 7,255,253 | 12,368,528 | 11,915 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

16. Investment accounts of customers (continued)

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

| Bank | Unrestricted investment accounts | | | Restricted investment accounts |
|---|----------------------------------|-------------------|-------------------|--------------------------------|
| | Mudharabah RM'000 | Wakalah RM'000 | Total RM'000 | Wakalah RM'000 |
| As at 1 January 2019 | 2,594,846 | 2,581,973 | 5,176,819 | 78,717 |
| <i>Funding inflows/ outflows:</i> | | | | |
| Net movement | 606,511 | - | 606,511 | - |
| New placement | - | 8,442,709 | 8,442,709 | - |
| Redemption/Principal repayment | - | (4,161,287) | (4,161,287) | (48,030) |
| Income from investment | 148,478 | 247,186 | 395,664 | 4,821 |
| <i>Bank's share of profit:</i> | | | | |
| Profit distributed to Mudharib | (138,492) | - | (138,492) | - |
| Wakalah fees | - | (81,551) | (81,551) | (446) |
| As at 31 December 2019/ 1 January 2020 | 3,211,343 | 7,029,030 | 10,240,373 | 35,062 |
| <i>Funding inflows/ outflows:</i> | | | | |
| Net movement | 1,891,324 | - | 1,891,324 | - |
| New placement | - | 7,231,720 | 7,231,720 | - |
| Redemption /Principal repayment | - | (7,216,546) | (7,216,546) | (23,849) |
| Income from investment | 167,812 | 339,397 | 507,209 | 1,278 |
| <i>Bank's share of profit:</i> | | | | |
| Profit distributed to Mudharib | (157,204) | - | (157,204) | - |
| Wakalah fees | - | (127,979) | (127,979) | (576) |
| As at 31 December 2020 | 5,113,275 | 7,255,622 | 12,368,897 | 11,915 |
| Group | Unrestricted investment accounts | | | Restricted investment accounts |
| | Mudharabah RM'000 | Wakalah RM'000 | Total RM'000 | Wakalah RM'000 |
| <i>Investment portfolio:</i> | | | | |
| 2020 | | | | |
| House financing | 5,113,275 | 3,627,627 | 8,740,902 | - |
| Personal financing | - | 3,627,626 | 3,627,626 | - |
| Other term financing | - | - | - | 11,915 |
| | 5,113,275 | 7,255,253 | 12,368,528 | 11,915 |

16. Investment accounts of customers (continued)

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

| Group | Unrestricted investment accounts | | | Restricted investment accounts |
|------------------------------|----------------------------------|-------------------|-------------------|--------------------------------|
| | Mudharabah RM'000 | Wakalah RM'000 | Total RM'000 | Wakalah RM'000 |
| 2019 | | | | |
| House financing | 3,211,343 | 3,514,800 | 6,726,143 | - |
| Personal financing | - | 3,514,230 | 3,514,230 | - |
| Other term financing | - | - | - | 35,062 |
| | <u>3,211,343</u> | <u>7,029,030</u> | <u>10,240,373</u> | <u>35,062</u> |
| Bank | | | | |
| <i>Investment portfolio:</i> | | | | |
| 2020 | | | | |
| House financing | 5,113,275 | 3,627,811 | 8,741,086 | - |
| Personal financing | - | 3,627,811 | 3,627,811 | - |
| Other term financing | - | - | - | 11,915 |
| | <u>5,113,275</u> | <u>7,255,622</u> | <u>12,368,897</u> | <u>11,915</u> |
| 2019 | | | | |
| House financing | 3,211,343 | 3,514,800 | 6,726,143 | - |
| Personal financing | - | 3,514,230 | 3,514,230 | - |
| Other term financing | - | - | - | 35,062 |
| | <u>3,211,343</u> | <u>7,029,030</u> | <u>10,240,373</u> | <u>35,062</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

16. Investment accounts of customers (continued)

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

| Group | Total amount RM'000 | Investment account holders | | |
|-----------------------------------|------------------------|----------------------------------|----------------------------|------------------------|
| | | Average profit sharing ratio (%) | Average rate of return (%) | Bank's wakalah fee (%) |
| 2020 | | | | |
| Unrestricted investment accounts: | | | | |
| <i>Less than 3 months</i> | | | | |
| - Mudharabah | 5,113,275 | 2 | 0.25 | - |
| - Wakalah | 2,889,632 | - | 2.44 | 1.84 |
| | <u>8,002,907</u> | | | |
| <i>Between 3 to 12 months</i> | | | | |
| - Wakalah | 4,337,062 | - | 3.03 | 1.24 |
| <i>Between 1 to 2 years</i> | | | | |
| - Wakalah | 28,559 | - | 3.23 | 1.04 |
| | <u>4,365,621</u> | | | |
| | <u>12,368,528</u> | | | |
| Restricted investment accounts: | | | | |
| <i>Between 2 to 5 years</i> | <u>11,915</u> | <u>-</u> | <u>3.70</u> | <u>2.36</u> |
| 2019 | | | | |
| Unrestricted investment accounts: | | | | |
| <i>Less than 3 months</i> | | | | |
| - Mudharabah | 3,211,343 | 2 | 0.34 | - |
| - Wakalah | 1,679,479 | - | 3.86 | 1.42 |
| | <u>4,890,822</u> | | | |
| <i>Between 3 to 12 months</i> | | | | |
| - Wakalah | 5,349,551 | - | 3.60 | 1.68 |
| | <u>10,240,373</u> | | | |
| Restricted investment accounts: | | | | |
| <i>Between 2 to 5 years</i> | <u>35,062</u> | <u>-</u> | <u>2.83</u> | <u>0.75</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

16. Investment accounts of customers (continued)

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

| Bank | Total amount RM'000 | Investment account holders | | |
|-----------------------------------|--------------------------|----------------------------------|----------------------------|------------------------|
| | | Average profit sharing ratio (%) | Average rate of return (%) | Bank's wakalah fee (%) |
| 2020 | | | | |
| Unrestricted investment accounts: | | | | |
| <i>Less than 3 months</i> | | | | |
| - Mudharabah | 5,113,275 | 2 | 0.25 | - |
| - Wakalah | 2,889,632 | - | 2.44 | 1.84 |
| | <u>8,002,907</u> | | | |
| <i>Between 3 to 12 months</i> | | | | |
| - Wakalah | 4,337,062 | - | 3.03 | 1.24 |
| <i>Between 1 to 2 years</i> | | | | |
| - Wakalah | 28,928 | - | 3.23 | 1.04 |
| | <u>4,365,990</u> | | | |
| | <u><u>12,368,897</u></u> | | | |
| Restricted investment accounts: | | | | |
| <i>Between 2 to 5 years</i> | <u>11,915</u> | - | <u>3.70</u> | <u>2.36</u> |
| 2019 | | | | |
| Unrestricted investment accounts: | | | | |
| <i>Less than 3 months</i> | | | | |
| - Mudharabah | 3,211,343 | 2 | 0.34 | - |
| - Wakalah | 1,679,479 | - | 3.86 | 1.42 |
| | <u>4,890,822</u> | | | |
| <i>Between 3 to 12 months</i> | | | | |
| - Wakalah | 5,349,551 | - | 3.60 | 1.68 |
| | <u>10,240,373</u> | | | |
| Restricted investment accounts: | | | | |
| <i>Between 2 to 5 years</i> | <u>35,062</u> | - | 2.83 | 0.75 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

17. Recourse obligations on financing sold to Cagamas

Recourse obligations on financing sold to Cagamas represents house financing accounts that are sold to Cagamas with recourse. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas and to buy back any financing which are regarded as defective based on pre-determined and agreed-upon prudential criteria with recourse against the Bank. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statements of financial position. The financing are not de-recognised and are analysed in Note 8.

18. Subordinated Sukuk Murabahah

| | Note | Group and Bank | |
|--|------|------------------|-----------|
| | | 2020 | 2019 |
| | | RM'000 | RM'000 |
| <i>Issued under the RM1.0 billion Programme</i> | | | |
| First tranche | (a) | - | 303,356 |
| Second tranche | (b) | - | 400,964 |
| Third tranche | (c) | 302,046 | 302,046 |
| | | 302,046 | 1,006,366 |
| <i>Issued under the RM10.0 billion Programme</i> | | | |
| First tranche | (d) | 302,243 | 302,328 |
| Second tranche | (e) | 403,904 | - |
| Third tranche | (f) | 704,971 | - |
| | | 1,411,118 | 302,328 |
| | | 1,713,164 | 1,308,694 |
| Finance cost on Subordinated Sukuk Murabahah | | 73,622 | 69,940 |

The details of the issued subordinated Sukuk are as follows:

| Note | Nominal value RM'000 | Issue date | First call date* | Maturity Date | Profit rate (% p.a.)# |
|------|-------------------------|------------------|------------------|------------------|--------------------------|
| (a) | 300,000 | 22 April 2015 | 22 April 2020 | 22 April 2025 | 5.75 |
| (b) | 400,000 | 15 December 2015 | 15 December 2020 | 15 December 2025 | 5.50 |
| (c) | 300,000 | 13 November 2017 | 12 December 2022 | 12 November 2027 | 5.08 |
| (d) | 300,000 | 7 November 2018 | 7 December 2023 | 7 November 2028 | 5.15 |
| (e) | 400,000 | 26 March 2020 | 26 March 2025 | 26 March 2030 | 3.75 |
| (f) | 700,000 | 21 October 2020 | 21 October 2025 | 21 October 2030 | 3.60 |

* Optional redemption date or any periodic payment date thereafter.

Accrued and 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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

19. Other liabilities

| | Group | | Bank | |
|-----------------|------------------|----------------|------------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Other payables | 357,571 | 389,770 | 344,347 | 332,441 |
| Advance payment | 680,508 | 437,053 | 680,508 | 437,053 |
| Accruals | 98,784 | 164,717 | 97,030 | 162,191 |
| | <u>1,136,863</u> | <u>991,540</u> | <u>1,121,885</u> | <u>931,685</u> |

Included in other payables is amount due to trustee amounting to RM4,423,000 (2019: RM54,764,000) attributed to the creation of unit trust funds. Also included in other payables is an amount under Government financing scheme for the purpose of SME financing at a concessionary rate, repayable in February 2029.

20. Zakat and taxation

| | Group | | Bank | |
|----------|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Zakat | 11,999 | 11,092 | 11,827 | 10,807 |
| Taxation | 19,953 | 6,336 | 19,949 | 6,335 |
| | <u>31,952</u> | <u>17,428</u> | <u>31,776</u> | <u>17,142</u> |

21. Share capital

| Group and Bank | Number of shares (units) | | Amount | |
|----------------------------------|--------------------------|------------------|------------------|------------------|
| | 2020 '000 | 2019 '000 | 2020 RM'000 | 2019 RM'000 |
| <i>Issued and fully paid</i> | | | | |
| Ordinary shares | | | | |
| At 1 January | 2,509,982 | 2,509,982 | 3,012,368 | 3,012,368 |
| Allotment of new ordinary shares | 90,385 | - | 293,750 | - |
| At 31 December | <u>2,600,367</u> | <u>2,509,982</u> | <u>3,306,118</u> | <u>3,012,368</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

22. Reserves

| | | Group | | Bank | |
|----------------------|-----|------------------|-----------|------------------|-----------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| FVOCI reserve | (a) | 188,298 | 189,203 | 188,298 | 189,203 |
| Translation reserve | (b) | (99,740) | (106,938) | (99,591) | (106,805) |
| Regulatory reserve | (c) | - | 25,000 | - | 25,000 |
| Total other reserves | | 88,558 | 107,265 | 88,707 | 107,398 |
| Retained earnings | | 2,891,023 | 2,594,820 | 2,884,760 | 2,589,798 |
| | | 2,979,581 | 2,702,085 | 2,973,467 | 2,697,196 |

- (a) The FVOCI reserve includes the cumulative net change in the fair value of financial assets FVOCI until the financial asset is derecognised.
- (b) 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.
- (c) The regulatory reserve represents the Bank's compliance with BNM's Guideline on Financial Reporting for Islamic Banking Institution to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. As at 31 December 2020, the regulatory reserve held against expected credit losses is reduced to 0%, a Covid-19 related measure to drawdown prudential buffers as permitted by BNM.

23. Sources and uses of charity funds

Movement of sources and uses of charity funds are as follows:

| Group and Bank | 2020 | 2019 |
|--|-----------|----------|
| | RM'000 | RM'000 |
| Undistributed funds as at the beginning of the financial year | 3 | 7 |
| Shariah non-compliance income: <i>Funds collected/ received during the year</i> | 60 | 51 |
| Uses of funds during the year: <i>Contribution to Public Benefit</i> | (52) | (55) |
| Undistributed funds as at the end of the financial year | 11 | 3 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

24. Income derived from investment of depositors' funds

| | Group and Bank | |
|------------------------------------|------------------|------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Income derived from investment of: | | |
| (i) General investment deposits | 12,404 | 16,378 |
| (ii) Term deposit-i | 1,564,207 | 1,838,249 |
| (iii) Savings and demand deposits | 869,663 | 818,128 |
| (iv) Other deposits | 57,739 | 84,949 |
| | <u>2,504,013</u> | <u>2,757,704</u> |

(i) Income derived from investment of general investment deposits

| | Group and Bank | |
|--|----------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Finance income and hibah</i> | | |
| Financing, advances and others | 10,088 | 13,829 |
| Financial assets: | | |
| - fair value through profit and loss | 85 | 79 |
| - fair value through other comprehensive income | 965 | 1,454 |
| - other financial assets at amortised cost | 2 | 3 |
| Money at call and deposits with financial institutions | 141 | 362 |
| | <u>11,281</u> | <u>15,727</u> |
| <i>Other dealing income</i> | | |
| Net gain from sale of financial assets at fair value through profit or loss | 2 | 141 |
| Net (loss)/ gain on revaluation of financial assets at fair value through profit or loss | (10) | 8 |
| | <u>(8)</u> | <u>149</u> |
| <i>Other operating income</i> | | |
| Net gain from sale of financial assets at fair value through other comprehensive income | 1,131 | 502 |
| | <u>1,131</u> | <u>502</u> |
| <i>of which,</i> | | |
| <i>Financing income earned on impaired financing</i> | 103 | 182 |
| <i>Unwinding of modification loss</i> | 97 | - |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 | |
|--|------------------|------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Finance income and hibah</i> | | |
| Financing, advances and others | 1,216,391 | 1,517,697 |
| Financial assets: | | |
| - fair value through profit and loss | 12,825 | 10,164 |
| - fair value through other comprehensive income | 146,921 | 187,059 |
| - other financial assets at amortised cost | 297 | 352 |
| Money at call and deposits with financial institutions | 18,178 | 39,693 |
| | <u>1,394,612</u> | <u>1,754,965</u> |
| <i>Other dealing income</i> | | |
| Net gain from sale of financial assets at fair value through profit or loss | 355 | 17,504 |
| Net (loss)/ gain on revaluation of financial assets at fair value through profit or loss | (1,532) | 871 |
| | <u>(1,177)</u> | <u>18,375</u> |
| <i>Other operating income</i> | | |
| Net gain from sale of financial assets at fair value through other comprehensive income | 170,772 | 64,909 |
| | <u>1,564,207</u> | <u>1,838,249</u> |
| <i>of which,</i> | | |
| <i>Financing income earned on impaired financing</i> | 15,959 | 23,204 |
| <i>Unwinding of modification loss</i> | 15,684 | - |

(iii) Income derived from investment of savings and demand deposits

| | Group and Bank | |
|--|----------------|----------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Finance income and hibah</i> | | |
| Financing, advances and others | 677,884 | 675,861 |
| Financial assets: | | |
| - fair value through profit and loss | 7,134 | 4,531 |
| - fair value through other comprehensive income | 81,880 | 83,286 |
| - other financial assets at amortised cost | 167 | 165 |
| Money at call and deposits with financial institutions | 10,029 | 17,618 |
| | <u>777,094</u> | <u>781,461</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

(iii) Income derived from investment of savings and demand deposits (continued)

| | Group and Bank | |
|--|----------------|----------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Other dealing income</i> | | |
| Net gain from sale of financial assets at fair value through profit or loss | 216 | 7,726 |
| Net (loss)/ gain on revaluation of financial assets at fair value through profit or loss | (1,126) | 537 |
| | <u>(910)</u> | <u>8,263</u> |
| <i>Other operating income</i> | | |
| Net gain from sale of financial assets at fair value through other comprehensive income | 93,479 | 28,404 |
| | <u>869,663</u> | <u>818,128</u> |
| <i>of which,</i> | | |
| <i>Financing income earned on impaired financing</i> | 8,794 | 10,347 |
| <i>Unwinding of modification loss</i> | <u>9,061</u> | <u>-</u> |

(iv) Income derived from investment of other deposits

| | Group and Bank | |
|--|----------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Finance income and hibah</i> | | |
| Financing, advances and others | 45,274 | 70,118 |
| Financial assets: | | |
| - fair value through profit and loss | 487 | 475 |
| - fair value through other comprehensive income | 5,484 | 8,615 |
| - other financial assets at amortised cost | 12 | 15 |
| Money at call and deposits with financial institutions | 689 | 2,017 |
| | <u>51,946</u> | <u>81,240</u> |
| <i>Other dealing income</i> | | |
| Net (loss)/ gain from sale of financial assets at fair value through profit or loss | (73) | 807 |
| Net (loss)/ gain on revaluation of financial assets at fair value through profit or loss | (63) | 110 |
| | <u>(136)</u> | <u>917</u> |
| <i>Other operating income</i> | | |
| Net gain from sale of financial assets at fair value through other comprehensive income | 5,929 | 2,792 |
| | <u>57,739</u> | <u>84,949</u> |
| <i>of which,</i> | | |
| <i>Financing income earned on impaired financing</i> | 626 | 1,094 |
| <i>Unwinding of modification loss</i> | <u>464</u> | <u>-</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

25. Income derived from investment account funds

| | Group and Bank | |
|----------------------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Finance income | | |
| Unrestricted investment accounts | | |
| - <i>Mudharabah</i> | 167,693 | 148,478 |
| - <i>Wakalah</i> | 339,200 | 247,186 |
| Unwinding of modification loss | 7,041 | - |
| | <u>513,934</u> | <u>395,664</u> |

26. Income derived from investment of shareholders' funds

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| <i>Finance income and hibah</i> | | | | |
| Financing, advances and others | 6,607 | 6,622 | 6,607 | 6,622 |
| Financial assets: | | | | |
| - fair value through other comprehensive income | 190,253 | 189,567 | 190,253 | 189,567 |
| Money at call and deposits with financial institutions | 40 | 5 | 3 | 4 |
| | <u>196,900</u> | <u>196,194</u> | <u>196,863</u> | <u>196,193</u> |
| <i>Other dealing income</i> | | | | |
| Net gain from foreign exchange transactions | 43,478 | 55,710 | 43,531 | 55,710 |
| Net derivatives gain/ (loss) | 31 | (36) | 31 | (36) |
| Net (loss)/ gain on revaluation of financial assets at fair value through profit or loss | (3,986) | 9,638 | (3,982) | 9,632 |
| | <u>39,523</u> | <u>65,312</u> | <u>39,580</u> | <u>65,306</u> |
| <i>Other operating income</i> | | | | |
| Dividend income from debt instruments at FVTPL (unit trust) | 13,860 | 8,913 | 13,722 | 8,738 |
| Dividend income from subsidiary | - | - | 500 | - |
| Dividend income from equity instruments at FVOCI | 503 | 545 | 503 | 545 |
| Sale of investment in unit trust | 28 | - | 28 | - |
| Rebate on investment in unit trust | 979 | - | 979 | - |
| | <u>15,370</u> | <u>9,458</u> | <u>15,732</u> | <u>9,283</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| <i>Fees and commission</i> | | | | |
| Card fees and commission | 74,466 | 69,370 | 74,466 | 69,370 |
| Takaful service fees and commission | 31,335 | 33,502 | 31,335 | 33,502 |
| Financing fees | 17,680 | 16,724 | 17,680 | 16,724 |
| Sales charges on unit trust | 11,856 | 15,140 | - | - |
| Unit trust management fees | 16,786 | 17,723 | - | - |
| Commission on MEPS | 2,108 | 10,449 | 2,108 | 10,449 |
| Ar-Rahnu fees | 6,815 | 9,634 | 6,815 | 9,634 |
| Mobile banking fees | 7,002 | 6,624 | 7,002 | 6,624 |
| Corporate advisory fees | 9,491 | 8,165 | 9,491 | 8,165 |
| Deposit and payment service fees | 4,629 | 5,461 | 4,629 | 5,461 |
| Processing fees | 9,732 | 5,857 | 9,732 | 5,831 |
| Commission on bills payment system | 1,331 | 1,435 | 1,331 | 1,435 |
| Commission from wealth management services | 110 | 71 | 4,712 | 5,645 |
| Ta'widh Charges | 1,387 | 1,057 | 1,387 | 1,057 |
| Others | 10,760 | 15,362 | 10,433 | 14,031 |
| | <u>205,488</u> | <u>216,574</u> | <u>181,121</u> | <u>187,928</u> |
| <i>Other income</i> | | | | |
| Rental income | 2,549 | 2,443 | 2,931 | 2,807 |
| Net gain on disposal of property and equipment | 3 | 421 | 3 | 421 |
| Other income | 226 | 480 | 83 | 289 |
| | <u>2,778</u> | <u>3,344</u> | <u>3,017</u> | <u>3,517</u> |
| | <u>460,059</u> | <u>490,882</u> | <u>436,313</u> | <u>462,227</u> |

27. Net allowance for impairment on financing and advances

| | Group and Bank | |
|---|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Net allowance for impairment on financing, advances and others: | | |
| - Stage 1 | 228,646 | 24,186 |
| - Stage 2 | 1,661 | 20,032 |
| - Stage 3 | 57,880 | 146,611 |
| Bad debts and financing recovered | (79,516) | (107,141) |
| | <u>208,671</u> | <u>83,688</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

28. Income attributable to depositors

| | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Deposits from customers: | | | | |
| - Mudharabah fund | 4,758 | 8,371 | 4,758 | 8,371 |
| - Non-Mudharabah fund | 930,187 | 1,296,350 | 930,408 | 1,296,625 |
| Deposits and placements of banks and other financial institutions: | | | | |
| - Non-Mudharabah fund | 421 | 402 | 421 | 402 |
| Recourse obligation on financing sold to Cagamas | 71,113 | 71,201 | 71,113 | 71,201 |
| | <u>1,006,479</u> | <u>1,376,324</u> | <u>1,006,700</u> | <u>1,376,599</u> |

29. Income attributable to investment account holders

| | Group and Bank | |
|----------------------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Unrestricted investment accounts | | |
| - Mudharabah | 10,609 | 9,987 |
| - Wakalah | 211,417 | 165,634 |
| | <u>222,026</u> | <u>175,621</u> |

30. Personnel expenses

| | Group | | Bank | |
|---|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Salaries and wages | 387,121 | 358,078 | 378,437 | 350,419 |
| Allowances and bonuses | 108,688 | 161,831 | 106,875 | 159,625 |
| Employees' Provident Fund | 75,992 | 64,954 | 74,534 | 63,605 |
| Directors and Shariah Supervisory Council Members' remuneration | 7,040 | 7,136 | 6,012 | 6,076 |
| Medical benefits | 29,835 | 29,048 | 28,795 | 28,519 |
| Staff sales commission | 25,543 | 15,551 | 25,543 | 15,551 |
| Others | 29,148 | 25,795 | 29,165 | 25,043 |
| | <u>663,367</u> | <u>662,393</u> | <u>649,361</u> | <u>648,838</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]
(Incorporated in Malaysia)

31. Other overhead expenses

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| <i>Promotion</i> | | | | |
| Credit and debit card expenses | 40,574 | 34,631 | 40,574 | 34,631 |
| Advertisement and publicity | 12,469 | 17,713 | 12,363 | 17,339 |
| Others | 14,824 | 22,129 | 5,189 | 8,982 |
| | 67,867 | 74,473 | 58,126 | 60,952 |
| <i>Establishment</i> | | | | |
| Depreciation of property and equipment | 56,546 | 52,049 | 56,341 | 51,823 |
| Depreciation of right-of-use assets | 18,348 | 15,141 | 18,317 | 15,141 |
| Office rental | 29,136 | 30,431 | 29,499 | 30,376 |
| Information technology expenses | 56,133 | 47,838 | 56,133 | 47,838 |
| Security services | 9,442 | 9,147 | 9,442 | 9,147 |
| Utilities | 12,771 | 14,750 | 12,698 | 14,660 |
| Office maintenance | 10,847 | 11,048 | 10,635 | 10,822 |
| Takaful | 5,645 | 9,233 | 5,641 | 9,227 |
| Rental of equipment | 6,056 | 5,688 | 5,978 | 5,603 |
| Others | 320 | 320 | 320 | 320 |
| | 205,244 | 195,645 | 205,004 | 194,957 |
| <i>General expenses</i> | | | | |
| Outsourcing fees | | | | |
| - Management of self- service terminal | 13,716 | 12,129 | 13,716 | 12,129 |
| - Credit recovery | 2,345 | 277 | 2,345 | 277 |
| - Others | 1,960 | 4,760 | 1,960 | 4,760 |
| Office supplies | 9,911 | 8,686 | 9,788 | 8,545 |
| Licenses | 9,957 | 10,507 | 9,957 | 10,507 |
| Travelling and transportation | 1,155 | 8,073 | 1,073 | 7,861 |
| Bank and service charges | 21,692 | 14,844 | 21,663 | 14,819 |
| General expenses | 22,547 | 23,947 | 22,547 | 23,947 |
| Security services for cash in transit | 5,735 | 7,294 | 5,735 | 7,294 |
| Postage and delivery charges | 9,829 | 5,884 | 9,760 | 5,850 |
| Management fees | - | - | 7,686 | 7,557 |
| Subscription fees | 5,486 | 4,252 | 5,483 | 4,252 |
| Professional fees | 11,199 | 9,758 | 10,956 | 9,496 |
| Mobile banking expenses | 2,011 | 1,979 | 2,011 | 1,979 |
| Auditors' remuneration | | | | |
| - statutory audit fees | 957 | 957 | 878 | 878 |
| - others | 772 | 275 | 772 | 275 |
| Processing charges | 1,201 | 1,362 | 1,201 | 1,362 |
| Property and equipment written-off | 925 | 82 | 925 | 82 |
| Others | 16,576 | 9,822 | 10,916 | 3,874 |
| | 137,974 | 124,888 | 139,372 | 125,744 |
| | 411,085 | 395,006 | 402,502 | 381,653 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| <i>Chief Executive Officer:</i> | | | | |
| Salaries and other remuneration, including meeting allowances | 2,663 | 2,546 | 2,663 | 2,546 |
| Benefits-in-kind | 34 | 34 | 34 | 34 |
| | <u>2,697</u> | <u>2,580</u> | <u>2,697</u> | <u>2,580</u> |
| <i>Non-Executive Directors:</i> | | | | |
| Fees | 1,033 | 1,409 | 997 | 1,375 |
| Other emoluments | 1,668 | 1,588 | 1,649 | 1,569 |
| Benefits-in-kind | 259 | 229 | 259 | 229 |
| | <u>2,960</u> | <u>3,226</u> | <u>2,905</u> | <u>3,173</u> |
| <i>Directors of subsidiaries</i> | | | | |
| <i>Executive Director:</i> | | | | |
| Salaries and other remuneration, including meeting allowances | 810 | 865 | - | - |
| <i>Non-Executive Directors:</i> | | | | |
| Fees | 72 | 66 | - | - |
| Other emoluments | 68 | 64 | - | - |
| | <u>140</u> | <u>130</u> | <u>-</u> | <u>-</u> |
| Total | <u>6,607</u> | <u>6,801</u> | <u>5,602</u> | <u>5,753</u> |
| <i>Members of Shariah Supervisory Council (SSC)</i> | | | | |
| - SSC of the Bank | 712 | 592 | 703 | 586 |
| - SSC of a subsidiary | 14 | 6 | - | - |
| Total | <u>726</u> | <u>598</u> | <u>703</u> | <u>586</u> |
| Grand total (excluding benefits-in-kind) (Note 30) | <u>7,040</u> | <u>7,136</u> | <u>6,012</u> | <u>6,076</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

32. 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 Total RM'000 | Remuneration received from subsidiaries | | Group Total RM'000 |
|--|---|--------|---------------------|----------------------|-------------------------|--|---------------------|--------------------------|
| | Salary and Bonus | Fees | Other Emoluments | Benefits- in-kind | | Fees | Other Emoluments | |
| | RM'000 | RM'000 | RM'000 | RM'000 | | RM'000 | RM'000 | |
| 31 December 2020 | | | | | | | | |
| <i>Chief Executive Officer:</i> | | | | | | | | |
| Mohd Muazzam Mohamed | 2,183 | - | 480 | 34 | 2,697 | - | - | 2,697 |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Tan Sri Dr. Ismail Hj. Bakar (appointed on 1 August 2020) | - | 20 | 60 | 50 | 130 | - | - | 130 |
| Datuk Zamani Abdul Ghani (resigned on 1 March 2020) | - | 20 | 144 | 46 | 210 | - | - | 210 |
| Dato' Sri Khazali Ahmad | - | 78 | 148 | 28 | 254 | - | - | 254 |
| Zahari @ Mohd Zin Idris | - | 222 | 266 | 15 | 503 | 12 | 8 | 523 |
| Mohamed Ridza Mohamed Abdulla | - | 119 | 158 | 25 | 302 | 24 | 11 | 337 |
| Datuk Nik Mohd Hasyudeen Yusoff | - | 36 | 119 | - | 155 | - | - | 155 |
| Noraini Che Dan | - | 154 | 260 | 25 | 439 | - | - | 439 |
| Azizan Ahmad | - | 170 | 235 | 50 | 455 | - | - | 455 |
| Mohd Yuzaidi Mohd Yusoff | - | 148 | 223 | 20 | 391 | - | - | 391 |
| Mashitah Haji Osman (appointed on 1 October 2020) | - | 30 | 36 | - | 66 | - | - | 66 |
| | - | 997 | 1,649 | 259 | 2,905 | 36 | 19 | 2,960 |
| | 2,183 | 997 | 2,129 | 293 | 5,602 | 36 | 19 | 5,657 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

32. 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 Total RM'000 | Remuneration received from subsidiaries | | Group Total RM'000 |
|--|---|--------|---------------------|----------------------|-------------------------|--|---------------------|--------------------------|
| | Salary and Bonus | Fees | Other Emoluments | Benefits- in-kind | | Fees | Other Emoluments | |
| | RM'000 | RM'000 | RM'000 | RM'000 | | RM'000 | RM'000 | |
| 31 December 2019 | | | | | | | | |
| <i>Chief Executive Officer:</i> | | | | | | | | |
| Mohd Muazzam Mohamed | 2,100 | - | 446 | 34 | 2,580 | - | - | 2,580 |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Datuk Zamani Abdul Ghani | - | 240 | 246 | 60 | 546 | - | - | 546 |
| Dato' Sri Khazali Ahmad | - | 108 | 109 | 25 | 242 | - | - | 242 |
| Zahari @ Mohd Zin Idris | - | 216 | 253 | 39 | 508 | 12 | 8 | 528 |
| Mohamed Ridza Mohamed Abdulla | - | 108 | 144 | 25 | 277 | 6 | 5 | 288 |
| Datuk Nik Mohd Hasyudeen Yusoff | - | 176 | 199 | 24 | 399 | 16 | 6 | 421 |
| Noraini Che Dan | - | 210 | 212 | - | 422 | - | - | 422 |
| Azizan Ahmad | - | 177 | 166 | - | 343 | - | - | 343 |
| Mohd Yuzaidi Mohd Yusoff (appointed on 1 July 2019) | - | 66 | 48 | 4 | 118 | - | - | 118 |
| Tan Sri Dato' Dr. Abdul Shukor Husin (resigned on 1 April 2019) | - | 39 | 99 | 25 | 163 | - | - | 163 |
| Datuk Zaiton Mohd Hassan (resigned on 18 February 2019) | - | 35 | 93 | 27 | 155 | - | - | 155 |
| | - | 1,375 | 1,569 | 229 | 3,173 | 34 | 19 | 3,226 |
| | 2,100 | 1,375 | 2,015 | 263 | 5,753 | 34 | 19 | 5,806 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

32. 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 Total RM'000 | Remuneration received from subsidiary Fees RM'000 | Group Total RM'000 |
|---|--|---------------------|-------------------------|---|--------------------------|
| | Fees | Other Emoluments | | | |
| | RM'000 | RM'000 | | | |
| 31 December 2020 | | | | | |
| Professor Dato' Dr. Ahmad Hidayat Buang | 72 | 95 | 167 | - | 167 |
| Ustaz Dr. Ahmad Shahbari @ Sobri Salamon | 66 | 32 | 98 | 6 | 104 |
| Assistant Professor Dr. Uzaimah Ibrahim | 66 | 36 | 102 | - | 102 |
| Ustazah Dr. Yasmin Hanani Mohd Safian | 66 | 69 | 135 | - | 135 |
| Asmadi Mohamed Naim | 61 | 35 | 96 | - | 96 |
| Shamsiah Mohamad | 61 | 14 | 75 | 3 | 78 |
| Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir (resigned on 31 October 2019) | - | 30 | 30 | - | 30 |
| | 392 | 311 | 703 | 9 | 712 |
| 31 December 2019 | | | | | |
| Professor Dato' Dr. Ahmad Hidayat Buang | 72 | 82 | 154 | - | 154 |
| Ustaz Dr. Ahmad Shahbari @ Sobri Salamon | 66 | 38 | 104 | 6 | 110 |
| Assistant Professor Dr. Uzaimah Ibrahim | 66 | 36 | 102 | - | 102 |
| Ustazah Dr. Yasmin Hanani Mohd Safian | 66 | 56 | 122 | - | 122 |
| Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir (resigned on 31 October 2019) | 55 | 49 | 104 | - | 104 |
| | 325 | 261 | 586 | 6 | 592 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

33. 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 | |
|---------------------------------|----------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Other key management personnel: | | |
| Short-term employee benefits | <u>28,047</u> | <u>22,327</u> |

Number of employees categorised as key management personnel as at 31 December 2020 was 30 (2019: 25).

34. Finance cost

| | Group | | Bank | |
|-------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Finance cost: | | | | |
| Subordinated Sukuk | | | | |
| Murabahah | 73,622 | 69,940 | 73,622 | 69,940 |
| Profit expense on lease | <u>17,836</u> | <u>18,040</u> | <u>17,835</u> | <u>18,040</u> |
| | <u>91,458</u> | <u>87,980</u> | <u>91,457</u> | <u>87,980</u> |

35. Tax expense

| | Group | | Bank | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Malaysian income tax: | | | | |
| Current year | 67,027 | 217,957 | 66,860 | 217,800 |
| (Over)/ Under provision in prior years | <u>(27,738)</u> | <u>1,085</u> | <u>(27,757)</u> | <u>1,067</u> |
| | <u>39,289</u> | <u>219,042</u> | <u>39,103</u> | <u>218,867</u> |
| Deferred tax expense relating to origination and reversal of temporary differences arising from: | | | | |
| Current year | 110,077 | (14,310) | 110,077 | (14,310) |
| Under provision in prior years | <u>2,123</u> | <u>139</u> | <u>2,128</u> | <u>102</u> |
| | <u>112,200</u> | <u>(14,171)</u> | <u>112,205</u> | <u>(14,208)</u> |
| | <u>151,489</u> | <u>204,871</u> | <u>151,308</u> | <u>204,659</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 | |
|--|----------------|----------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Profit before tax | <u>728,213</u> | <u>843,480</u> | <u>726,836</u> | <u>841,458</u> |
| Income tax calculated using Malaysian tax rate of 24% | 174,771 | 202,435 | 174,441 | 201,950 |
| Income not subject to tax | (1,920) | (1,299) | (1,634) | (968) |
| Non-deductible expenses | 6,844 | 5,914 | 6,721 | 5,911 |
| Zakat | <u>(2,591)</u> | <u>(3,403)</u> | <u>(2,591)</u> | <u>(3,403)</u> |
| | <u>177,104</u> | <u>203,647</u> | <u>176,937</u> | <u>203,490</u> |
| (Over)/ Under provision in prior years | | | | |
| - Income tax | (27,738) | 1,085 | (27,757) | 1,067 |
| - Deferred tax | <u>2,123</u> | <u>139</u> | <u>2,128</u> | <u>102</u> |
| | <u>151,489</u> | <u>204,871</u> | <u>151,308</u> | <u>204,659</u> |

36. Earnings per share

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM564,954,000 (2019: RM627,609,000) and the weighted average number of ordinary shares outstanding during the year of 2,546,005,000 (2019: 2,509,982,000).

The Group has no dilution in its earnings per ordinary shares in the current and previous financial year as there are no dilutive potential ordinary shares.

37. Dividends

Dividends paid by the Bank:

| | Sen per share | Total amount RM'000 | Date of payment |
|--------------|------------------|---------------------------|-------------------|
| 2020 | | | |
| Final 2019 | 6.05 | 151,854 | 29 June 2020 |
| Interim 2020 | 5.55 | <u>141,897</u> | 18 September 2020 |
| | | <u>293,751</u> | |
| 2019 | | | |
| Final 2018 | 6.07 | 152,310 | 27 May 2019 |
| Interim 2019 | 6.40 | <u>160,639</u> | 11 September 2019 |
| | | <u>312,949</u> | |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

37. Dividends (continued)

From the total dividend amount paid wholly in cash of RM293.751 million, RM293.750 million was reinvested to subscribe for 90,384,667 new ordinary shares 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.

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.

| | Sen per share | Total amount RM'000 |
|------------------------------|--------------------------|--------------------------------|
| Final 2020 ordinary dividend | <u>5.37</u> | <u>139,640</u> |

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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

38. Operating Segments (continued)

| 2020 | Consumer Banking RM'000 | Corporate and Commercial Banking RM'000 | Treasury RM'000 | Shareholders unit RM'000 | Elimination RM'000 | Group Total RM'000 |
|--|-------------------------------|---|--------------------|--------------------------------|-----------------------|--------------------------|
| Total Revenue | 1,854,908 | 652,036 | 784,963 | 66,123 | (15,828) | 3,342,202 |
| Net fund based income | 941,306 | 351,755 | 146,795 | 141,026 | - | 1,580,882 |
| Non-fund based income | 141,779 | 38,377 | 309,411 | 58,855 | (15,607) | 532,815 |
| Net income | 1,083,085 | 390,132 | 456,206 | 199,881 | (15,607) | 2,113,697 |
| Net allowance for impairment on financial assets | (125,989) | (80,182) | 257 | - | - | (205,914) |
| Profit before overheads, zakat and tax | 957,096 | 309,950 | 456,463 | 199,881 | (15,607) | 1,907,783 |
| Operating expenses | | | | | | (1,179,570) |
| Profit before zakat and tax | | | | | | 728,213 |
| Segment assets | 40,874,237 | 13,796,398 | 18,286,566 | 54,179 | (35,164) | 72,976,216 |
| Unallocated assets | | | | | | 1,660,806 |
| Total assets | | | | | | 74,637,022 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

38. Operating Segments (continued)

| | Consumer Banking RM'000 | Corporate and Commercial Banking RM'000 | Treasury RM'000 | Shareholders unit RM'000 | Elimination RM'000 | Group Total RM'000 |
|--|-------------------------------|---|--------------------|--------------------------------|-----------------------|--------------------------|
| 2019 | | | | | | |
| Total Revenue | 2,200,368 | 658,704 | 736,485 | 63,874 | (14,735) | 3,644,696 |
| Net fund based income | 993,080 | 385,801 | 104,199 | 190,043 | - | 1,673,123 |
| Non-fund based income | 147,766 | 38,702 | 191,026 | 56,594 | (14,460) | 419,628 |
| Net income | 1,140,846 | 424,503 | 295,225 | 246,637 | (14,460) | 2,092,751 |
| Net allowance for impairment on financial assets | (50,285) | (38,402) | 1,202 | 37 | - | (87,448) |
| Profit before overheads, zakat and tax | 1,090,561 | 386,101 | 296,427 | 246,674 | (14,460) | 2,005,303 |
| Operating expenses | | | | | | (1,161,823) |
| Profit before zakat and tax | | | | | | 843,480 |
| Segment assets | 36,854,137 | 12,618,385 | 15,488,586 | 99,278 | (85,004) | 64,975,382 |
| Unallocated assets | | | | | | 2,618,420 |
| Total assets | | | | | | 67,593,802 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management

Overview

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

The Group's and 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 provides an analysis of financial instruments categorised as follows:

- Fair value through profit or loss ("FVTPL")
- Financial assets at fair value through other comprehensive income ("FVOCI")
- Other financial assets at amortised cost ("AC")
- Financial liabilities measured at amortised cost ("FL")

| Bank | Carrying amount | FVTPL | FVOCI | Amortised cost |
|---|------------------------|------------------|-------------------|-----------------------|
| 31 December 2020 | RM'000 | RM'000 | RM'000 | RM'000 |
| <i>Financial assets</i> | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 5,216,280 | - | - | 5,216,280 |
| Financial assets at FVTPL | 1,175,440 | 1,175,440 | - | - |
| Derivative financial assets | 61,665 | 61,665 | - | - |
| Financial assets at FVOCI | 12,558,729 | - | 12,558,729 | - |
| Financing, advances and others | 54,670,635 | - | - | 54,670,635 |
| Other financial assets at amortised cost* | 182,041 | - | - | 182,041 |
| Statutory deposits with Bank Negara Malaysia | 192,425 | - | - | 192,425 |
| | 74,057,215 | 1,237,105 | 12,558,729 | 60,261,381 |
| <i>Financial liabilities</i> | | | | |
| Deposits from customers | 51,095,451 | - | - | 51,095,451 |
| Investment accounts of customers | 12,368,897 | - | - | 12,368,897 |
| Derivative financial liabilities | 105,872 | 105,872 | - | - |
| Bills and acceptance payable | 29,621 | - | - | 29,621 |
| Recourse obligations on financing sold to Cagamas | 1,501,187 | - | - | 1,501,187 |
| Subordinated Sukuk Murabahah | 1,713,164 | - | - | 1,713,164 |
| Other liabilities^ | 1,024,855 | - | - | 1,024,855 |
| Lease liabilities | 312,429 | - | - | 312,429 |
| | 68,151,476 | 105,872 | - | 68,045,604 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(a) Financial instruments by categories (continued)

| Bank 31 December 2019 | Carrying amount RM'000 | FVTPL RM'000 | FVOCI RM'000 | Amortised cost RM'000 |
|---|------------------------------|-----------------|-------------------|-----------------------------|
| <i>Financial assets</i> | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 3,471,509 | - | - | 3,471,509 |
| Financial assets at FVTPL | 657,443 | 657,443 | - | - |
| Derivative financial assets | 33,326 | 33,326 | - | - |
| Financial assets at FVOCI | 12,147,378 | - | 12,147,378 | - |
| Financing, advances and others | 49,472,522 | - | - | 49,472,522 |
| Other financial assets at amortised cost* | 133,489 | - | - | 133,489 |
| Statutory deposits with Bank Negara Malaysia | 1,170,136 | - | - | 1,170,136 |
| | <u>67,085,803</u> | <u>690,769</u> | <u>12,147,378</u> | <u>54,247,656</u> |
| <i>Financial liabilities</i> | | | | |
| Deposits from customers | 47,476,872 | - | - | 47,476,872 |
| Investment accounts of customers | 10,240,373 | - | - | 10,240,373 |
| Derivative financial liabilities | 36,746 | 36,746 | - | - |
| Bills and acceptance payable | 49,084 | - | - | 49,084 |
| Recourse obligations on financing sold to Cagamas | 1,501,187 | - | - | 1,501,187 |
| Subordinated Sukuk Murabahah | 1,308,694 | - | - | 1,308,694 |
| Other liabilities [^] | 769,494 | - | - | 769,494 |
| Lease liabilities | 325,559 | - | - | 325,559 |
| | <u>61,708,009</u> | <u>36,746</u> | <u>-</u> | <u>61,671,263</u> |

* Excludes prepayment

[^] Excludes accruals

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

(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 Group and the Bank considers to be material include: Default Risk, Counterparty Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk, and Migration Risk.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

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 Group and the Bank have instituted two (2) 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 Group's and 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 Group's and the Bank's credit risk management governance includes the establishment of detailed credit risk policies, guidelines and procedures which document the Group's and 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 Recovery & Rehabilitation Division. The combined objectives are, amongst others:

- To build a high quality credit portfolio in line with the Group's and the Bank's overall strategy and risk appetite;
- To ensure that the Group and 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 Group and 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

[Registration No. 198301002944 (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 on 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 counterparty 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.

| | Bank | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Cash and short-term funds and deposits and placements with financial institutions | 4,546,890 | 2,709,510 |
| Financial assets at FVTPL* | 942,710 | 423,938 |
| Derivative financial assets (a) | 61,665 | 33,326 |
| Financial assets at FVOCI^ | 12,494,040 | 12,099,681 |
| Financing, advances and others (b) | 54,670,635 | 49,472,522 |
| Other financial assets at amortised cost@ | 182,041 | 133,489 |
| Sub-total | <u>72,897,981</u> | <u>64,872,466</u> |
| Credit related obligation: | | |
| Financial guarantee contracts (c) | 1,941,791 | 1,950,487 |
| Financing commitments# (d) | 9,615,227 | 9,061,076 |
| Sub-total | <u>11,557,018</u> | <u>11,011,563</u> |
| Total credit exposures | <u>84,454,999</u> | <u>75,884,029</u> |

* Excludes unit trust

^ Excludes equity instruments

@ Excludes prepayment

Excludes derivative financial instruments

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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk (continued)

(a) Derivative financial assets

In mitigating the counterparty credit risks from foreign exchange and derivatives transactions, the Group and the Bank enter into master agreements that provide for closeout netting with counterparties, whenever possible. A master agreement that governs all transactions between two parties, creates the greater legal certainty that the netting of outstanding obligations can be enforced upon termination of outstanding transactions if an event of default occurs.

(b) Financing, advances and others

Business and retail

Financing, advances and others will have levels of collateralisation depending on the nature of the product. The general creditworthiness of a corporate and commercial customer tends to be the most relevant indicator of credit quality of a financing extended to it.

The Group and the Bank manage its exposures to these customers by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments in a timely manner. The Group and the Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

The Group and the Bank routinely update the valuation of collateral held against all financing as it adopts an annual internal valuation policy and a 2 years external valuation policy.

At 31 December 2020, the gross exposure of credit-impaired financing and advances to corporate and commercial customers amounted to RM182,271,000 (2019: RM198,655,000) and the forced sales value of collateral held against those financing and advances amounted to RM298,895,000 (2019: RM310,524,000).

House financing

The following table presents credit exposures from financing and advances that are credit impaired by ranges of financing-to-value ("FTV") ratio. FTV is calculated as the ratio of the gross amount of the financing, or the amount committed for financing commitments - to the value of the collateral.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk (continued)

(b) Financing, advances and others (continued)

House financing (continued)

| FTV ratio | Group and Bank | |
|----------------------------------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| <i>Credit-impaired financing</i> | | |
| Less than 51% | 35,725 | 31,815 |
| 51-70% | 6,842 | 10,628 |
| More than 70% | 91,517 | 119,718 |
| Total | <u>134,084</u> | <u>162,161</u> |

Vulnerable sectors

The Group and the Bank have also identified certain vulnerable sectors that are mostly impacted by the pandemic, of which tighter assessment was made on the customers' credit rating, credit risk, credit cost and available financing.

| Financing, advances and others | On balance sheet (net of impairment) RM'000 |
|---|---|
| Tourism, airlines, oil and gas, transportation, restaurant, hotel and others | <u>7,435,095</u> |
| % over total maximum exposure | <u>14%</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk (continued)

(b) Financing, advances and others (continued)

Relief and support measures

As mentioned in Note 2.1(a)(i), the Government has introduced certain measures to assist customers experiencing temporary financial constraints due to the pandemic. The table below summarised total payment moratoriums and repayment assistances granted to the affected customers;

| | Matured and repaying as per revised schedules RM'000 | Extended RM'000 | Missed payments RM'000 | Total granted RM'000 |
|---------------------------|---|----------------------------|---------------------------------------|-------------------------------------|
| Consumer | 30,346,281 | 2,869,399 | 313,404 | 33,529,084 |
| <i>Mortgages</i> | 17,388,738 | 1,801,123 | 151,010 | 19,340,871 |
| <i>Hire purchase</i> | 1,247,353 | 131,952 | 23,764 | 1,403,069 |
| <i>Personal financing</i> | 11,710,190 | 936,324 | 138,630 | 12,785,144 |
| Commercial | 756,016 | 1,165,548 | 20,928 | 1,942,492 |
| <i>of which SME</i> | 657,724 | 468,414 | 20,928 | 1,147,066 |
| Corporate | 1,852,238 | 556,124 | - | 2,408,362 |
| | <u>32,954,535</u> | <u>4,591,071</u> | <u>334,332</u> | <u>37,879,938</u> |
| As a percentage of total: | | | | |
| Consumer | 90.5% | 8.6% | 0.9% | 100.0% |
| <i>Mortgages</i> | 89.9% | 9.3% | 0.8% | 100.0% |
| <i>Hire purchase</i> | 88.9% | 9.4% | 1.7% | 100.0% |
| <i>Personal financing</i> | 91.6% | 7.3% | 1.1% | 100.0% |
| Commercial | 38.9% | 60.0% | 1.1% | 100.0% |
| <i>of which SME</i> | 57.3% | 40.9% | 1.8% | 100.0% |
| Corporate | 76.9% | 23.1% | - | 100.0% |
| | <u>87.0%</u> | <u>12.1%</u> | <u>0.9%</u> | <u>100.0%</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk (continued)

(c) Financial guarantee contracts (“FGC”)

FGCs mainly comprise guarantees to customers, and to controlled entities of the Group and the Bank under the deed of cross guarantee, standby or documentary letters of credit and performance related contingencies. The Group and the Bank will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group and the Bank have guaranteed its obligations to a third party.

(d) Financing commitments

Financing commitments mainly comprise irrevocable financing commitments to finance a customer provided there is no breach of any condition established in the contract. If such financing commitments are drawn down by the customer there will typically be specific collateral requirements that will need to be satisfied by the customer in order to access to credit facilities.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Concentration of credit risk for Group and Bank

| Group 2020 | Cash and short- term funds and deposits and placements with financial institutions RM'000 | Financial assets at FVTPL RM'000 | Derivative financial assets RM'000 | Financial assets at FVOCI RM'000 | Financing, advances and others RM'000 | On- Balance Sheet Total RM'000 | Financial guarantee contracts RM'000 | Financing commitments* RM'000 |
|--|---|---|---|---|--|--|---|-------------------------------------|
| Primary agriculture | - | - | - | 77,621 | 1,025,569 | 1,103,190 | 2,082 | 186,286 |
| Mining and quarrying | - | - | - | - | 64,894 | 64,894 | 16,014 | 80,830 |
| Manufacturing (including agro-based) | - | - | 9 | 53,677 | 962,181 | 1,015,867 | 143,149 | 579,419 |
| Electricity, gas and water | - | 16,074 | - | 1,277,590 | 1,966,976 | 3,260,640 | 64,469 | 148,676 |
| Wholesale & retail trade, and hotels & restaurants | - | - | 37,921 | - | 897,828 | 935,749 | 128,968 | 401,704 |
| Construction | - | - | 393 | 906,545 | 2,632,171 | 3,539,109 | 515,506 | 1,679,249 |
| Transport, storage and communications | - | - | - | 1,384,140 | 642,844 | 2,026,984 | 91,714 | 106,633 |
| Finance, insurance, real estate and business activities | 4,547,347 | 926,636 | 8,938 | 5,758,025 | 4,451,540 | 15,692,486 | 134,802 | 1,772,325 |
| Education, health and others | - | - | 746 | 870,928 | 1,152,752 | 2,024,426 | 515,978 | 1,837,248 |
| Household sectors | - | - | - | - | 40,873,880 | 40,873,880 | - | 946,401 |
| Other sectors | - | - | 13,658 | 2,165,514 | - | 2,179,172 | 329,109 | 1,876,456 |
| | 4,547,347 | 942,710 | 61,665 | 12,494,040 | 54,670,635 | 72,716,397 | 1,941,791 | 9,615,227 |

* Financing commitments excluding derivative financial assets

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 2019 | Cash and short- term funds and deposits and placements with financial institutions RM'000 | Financial assets at FVTPL RM'000 | Derivative financial assets RM'000 | Financial assets at FVOCI RM'000 | Financing, advances and others RM'000 | On- Balance Sheet Total RM'000 | Financial guarantee contracts RM'000 | Financing commitments* RM'000 |
|--|---|---|---|---|--|--|---|-------------------------------------|
| Primary agriculture | - | - | - | 20,282 | 1,235,411 | 1,255,693 | 8,865 | 250,022 |
| Mining and quarrying | - | - | - | - | 420 | 420 | 10,145 | 44,278 |
| Manufacturing (including agro-based) | - | - | 30 | 62,973 | 819,640 | 882,643 | 136,235 | 449,484 |
| Electricity, gas and water | - | - | - | 1,883,960 | 1,818,272 | 3,702,232 | 67,660 | 156,012 |
| Wholesale & retail trade, and hotels & restaurants | - | - | 18,926 | - | 881,485 | 900,411 | 127,255 | 280,678 |
| Construction | - | - | - | 750,796 | 2,153,269 | 2,904,065 | 393,338 | 1,203,928 |
| Transport, storage and communications | - | - | 3 | 1,604,845 | 885,686 | 2,490,534 | 99,787 | 174,259 |
| Finance, insurance, real estate and business activities | 2,710,387 | 423,938 | 9,901 | 5,410,186 | 3,669,708 | 12,224,120 | 142,801 | 846,776 |
| Education, health and others | - | - | 47 | 683,042 | 1,112,776 | 1,795,865 | 560,120 | 982,567 |
| Household sectors | - | - | - | - | 36,895,855 | 36,895,855 | - | 796,966 |
| Other sectors | - | - | 4,419 | 1,683,597 | - | 1,688,016 | 404,281 | 3,876,106 |
| | <u>2,710,387</u> | <u>423,938</u> | <u>33,326</u> | <u>12,099,681</u> | <u>49,472,522</u> | <u>64,739,854</u> | <u>1,950,487</u> | <u>9,061,076</u> |

* Financing commitments excluding derivative financial assets

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Concentration of credit risk for Group and Bank (continued)

| Bank 2020 | Cash and short- term funds and deposits and placements with financial institutions RM'000 | Financial assets at FVTPL RM'000 | Derivative financial assets RM'000 | Financial assets at FVOCI RM'000 | Financing, advances and others RM'000 | On- Balance Sheet Total RM'000 | Financial guarantee contracts RM'000 | Financing commitments* RM'000 |
|--|--|---|---|---|--|---|---|--|
| Primary agriculture | - | - | - | 77,621 | 1,025,569 | 1,103,190 | 2,082 | 186,286 |
| Mining and quarrying | - | - | - | - | 64,894 | 64,894 | 16,014 | 80,830 |
| Manufacturing (including agro-based) | - | - | 9 | 53,677 | 962,181 | 1,015,867 | 143,149 | 579,419 |
| Electricity, gas and water | - | 16,074 | - | 1,277,590 | 1,966,976 | 3,260,640 | 64,469 | 148,676 |
| Wholesale & retail trade, and hotels & restaurants | - | - | 37,921 | - | 897,828 | 935,749 | 128,968 | 401,704 |
| Construction | - | - | 393 | 906,545 | 2,632,171 | 3,539,109 | 515,506 | 1,679,249 |
| Transport, storage and communications | - | - | - | 1,384,140 | 642,844 | 2,026,984 | 91,714 | 106,633 |
| Finance, insurance, real estate and business activities | 4,546,890 | 926,636 | 8,938 | 5,758,025 | 4,451,540 | 15,692,029 | 134,802 | 1,772,325 |
| Education, health and others | - | - | 746 | 870,928 | 1,152,752 | 2,024,426 | 515,978 | 1,837,248 |
| Household sectors | - | - | - | - | 40,873,880 | 40,873,880 | - | 946,401 |
| Other sectors | - | - | 13,658 | 2,165,514 | - | 2,179,172 | 329,109 | 1,876,456 |
| | 4,546,890 | 942,710 | 61,665 | 12,494,040 | 54,670,635 | 72,715,940 | 1,941,791 | 9,615,227 |

* Financing commitments excluding derivative financial assets

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

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

| Bank 2019 | Cash and short- term funds and deposits and placements with financial institutions RM'000 | Financial assets at FVTPL RM'000 | Derivative financial assets RM'000 | Financial assets at FVOCI RM'000 | Financing, advances and others RM'000 | On- Balance Sheet Total RM'000 | Financial guarantee contracts RM'000 | Financing commitments* RM'000 |
|--|--|---|---|---|--|---|---|--|
| Primary agriculture | - | - | - | 20,282 | 1,235,411 | 1,255,693 | 8,865 | 250,022 |
| Mining and quarrying | - | - | - | - | 420 | 420 | 10,145 | 44,278 |
| Manufacturing (including agro-based) | - | - | 30 | 62,973 | 819,640 | 882,643 | 136,235 | 449,484 |
| Electricity, gas and water | - | - | - | 1,883,960 | 1,818,272 | 3,702,232 | 67,660 | 156,012 |
| Wholesale & retail trade, and hotels & restaurants | - | - | 18,926 | - | 881,485 | 900,411 | 127,255 | 280,678 |
| Construction | - | - | - | 750,796 | 2,153,269 | 2,904,065 | 393,338 | 1,203,928 |
| Transport, storage and communications | - | - | 3 | 1,604,845 | 885,686 | 2,490,534 | 99,787 | 174,259 |
| Finance, insurance, real estate and business activities | 2,709,510 | 423,938 | 9,901 | 5,410,186 | 3,669,708 | 12,223,243 | 142,801 | 846,776 |
| Education, health and others | - | - | 47 | 683,042 | 1,112,776 | 1,795,865 | 560,120 | 982,567 |
| Household sectors | - | - | - | - | 36,895,855 | 36,895,855 | - | 796,966 |
| Other sectors | - | - | 4,419 | 1,683,597 | - | 1,688,016 | 404,281 | 3,876,106 |
| | <u>2,709,510</u> | <u>423,938</u> | <u>33,326</u> | <u>12,099,681</u> | <u>49,472,522</u> | <u>64,738,977</u> | <u>1,950,487</u> | <u>9,061,076</u> |

* Financing commitments excluding derivative financial assets

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Collateral

The main types of collateral obtained by 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

As at 31 December 2020 and 31 December 2019, there were no assets repossessed by the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

(iii) Credit quality of financing, advances and others

The credit quality of the Bank's financing, advances and others are summarised as follows:

| Group and Bank 2020 | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---------------------------|---------------------------|---------------------------|-------------------------|
| Financing, advances and others | | | | |
| Neither past due nor impaired ("NPDNI"): | | | | |
| - Excellent | 46,398,623 | 827,642 | - | 47,226,265 |
| - Satisfactory | 6,267,615 | 727,566 | - | 6,995,181 |
| - Fair | 263,084 | 112,065 | - | 375,149 |
| | <u>52,929,322</u> | <u>1,667,273</u> | <u>-</u> | <u>54,596,595</u> |
| Past due but not impaired ("PDNI") | - | 628,767 | - | 628,767 |
| Impaired | - | - | 373,234 | 373,234 |
| Gross carrying amount | <u>52,929,322</u> | <u>2,296,040</u> | <u>373,234</u> | <u>55,598,596</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

The credit quality of the Bank's financing, advances and others are summarised as follows:

| Group and Bank 2020 | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financing commitments | | | | |
| NPDNI: | | | | |
| - Excellent | 7,924,991 | 33,371 | - | 7,958,362 |
| - Satisfactory | 1,431,364 | 105,542 | - | 1,536,906 |
| - Fair | 69,915 | 27,818 | - | 97,733 |
| | <u>9,426,270</u> | <u>166,731</u> | <u>-</u> | <u>9,593,001</u> |
| PDNI | - | 5,501 | - | 5,501 |
| Impaired | - | - | 16,725 | 16,725 |
| Gross exposure | <u>9,426,270</u> | <u>172,232</u> | <u>16,725</u> | <u>9,615,227</u> |
| Impairment allowances | <u>(625,052)</u> | <u>(151,067)</u> | <u>(122,532)</u> | <u>(898,651)</u> |
| Net exposure | <u>61,730,540</u> | <u>2,317,205</u> | <u>267,427</u> | <u>64,315,172</u> |
| Financial guarantee contracts | | | | |
| NPDNI: | | | | |
| - Excellent | 1,691,570 | 583 | - | 1,692,153 |
| - Satisfactory | 232,950 | 15,669 | - | 248,619 |
| - Fair | 234 | 628 | - | 862 |
| | <u>1,924,754</u> | <u>16,880</u> | <u>-</u> | <u>1,941,634</u> |
| PDNI | - | - | - | - |
| Impaired | - | - | 157 | 157 |
| Gross exposure | <u>1,924,754</u> | <u>16,880</u> | <u>157</u> | <u>1,941,791</u> |
| Impairment allowances | <u>(28,930)</u> | <u>(380)</u> | <u>-</u> | <u>(29,310)</u> |
| Net exposure | <u>1,895,824</u> | <u>16,500</u> | <u>157</u> | <u>1,912,481</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

| Group and Bank 2019 | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financing, advances and others | | | | |
| NPDNI: | | | | |
| - Excellent | 42,776,005 | 372,582 | - | 43,148,587 |
| - Satisfactory | 5,281,199 | 546,463 | - | 5,827,662 |
| - Fair | 208,508 | 47,241 | - | 255,749 |
| | <u>48,265,712</u> | <u>966,286</u> | <u>-</u> | <u>49,231,998</u> |
| PDNI | - | 558,970 | - | 558,970 |
| Impaired | - | - | 433,001 | 433,001 |
| Gross carrying amount | <u>48,265,712</u> | <u>1,525,256</u> | <u>433,001</u> | <u>50,223,969</u> |
| Financing commitments | | | | |
| NPDNI: | | | | |
| - Excellent | 7,610,330 | 113,645 | - | 7,723,975 |
| - Satisfactory | 1,167,045 | 69,998 | - | 1,237,043 |
| - Fair | 31,975 | 38,122 | - | 70,097 |
| | <u>8,809,350</u> | <u>221,765</u> | <u>-</u> | <u>9,031,115</u> |
| PDNI | - | 13,427 | - | 13,427 |
| Impaired | - | - | 16,534 | 16,534 |
| Gross exposure | <u>8,809,350</u> | <u>235,192</u> | <u>16,534</u> | <u>9,061,076</u> |
| Impairment allowances | <u>(402,059)</u> | <u>(147,588)</u> | <u>(172,197)</u> | <u>(721,844)</u> |
| Net exposure | <u>56,673,003</u> | <u>1,612,860</u> | <u>277,338</u> | <u>58,563,201</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

| Group and Bank 2019 | Stage 1 RM'000 | Stage 2 RM'000 | Stage 3 RM'000 | Total RM'000 |
|--|-------------------|-------------------|-------------------|------------------|
| Financial guarantee contracts | | | | |
| NPDNI: | | | | |
| - Excellent | 1,819,240 | 5,211 | - | 1,824,451 |
| - Satisfactory | 117,731 | 5,207 | - | 122,938 |
| - Fair | 229 | 2,290 | - | 2,519 |
| | <u>1,937,200</u> | <u>12,708</u> | <u>-</u> | <u>1,949,908</u> |
| PDNI | - | - | - | - |
| Impaired | - | - | 579 | 579 |
| Gross exposure | <u>1,937,200</u> | <u>12,708</u> | <u>579</u> | <u>1,950,487</u> |
| Impairment allowances | <u>(29,076)</u> | <u>(527)</u> | <u>-</u> | <u>(29,603)</u> |
| Net exposure | <u>1,908,124</u> | <u>12,181</u> | <u>579</u> | <u>1,920,884</u> |

No significant changes to estimation techniques or assumptions were made during the year.

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.

Classification of financing, advances and others:-

- **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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

- **Impaired financing**

In addition to Note 2.1(a)(ii), financing is classified as impaired/ defaulted:

- (i) where the principal or profit or both are past due for three months or more;
- (ii) in the case of revolving credit facilities, where the outstanding amount has remained in excess of the approved limit for a period of three months or more;
- (iii) where the amount is past due or the outstanding amount has been in excess of the approved limit for three months or less and the financing exhibits indications of significant credit weakness;
- (iv) as soon as default occurs where the principal and/or profit repayments are schedule on intervals of 3 months or longer.

Past due but not impaired financing

| | Group and Bank | | | |
|---------------------------|----------------|----------------------------|----------------|-------------------------|
| | 2020 | % to gross financing | 2019 | % to gross financing |
| | RM'000 | | RM'000 | |
| By ageing | | | | |
| <i>Month-in-arrears 1</i> | 429,323 | 0.77 | 360,615 | 0.72 |
| <i>Month-in-arrears 2</i> | 199,444 | 0.36 | 198,355 | 0.39 |
| | <u>628,767</u> | <u>1.13</u> | <u>558,970</u> | <u>1.11</u> |

Impaired financing

| | Group and Bank | |
|-------------------------------------|----------------|----------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| By ageing | | |
| <i>Month-in-arrears 0</i> | 38,464 | 49,828 |
| <i>Month-in-arrears 1</i> | 8,164 | 10,731 |
| <i>Month-in-arrears 2</i> | 20,125 | 5,446 |
| <i>Month-in-arrears 3 and above</i> | 306,481 | 366,996 |
| | <u>373,234</u> | <u>433,001</u> |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

Impaired financing of which rescheduled and restructured financing

| | Group and Bank | |
|----------|----------------|----------------|
| | 2020 RM'000 | 2019 RM'000 |
| Consumer | 23,608 | 17,120 |
| Business | 65,369 | 61,786 |
| | <u>88,977</u> | <u>78,906</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.

Key macroeconomic variables

The following table shows certain key macroeconomic variables used in modelling the allowance for credit losses for Stages 1 and 2. For the base, upside and downside scenarios, the projections are provided for the next 12 months and for the remaining forecast period, which represents a medium-term view.

| | Base scenario | | Upside scenario | | Downside scenario | |
|---------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | Remaining | | Remaining | | Remaining | |
| | Next 12 months (2021) | forecast period (2022) | Next 12 months (2021) | forecast period (2022) | Next 12 months (2021) | forecast period (2022) |
| Kuala Lumpur Composite Index ("KLCP") | 1,750.0 | 1,850.0 | 1,850.0 | 1,950.0 | 910.2 | 1,010.2 |
| House Price Index ("HPI") | 1.86% | 2.24% | 3.60% | 3.98% | 0.57% | 1.55% |
| Consumer Price Index ("CPI") | 2.0% | 2.3% | 1.6% | 1.9% | 2.5% | 2.8% |
| Unemployment Rate | 3.5 | 3.3 | 3.2 | 2.9 | 4.3 | 3.7 |
| Gross Domestic Production ("GDP") | 6.20% | 5.30% | 6.63% | 5.73% | 4.20% | 3.30% |

An increase in unemployment rate or CPI will generally correlate with higher allowances for credit losses, whereas an increase in the other macroeconomic factors (KLCI, HPI and GDP) will generally correlate with lower allowances for credit losses. Due to the unprecedented nature of the pandemic, and the difficulty of predicting reliably the forecast period, the Group and the Bank have applied certain management overlay on the overall allowance for credit losses.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit quality of financing, advances and others (continued)

Key macroeconomic variables (continued)

These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and potential impact to delinquencies and defaults when the various relief and support measures are expiring in 2021. The impact were estimated at portfolio level and remain outside of the core MFRS 9 process. Total overlays for ECLs maintained by the Group and by the Bank as at 31 December 2020 are RM231,574,000.

(iv) Credit quality of other financial assets excluding cash, short-term funds and deposits

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

| Bank 2020 | Stage 1 RM'000 | Stage 3 RM'000 | Total RM'000 |
|---|---------------------------|---------------------------|-------------------------|
| Financial assets at FVOCI | | | |
| <i>Debt instrument</i> | | | |
| Government bonds and GG Sukuk: | 7,938,079 | - | 7,938,079 |
| Rated AAA | 3,020,792 | - | 3,020,792 |
| Rated AA1 to AA3 | 1,519,327 | - | 1,519,327 |
| Lower than A | - | 15,842 | 15,842 |
| Gross carrying amount | 12,478,198 | 15,842 | 12,494,040 |
| Impairment allowances [^] | 403 | - | 403 |
| Derivative financial assets | | | |
| Bank and financial institution counterparties | | | 55,409 |
| Corporate | | | 6,256 |
| | | | 61,665 |
| Financial assets at FVTPL | | | |
| Government bonds and GG Sukuk: | | | 846,543 |
| Rated AAA | | | 96,167 |
| | | | 942,710 |
| Other financial assets at AC | | | |
| Other unrated financial assets | 182,041 | 8,264 | 190,305 |
| Impairment allowances | - | (8,264) | (8,264) |
| Net carrying amount | 182,041 | - | 182,041 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Credit quality of other financial assets excluding cash, short-term funds and deposits (continued)

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

| Bank 2019 | Stage 1 RM'000 | Stage 3 RM'000 | Total RM'000 |
|--|-------------------|-------------------|-----------------|
| Financial assets at FVOCI | | | |
| <i>Debt instrument</i> | | | |
| Government bonds and treasury bills | 7,731,637 | - | 7,731,637 |
| Sukuk | | | |
| Rated AAA | 3,374,297 | - | 3,374,297 |
| Rated AA1 to AA3 | 971,687 | - | 971,687 |
| Lower than A | - | 22,060 | 22,060 |
| Gross carrying amount | 12,077,621 | 22,060 | 12,099,681 |
| Impairment allowances [^] | 265 | - | 265 |
| Derivative financial assets | | | |
| Bank and financial institution counterparties | | | 26,592 |
| Corporate | | | 6,734 |
| | | | <u>33,326</u> |
| Financial assets at FVTPL | | | |
| Government bonds and treasury bills | | | 373,743 |
| Sukuk: | | | |
| Rated AAA | | | 50,191 |
| Rated AA1 to AA3 | | | 4 |
| | | | <u>423,938</u> |
| Other financial assets at AC | | | |
| Other unrated financial assets | 133,489 | 11,159 | 144,648 |
| Impairment allowances | - | (11,159) | (11,159) |
| Net carrying amount | <u>133,489</u> | <u>-</u> | <u>133,489</u> |

[^] The impairment allowances are recognised in OCI reserve.

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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk

Overview

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

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

The Group and the Bank separates the market risk exposures into either trading book or banking book portfolios. Trading book portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions as per the Board-approved Trading Book Policy Statements. Banking book portfolios primarily arise from the Group's and 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 Group's and 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 comprehensive limits, policies and guidelines which are periodically reviewed.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 that is responsible for the implementation of market risk management framework. MRMD is also responsible for developing and reviewing the Group’s and the Bank’s market risk management guidelines and policies, 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 regular stress testing, adhoc simulations and rigorous new product approval procedures. Stress test results are produced regularly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Group’s and 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 Group and the Bank.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(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 are repriced or mature, whichever is earlier.

| Group | Banking 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 | | | |
| 2020 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | % |
| Assets | | | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 4,490,732 | - | - | - | - | 726,005 | - | 5,216,737 | 1.37 |
| Financial assets at FVTPL | - | - | - | - | - | - | 1,181,200 | 1,181,200 | 2.34 |
| Derivative financial assets | - | - | - | - | - | - | 61,665 | 61,665 | 0.71 |
| Financial assets at FVOCI | 79,793 | 678,405 | 1,226,955 | 6,725,858 | 3,846,980 | - | - | 12,557,991 | 5.69 |
| Financing, advances and others | | | | | | | | | |
| - non-impaired | 50,683,675 | 442,090 | 42,052 | 1,030,556 | 2,282,468 | 744,521 | - | 55,225,362 | 4.72 |
| - impaired net of allowances * | - | - | - | - | - | (554,727) | - | (554,727) | |
| Other financial assets at amortised cost | - | - | - | - | - | 192,574 | - | 192,574 | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 192,425 | - | 192,425 | |
| Total assets | 55,254,200 | 1,120,495 | 1,269,007 | 7,756,414 | 6,129,448 | 1,300,798 | 1,242,865 | 74,073,227 | |

* This is arrived at after deducting impairment allowances from the outstanding gross impaired financing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Group 2020 | Banking 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 | | | |
| Liabilities | | | | | | | | | |
| Deposits from customers | 12,210,156 | 8,395,068 | 10,787,258 | 1,735,439 | 35,117 | 17,914,224 | - | 51,077,262 | 1.99 |
| Investment accounts of customers | 2,482,295 | 2,231,737 | 2,534,420 | 6,801 | - | 5,113,275 | - | 12,368,528 | 1.91 |
| Derivative financial liabilities | - | - | - | - | - | - | 105,872 | 105,872 | 1.23 |
| Bills and acceptance payable | - | - | - | - | - | 29,621 | - | 29,621 | |
| Recourse obligations on financing sold to Cagamas | - | - | - | 1,500,000 | - | 1,187 | - | 1,501,187 | 4.74 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,700,000 | 13,164 | - | 1,713,164 | 4.69 |
| Other liabilities | - | - | - | - | - | 1,038,079 | - | 1,038,079 | |
| Lease liabilities | 1,409 | 2,267 | 9,760 | 33,686 | 265,307 | - | - | 312,429 | 5.70 |
| Total liabilities | 14,693,860 | 10,629,072 | 13,331,438 | 3,275,926 | 2,000,424 | 24,109,550 | 105,872 | 68,146,142 | |
| On-balance sheet profit sensitivity gap | 40,560,340 | (9,508,577) | (12,062,431) | 4,480,488 | 4,129,024 | (22,808,752) | 1,136,993 | 5,927,085 | |
| Off-balance sheet profit sensitivity gap (profit rate swaps) | - | - | - | 114,056 | - | - | - | 114,056 | |
| Total profit sensitivity gap | 40,560,340 | (9,508,577) | (12,062,431) | 4,594,544 | 4,129,024 | (22,808,752) | 1,136,993 | 6,041,141 | |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Group 2019 | Banking 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 | | | |
| Assets | | | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 2,650,438 | - | 348 | - | - | 821,600 | - | 3,472,386 | 2.51 |
| Financial assets at FVTPL | - | - | - | - | - | - | 663,068 | 663,068 | 3.97 |
| Derivative financial assets | - | - | - | - | - | - | 33,326 | 33,326 | 0.52 |
| Financial assets at FVOCI | 46,960 | 306,846 | 1,816,596 | 6,072,029 | 3,904,209 | - | - | 12,146,640 | 4.83 |
| Financing, advances and others | | | | | | | | | |
| - non-impaired | 45,100,289 | 507,292 | 71,763 | 1,088,826 | 2,628,405 | 394,393 | - | 49,790,968 | 5.70 |
| - impaired net of allowances * | - | - | - | - | - | (318,446) | - | (318,446) | |
| Other financial assets at amortised cost | - | - | - | - | - | 137,655 | - | 137,655 | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 1,170,136 | - | 1,170,136 | |
| Total assets | 47,797,687 | 814,138 | 1,888,707 | 7,160,855 | 6,532,614 | 2,205,338 | 696,394 | 67,095,733 | |

* This is arrived at after deducting impairment allowances from the outstanding gross impaired financing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Group 2019 | ← Banking 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 | | | |
| Liabilities | | | | | | | | | |
| Deposits from customers | 7,664,642 | 10,048,295 | 11,781,782 | 2,149,298 | 9,835 | 15,754,886 | - | 47,408,738 | 2.76 |
| Investment accounts of customers | 1,120,694 | 2,655,565 | 3,238,788 | 13,983 | - | 3,211,343 | - | 10,240,373 | 2.33 |
| Derivative financial liabilities | - | - | - | - | - | - | 36,746 | 36,746 | 0.57 |
| Bills and acceptance payable | - | - | - | - | - | 49,084 | - | 49,084 | |
| Recourse obligations on financing sold to Cagamas | - | - | - | 1,500,000 | - | 1,187 | - | 1,501,187 | 4.75 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,300,000 | 8,694 | - | 1,308,694 | 5.31 |
| Other liabilities | - | - | - | - | - | 826,823 | - | 826,823 | |
| Lease liabilities | 1,166 | 1,775 | 9,315 | 35,841 | 277,462 | - | - | 325,559 | 5.70 |
| Total liabilities | 8,786,502 | 12,705,635 | 15,029,885 | 3,699,122 | 1,587,297 | 19,852,017 | 36,746 | 61,697,204 | |
| On-balance sheet profit sensitivity gap | 39,011,185 | (11,891,497) | (13,141,178) | 3,461,733 | 4,945,317 | (17,646,679) | 659,648 | 5,398,529 | |
| Off-balance sheet profit sensitivity gap (profit rate swaps) | 3,634,376 | 429,403 | 71,549 | - | - | - | - | 4,135,328 | |
| Total profit sensitivity gap | 42,645,561 | (11,462,094) | (13,069,629) | 3,461,733 | 4,945,317 | (17,646,679) | 659,648 | 9,533,857 | |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Bank 2020 | Banking 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 | | | | | |
| Assets | | | | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 4,490,732 | - | - | - | - | 725,548 | - | 5,216,280 | 1.38 | |
| Financial assets at FVTPL | - | - | - | - | - | - | 1,175,440 | 1,175,440 | 2.35 | |
| Derivative financial assets | - | - | - | - | - | - | 61,665 | 61,665 | 0.71 | |
| Financial assets at FVOCI | 80,531 | 678,405 | 1,226,955 | 6,725,858 | 3,846,980 | - | - | 12,558,729 | 5.71 | |
| Financing, advances and others | | | | | | | | | | |
| - non-impaired | 50,683,675 | 442,090 | 42,052 | 1,030,556 | 2,282,468 | 744,521 | - | 55,225,362 | 4.72 | |
| - impaired net of allowances * | - | - | - | - | - | (554,727) | - | (554,727) | | |
| Other financial assets at amortised cost | - | - | - | - | - | 182,041 | - | 182,041 | | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 192,425 | - | 192,425 | | |
| Total assets | 55,254,938 | 1,120,495 | 1,269,007 | 7,756,414 | 6,129,448 | 1,289,808 | 1,237,105 | 74,057,215 | | |

* This is arrived at after impairment allowances from the outstanding gross impaired financing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Bank 2020 | Banking 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 | | | |
| Liabilities | | | | | | | | | |
| Deposits from customers | 12,210,491 | 8,397,374 | 10,792,984 | 1,735,439 | 35,117 | 17,924,046 | - | 51,095,451 | 2.00 |
| Investment accounts of customers | 2,482,295 | 2,231,757 | 2,534,420 | 7,150 | - | 5,113,275 | - | 12,368,897 | 1.91 |
| Derivative financial liabilities | - | - | - | - | - | - | 105,872 | 105,872 | 1.23 |
| Bills and acceptance payable | - | - | - | - | - | 29,621 | - | 29,621 | |
| Recourse obligations on financing sold to Cagamas | - | - | - | 1,500,000 | - | 1,187 | - | 1,501,187 | 4.74 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,700,000 | 13,164 | - | 1,713,164 | 4.69 |
| Other liabilities | - | - | - | - | - | 1,024,855 | - | 1,024,855 | |
| Lease liabilities | 1,409 | 2,267 | 9,760 | 33,686 | 265,307 | - | - | 312,429 | 5.70 |
| Total liabilities | 14,694,195 | 10,631,398 | 13,337,164 | 3,276,275 | 2,000,424 | 24,106,148 | 105,872 | 68,151,476 | |
| On-balance sheet profit sensitivity gap | 40,560,743 | (9,510,903) | (12,068,157) | 4,480,139 | 4,129,024 | (22,816,340) | 1,131,233 | 5,905,739 | |
| Off-balance sheet profit sensitivity gap (profit rate swaps) | - | - | - | 114,056 | - | - | - | 114,056 | |
| Total profit sensitivity gap | 40,560,743 | (9,510,903) | (12,068,157) | 4,594,195 | 4,129,024 | (22,816,340) | 1,131,233 | 6,019,795 | |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Bank 2019 | Banking 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 | | | | | |
| Assets | | | | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 2,650,438 | - | - | - | - | 821,071 | - | 3,471,509 | 2.53 | |
| Financial assets at FVTPL | - | - | - | - | - | - | 657,443 | 657,443 | 3.97 | |
| Derivative financial assets | - | - | - | - | - | - | 33,326 | 33,326 | 0.52 | |
| Financial assets at FVOCI | 47,698 | 306,846 | 1,816,596 | 6,072,029 | 3,904,209 | - | - | 12,147,378 | 4.83 | |
| Financing, advances and others | | | | | | | | | | |
| - non-impaired | 45,100,289 | 507,292 | 71,763 | 1,088,826 | 2,628,405 | 394,393 | - | 49,790,968 | 5.67 | |
| - impaired net of allowances* | - | - | - | - | - | (318,446) | - | (318,446) | | |
| Other financial assets at amortised cost | - | - | - | - | - | 133,489 | - | 133,489 | | |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | - | 1,170,136 | - | 1,170,136 | | |
| Total assets | 47,798,425 | 814,138 | 1,888,359 | 7,160,855 | 6,532,614 | 2,200,643 | 690,769 | 67,085,803 | | |

* This is arrived at after deducting impairment allowances from the outstanding gross impaired financing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

| Bank 2019 | Banking 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 | | | | |
| Liabilities | | | | | | | | | |
| Deposits from customers | 7,664,989 | 10,050,093 | 11,786,476 | 2,149,298 | 9,835 | 15,816,181 | - | 47,476,872 | 2.76 |
| Investment accounts of customers | 1,120,694 | 2,655,565 | 3,238,788 | 13,983 | - | 3,211,343 | - | 10,240,373 | 2.33 |
| Derivative financial liabilities | - | - | - | - | - | - | 36,746 | 36,746 | 0.57 |
| Bills and acceptance payable | - | - | - | - | - | 49,084 | - | 49,084 | |
| Recourse obligations on financing sold to Cagamas | - | - | - | 1,500,000 | - | 1,187 | - | 1,501,187 | 4.75 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,300,000 | 8,694 | - | 1,308,694 | 5.31 |
| Other liabilities | - | - | - | - | - | 769,494 | - | 769,494 | |
| Lease liabilities | 1,166 | 1,775 | 9,315 | 35,841 | 277,462 | - | - | 325,559 | 5.70 |
| Total liabilities | 8,786,849 | 12,707,433 | 15,034,579 | 3,699,122 | 1,587,297 | 19,855,983 | 36,746 | 61,708,009 | |
| On-balance sheet profit sensitivity gap | 39,011,576 | (11,893,295) | (13,146,220) | 3,461,733 | 4,945,317 | (17,655,340) | 654,023 | 5,377,794 | |
| Off-balance sheet profit sensitivity gap (profit rate swaps) | 3,634,376 | 429,403 | 71,549 | - | - | - | - | 4,135,328 | |
| Total profit sensitivity gap | 42,645,952 | (11,463,892) | (13,074,671) | 3,461,733 | 4,945,317 | (17,655,340) | 654,023 | 9,513,122 | |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(i) Profit rate risk (continued)

Profit rate risk in the banking book portfolio

Profit rate risk in the banking book portfolio is managed and controlled using measurement tools known as Earnings at Risk (“EaR”) and Economic Value of Equity (“EVE”).

The Group and the Bank monitor the sensitivity of EaR and EVE 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 manage and strategize to change the profit rate exposure profile to minimise losses and to optimise net revenues. The Bank’s hedging and risk mitigation 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 Group’s and the Bank’s profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

| | 2020 | | 2019 | |
|---------------|---------------------|---------|---------|---------|
| | -100bps | +100bps | -100bps | +100bps |
| | Increase/(Decrease) | | | |
| | RM | RM | RM | RM |
| | million | million | million | million |
| Group | | | | |
| Impact on EaR | (131.4) | 131.4 | (119.6) | 119.6 |
| Impact on EVE | 241.0 | (241.0) | 226.1 | (226.1) |
| Bank | | | | |
| Impact on EaR | (131.4) | 131.4 | (119.4) | 119.4 |
| Impact on EVE | 240.9 | (240.9) | 225.5 | (225.5) |

Another control to manage the profit rate risk in the banking book portfolio includes present value of 1 basis point change (“PV01”) which measures the portfolio’s sensitivity to market rates movement.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Market risk in the trading book portfolio

Market risk in the trading book 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 Group and the Bank are based on historical simulation which derives plausible future scenarios from past series of recorded market rates and prices. The historical simulation model used by the Group and 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 book portfolios at the reporting date is as follows:

| Bank | As at | 1.1.2020 to 31.12.2020 | | |
|-----------------------|--------------------------|------------------------|-----------------------|-----------------------|
| | 31.12.2020 RM million | Average RM million | Maximum RM million | Minimum RM million |
| Profit rate risk | 2.76 | 1.88 | 3.32 | 0.01 |
| Foreign exchange risk | 0.42 | 0.47 | 1.02 | 0.23 |
| Overall | 3.18 | 2.36 | 3.89 | 0.36 |

| Bank | As at | 1.1.2019 to 31.12.2019 | | |
|-----------------------|--------------------------|------------------------|-----------------------|-----------------------|
| | 31.12.2019 RM million | Average RM million | Maximum RM million | Minimum RM million |
| Profit rate risk | 0.33 | 1.07 | 1.60 | 0.03 |
| Foreign exchange risk | 0.34 | 0.47 | 0.94 | 0.21 |
| Overall | 0.67 | 1.54 | 2.26 | 0.30 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Market risk in the trading book portfolio (continued)

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

(iii) Foreign exchange risk

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

| | 2020 | | 2019 | |
|-----------------------|--------------|--------------|--------------|--------------|
| | -1% | +1% | -1% | +1% |
| | Depreciation | Appreciation | Depreciation | Appreciation |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Group and Bank | | | | |
| US Dollar | 8,844 | (8,844) | 11,611 | (11,611) |
| Euro | 5,072 | (5,072) | 4,591 | (4,591) |
| Others | (194) | 194 | (279) | 279 |

(d) Liquidity risk

Overview

Liquidity risk is the potential inability of the Group and 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 Group and the Bank maintains a diversified and stable funding base comprising of retail and corporate customer deposits. This is augmented by wholesale funding and highly liquid assets portfolios.

The objective of the Group's and 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 remains accessible and cost effective.

Savings account, current account, investment accounts (IA) and term deposits form a critical part of the Group's and the Bank's funding profile and the Group and the Bank place considerable importance on maintaining their stability. The stability depends upon preserving depositor confidence in the Group and the Bank and the Group's and the Bank's capital strength and liquidity, and on competitive and transparent pricing.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Overview (continued)

The Group's and the Bank's liquidity management is primarily carried out in accordance with Bank Negara Malaysia's requirements and the internal limits are approved by the ALCO and/or BRC. The limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operate. The Group and the Bank maintain a strong liquidity position and manage 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 management of liquidity risk is principally carried out by using sets of policies and guidelines approved by 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.

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 other risk controls are set to meet the following objectives:

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

MRMD is also responsible for the implementation of liquidity risk management framework. It develops the Group's and 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 Group and 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 Group and the Bank.

Another key control feature of the Group's and the Bank's liquidity risk management is the liquidity contingency management plans. These plans identify the pre-emptive quantitative and qualitative indicators of stress conditions arising from systemic or other crises and provide guidance on the actions to be taken in order to minimize the adverse implications to the Group and the Bank.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis

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

| Group As at 31 December 2020 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Assets | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 725,644 | 4,490,732 | - | 361 | - | - | 5,216,737 |
| Financial assets at FVTPL | - | 482,108 | - | 30,051 | 50,041 | 619,000 | 1,181,200 |
| Derivative financial assets | - | 25,579 | 26,773 | 6,915 | 227 | 2,171 | 61,665 |
| Financial assets at FVOCI | - | 79,793 | 678,405 | 395,567 | 831,388 | 10,572,838 | 12,557,991 |
| Financing, advances and others | - | 1,799,333 | 1,054,893 | 429,657 | 377,000 | 51,009,752 | 54,670,635 |
| Other financial assets at amortised cost | 192,574 | - | - | - | - | - | 192,574 |
| Statutory deposits with Bank Negara Malaysia | 192,425 | - | - | - | - | - | 192,425 |
| Total assets | 1,110,643 | 6,877,545 | 1,760,071 | 862,551 | 1,258,656 | 62,203,761 | 74,073,227 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Group As at 31 December 2020 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Liabilities | | | | | | | |
| Deposits from customers | 17,914,224 | 12,210,156 | 8,395,068 | 5,830,244 | 4,957,014 | 1,770,556 | 51,077,262 |
| Investment accounts of customers | 5,113,275 | 2,482,295 | 2,231,737 | 1,913,851 | 620,569 | 6,801 | 12,368,528 |
| Derivative financial liabilities | - | 29,422 | 56,599 | 17,269 | 938 | 1,644 | 105,872 |
| Bills and acceptance payable | 29,621 | - | - | - | - | - | 29,621 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | - | 1,501,187 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | 3,904 | 9,260 | - | 1,700,000 | 1,713,164 |
| Other liabilities | 978,556 | - | - | - | - | 59,523 | 1,038,079 |
| Lease liabilities | - | 1,409 | 2,267 | 3,323 | 6,437 | 298,993 | 312,429 |
| Total liabilities | 24,035,676 | 14,723,282 | 10,689,575 | 7,773,947 | 5,584,958 | 5,338,704 | 68,146,142 |
| Net liquidity gap on statement of financial position | (22,925,033) | (7,845,737) | (8,929,504) | (6,911,396) | (4,326,302) | 56,865,057 | 5,927,085 |
| Commitments and contingencies | - | 5,593,261 | 4,554,283 | 2,271,427 | 4,929,870 | 2,840,655 | 20,189,496 |
| Net liquidity gap | (22,925,033) | (13,438,998) | (13,483,787) | (9,182,823) | (9,256,172) | 54,024,402 | (14,262,411) |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

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

| Group As at 31 December 2019 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Assets | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 821,600 | 2,650,438 | - | 348 | - | - | 3,472,386 |
| Financial assets at FVTPL | - | 239,130 | 149,760 | 30,227 | - | 243,951 | 663,068 |
| Derivative financial assets | - | 21,131 | 9,648 | 847 | - | 1,700 | 33,326 |
| Financial assets at FVOCI | - | 46,960 | 306,846 | 637,331 | 1,179,265 | 9,976,238 | 12,146,640 |
| Financing, advances and others | - | 1,656,360 | 2,048,159 | 625,811 | 285,044 | 44,857,148 | 49,472,522 |
| Other financial assets at amortised cost | 137,655 | - | - | - | - | - | 137,655 |
| Statutory deposits with Bank Negara Malaysia | 1,170,136 | - | - | - | - | - | 1,170,136 |
| Total assets | 2,129,391 | 4,614,019 | 2,514,413 | 1,294,564 | 1,464,309 | 55,079,037 | 67,095,733 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Group As at 31 December 2019 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Liabilities | | | | | | | |
| Deposits from customers | 15,754,886 | 7,664,642 | 10,048,295 | 4,185,962 | 7,595,820 | 2,159,133 | 47,408,738 |
| Investment accounts of customers | 3,211,343 | 1,120,694 | 2,655,565 | 2,358,169 | 880,619 | 13,983 | 10,240,373 |
| Derivative financial liabilities | - | 6,802 | 16,640 | 12,402 | 83 | 819 | 36,746 |
| Bills and acceptance payable | 49,084 | - | - | - | - | - | 49,084 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | - | 1,501,187 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | 8,694 | - | 1,300,000 | 1,308,694 |
| Other liabilities | 826,823 | - | - | - | - | - | 826,823 |
| Lease liabilities | - | 1,166 | 1,775 | 2,849 | 6,466 | 313,303 | 325,559 |
| Total liabilities | 19,842,136 | 8,793,304 | 12,722,275 | 6,568,076 | 8,482,988 | 5,288,425 | 61,697,204 |
| Net liquidity gap on statement of financial position | (17,712,745) | (4,179,285) | (10,207,862) | (5,273,512) | (7,018,679) | 49,790,612 | 5,398,529 |
| Commitments and contingencies | - | 5,599,469 | 3,048,462 | 1,775,866 | 2,884,732 | 4,105,652 | 17,414,181 |
| Net liquidity gap | (17,712,745) | (9,778,754) | (13,256,324) | (7,049,378) | (9,903,411) | 45,684,960 | (12,015,652) |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Bank As at 31 December 2020 | 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 |
|---|-----------------------------|-------------------------------------|---|---|--|-----------------------------------|-------------------------|
| Assets | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 725,548 | 4,490,732 | - | - | - | - | 5,216,280 |
| Financial assets at FVTPL | - | 476,348 | - | 30,051 | 50,041 | 619,000 | 1,175,440 |
| Derivative financial assets | - | 25,579 | 26,773 | 6,915 | 227 | 2,171 | 61,665 |
| Financial assets at FVOCI | - | 80,531 | 678,405 | 395,567 | 831,388 | 10,572,838 | 12,558,729 |
| Financing, advances and others | - | 1,799,333 | 1,054,893 | 429,657 | 377,000 | 51,009,752 | 54,670,635 |
| Other financial assets at amortised cost | 182,041 | - | - | - | - | - | 182,041 |
| Statutory deposits with Bank Negara Malaysia | 192,425 | - | - | - | - | - | 192,425 |
| Total assets | 1,100,014 | 6,872,523 | 1,760,071 | 862,190 | 1,258,656 | 62,203,761 | 74,057,215 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Bank As at 31 December 2020 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Liabilities | | | | | | | |
| Deposits from customers | 17,924,046 | 12,210,491 | 8,397,374 | 5,832,265 | 4,960,719 | 1,770,556 | 51,095,451 |
| Investment accounts of customers | 5,113,275 | 2,482,295 | 2,231,757 | 1,913,851 | 620,569 | 7,150 | 12,368,897 |
| Derivative financial liabilities | - | 29,422 | 56,599 | 17,269 | 938 | 1,644 | 105,872 |
| Bills and acceptance payable | 29,621 | - | - | - | - | - | 29,621 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | - | 1,501,187 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | 3,904 | 9,260 | - | 1,700,000 | 1,713,164 |
| Other liabilities | 965,332 | - | - | - | - | 59,523 | 1,024,855 |
| Lease liabilities | - | 1,409 | 2,267 | 3,323 | 6,437 | 298,993 | 312,429 |
| Total liabilities | 24,032,274 | 14,723,617 | 10,691,901 | 7,775,968 | 5,588,663 | 5,339,053 | 68,151,476 |
| Net liquidity gap on statement of financial position | (22,932,260) | (7,851,094) | (8,931,830) | (6,913,778) | (4,330,007) | 56,864,708 | 5,905,739 |
| Commitments and contingencies | - | 5,593,261 | 4,554,283 | 2,271,427 | 4,929,870 | 2,840,655 | 20,189,496 |
| Net liquidity gap | (22,932,260) | (13,444,355) | (13,486,113) | (9,185,205) | (9,259,877) | 54,024,053 | (14,283,757) |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Bank As at 31 December 2019 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Assets | | | | | | | |
| Cash and short-term funds and deposits and placements with financial institutions | 821,071 | 2,650,438 | - | - | - | - | 3,471,509 |
| Financial assets at FVTPL | - | 233,505 | 149,760 | 30,227 | - | 243,951 | 657,443 |
| Derivative financial assets | - | 21,131 | 9,648 | 847 | - | 1,700 | 33,326 |
| Financial assets at FVOCI | - | 47,698 | 306,846 | 637,331 | 1,179,265 | 9,976,238 | 12,147,378 |
| Financing, advances and others | - | 1,656,360 | 2,048,159 | 625,811 | 285,044 | 44,857,148 | 49,472,522 |
| Other financial assets at amortised cost | 133,489 | - | - | - | - | - | 133,489 |
| Statutory deposits with Bank Negara Malaysia | 1,170,136 | - | - | - | - | - | 1,170,136 |
| Total assets | 2,124,696 | 4,609,132 | 2,514,413 | 1,294,216 | 1,464,309 | 55,079,037 | 67,085,803 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Maturity analysis (continued)

| Bank As at 31 December 2019 | 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 |
|---|---------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Liabilities | | | | | | | |
| Deposits from customers | 15,816,181 | 7,664,989 | 10,050,093 | 4,188,251 | 7,598,225 | 2,159,133 | 47,476,872 |
| Investment accounts of customers | 3,211,343 | 1,120,694 | 2,655,565 | 2,358,169 | 880,619 | 13,983 | 10,240,373 |
| Derivative financial liabilities | - | 6,802 | 16,640 | 12,402 | 83 | 819 | 36,746 |
| Bills and acceptance payable | 49,084 | - | - | - | - | - | 49,084 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | - | 1,501,187 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | 8,694 | - | 1,300,000 | 1,308,694 |
| Other liabilities | 769,494 | - | - | - | - | - | 769,494 |
| Lease liabilities | - | 1,166 | 1,775 | 2,849 | 6,466 | 313,303 | 325,559 |
| Total liabilities | 19,846,102 | 8,793,651 | 12,724,073 | 6,570,365 | 8,485,393 | 5,288,425 | 61,708,009 |
| Net liquidity gap on statement of financial position | (17,721,406) | (4,184,519) | (10,209,660) | (5,276,149) | (7,021,084) | 49,790,612 | 5,377,794 |
| Commitments and contingencies | - | 5,599,469 | 3,048,462 | 1,775,866 | 2,884,732 | 4,105,652 | 17,414,181 |
| Net liquidity gap | (17,721,406) | (9,783,988) | (13,258,122) | (7,052,015) | (9,905,816) | 45,684,960 | (12,036,387) |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 | Up to | >1 to 3 | >3 to 6 | >6 to 12 | Over | Total |
|--|-------------------|-------------------|-------------------|--------------------|------------------|-------------------|
| As at 31 December 2020 | 1 month | months | months | months | 1 year | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial Liabilities | | | | | | |
| Deposits from customers | 30,022,422 | 8,429,037 | 5,879,065 | 5,061,386 | 1,919,877 | 51,311,787 |
| Investment accounts of customers | 7,610,826 | 2,240,679 | 1,930,504 | 630,355 | 7,427 | 12,419,791 |
| Derivative financial liabilities | 256 | 2,183 | 7,528 | 30,583 | 349,233 | 389,783 |
| <i>Forward contract</i> | 11 | - | - | - | - | 11 |
| <i>Islamic Profit Rate Swap</i> | 245 | 2,183 | 7,528 | 30,583 | 349,233 | 389,772 |
| Bills and acceptance payable | 29,621 | - | - | - | - | 29,621 |
| Recourse obligations on financing sold to Cagamas | 5,913 | 11,826 | 17,739 | 35,478 | 1,600,520 | 1,671,476 |
| Subordinated Sukuk Murabahah | - | 7,356 | 27,700 | 35,834 | 2,253,966 | 2,324,856 |
| Other liabilities | 1,094,136 | - | - | - | 59,523 | 1,153,659 |
| Lease liabilities | 2,568 | 5,135 | 7,607 | 14,891 | 446,908 | 477,109 |
| | 38,765,742 | 10,696,216 | 7,870,143 | 5,808,527 | 6,637,454 | 69,778,082 |
| Commitments and Contingencies | | | | | | |
| Direct credit substitutes | 33,126 | 27,503 | 59,186 | 86,857 | 243,675 | 450,347 |
| Transaction related contingent items | 57,950 | 45,608 | 73,025 | 250,072 | 472,045 | 898,700 |
| Short-term self liquidating trade relate contingencies | 44,964 | 81,656 | 22,385 | 2,500 | 441,239 | 592,744 |
| | 136,040 | 154,767 | 154,596 | 339,429 | 1,156,959 | 1,941,791 |

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 2019 | 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 |
|---|----------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------|-------------------|
| Financial Liabilities | | | | | | |
| Deposits from customers | 23,378,991 | 10,115,669 | 4,248,065 | 7,833,915 | 2,386,490 | 47,963,130 |
| Investment accounts of customers | 4,335,416 | 2,637,953 | 2,165,791 | 1,153,574 | 36,508 | 10,329,242 |
| Derivative financial liabilities | 5,529 | 20,360 | 19,987 | 30,779 | 644,638 | 721,293 |
| <i>Forward contract</i> | 5,284 | 18,158 | 12,402 | 83 | - | 35,927 |
| <i>Islamic Profit Rate Swap</i> | 245 | 2,202 | 7,585 | 30,696 | 644,638 | 685,366 |
| Bills and acceptance payable | 49,084 | - | - | - | - | 49,084 |
| Recourse obligations on financing sold to Cagamas | 5,929 | 11,856 | 17,784 | 35,569 | 1,671,916 | 1,743,054 |
| Subordinated Sukuk Murabahah | - | - | 34,921 | 35,235 | 1,717,989 | 1,788,145 |
| Other liabilities | 948,847 | - | - | - | - | 948,847 |
| Lease liabilities | 2,394 | 4,790 | 7,343 | 15,335 | 478,728 | 508,590 |
| | <u>28,726,190</u> | <u>12,790,628</u> | <u>6,493,891</u> | <u>9,104,407</u> | <u>6,936,269</u> | <u>64,051,385</u> |
| Commitments and Contingencies | | | | | | |
| Direct credit substitutes | 36,654 | 30,479 | 39,169 | 162,127 | 148,307 | 416,736 |
| Transaction related contingent items | 60,057 | 72,340 | 58,978 | 353,079 | 385,558 | 930,012 |
| Short-term self liquidating trade related contingencies | 40,750 | 50,118 | 1,998 | 2,500 | 508,372 | 603,738 |
| | <u>137,461</u> | <u>152,937</u> | <u>100,145</u> | <u>517,706</u> | <u>1,042,237</u> | <u>1,950,486</u> |

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 Group and 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 Group’s and 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 Group and the Bank.

In addition, an Embedded Risk & Compliance Unit (“ERU”) has been established within the significant business and support units (“BU/SU”). The ERU would assist in implementing and monitoring the ORM activities within the BU/SU. The ERU’s relationship and knowledge of the business allow for a more focused implementation and effective oversight of ORM within the BU/SU.

- **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 Group and the Bank.

Shariah Risk Management Department (“SRM”), Compliance Division and Chief Information Security Officer (“CISO”) Office complement the role of ORMD as the second line of defence. SRM is responsible for managing the Shariah compliance risk (“SCR”) by establishing and maintaining appropriate SRM guidelines, facilitating the process of identifying, assessing, controlling and 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 develops, reviews and enhances compliance-related training programmes as well as conducts training that promotes awareness creation.

CISO Office is responsible in managing technology risk by establishing, maintaining and enforcing technology risk policies and guidelines, as well as promoting Bank-wide awareness on technology risk. It also works closely with Information Technology Division (“ITD”) in identifying, assessing, mitigating and monitoring of technology risk in the Group and the Bank.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(e) Operational Risk (continued)

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 measured at FVTPL and FVOCI

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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

40. Fair value of financial instruments (continued)

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 risk profiles.

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 rate swaps and structured debt. The sources of input parameters include 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

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

| Group 31 December 2020 | 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 | | | |
| RM'000 | | | | | | | |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | - | 1,181,200 | - | 1,181,200 | - | 1,181,200 | 1,181,200 |
| Derivative financial assets | - | 61,665 | - | 61,665 | - | 61,665 | 61,665 |
| Financial assets at FVOCI | 13,755 | 12,494,040 | 50,196 | 12,557,991 | - | 12,557,991 | 12,557,991 |
| Financing, advances and others | - | - | - | - | 58,065,344 | 58,065,344 | 54,670,635 |
| Financial liabilities | | | | | | | |
| Derivative financial liabilities | - | 105,872 | - | 105,872 | - | 105,872 | 105,872 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | 1,577,805 | 1,577,805 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,730,236 | 1,730,236 | 1,713,164 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

Group
31 December 2019

| RM'000 | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value Level 3 | Total fair value | Carrying amount |
|---|---|------------|---------|------------|---|------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total | | | |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | - | 663,068 | - | 663,068 | - | 663,068 | 663,068 |
| Derivative financial assets | - | 33,326 | - | 33,326 | - | 33,326 | 33,326 |
| Financial assets at FVOCI | 8,978 | 12,099,681 | 37,981 | 12,146,640 | - | 12,146,640 | 12,146,640 |
| Financing, advances and others | - | - | - | - | 52,407,186 | 52,407,186 | 49,472,522 |
| Financial liabilities | | | | | | | |
| Derivative financial liabilities | - | 36,746 | - | 36,746 | - | 36,746 | 36,746 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | 1,553,085 | 1,553,085 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,334,189 | 1,334,189 | 1,308,694 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

| Bank 31 December 2020 | 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 | | | |
| RM'000 | | | | | | | |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | - | 1,175,440 | - | 1,175,440 | - | 1,175,440 | 1,175,440 |
| Derivative financial assets | - | 61,665 | - | 61,665 | - | 61,665 | 61,665 |
| Financial assets at FVOCI | 13,755 | 12,494,040 | 50,934 | 12,558,729 | - | 12,558,729 | 12,558,729 |
| Financing, advances and others | - | - | - | - | 58,065,344 | 58,065,344 | 54,670,635 |
| Financial liabilities | | | | | | | |
| Derivative financial liabilities | - | 105,872 | - | 105,872 | - | 105,872 | 105,872 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | 1,577,805 | 1,577,805 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,730,236 | 1,730,236 | 1,713,164 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

40. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

| Bank 31 December 2019 RM'000 | Fair value of financial instruments carried at fair value | | | | Fair value of financial instruments not carried at fair value Level 3 | Total fair value | Carrying amount |
|--|--|------------|---------|------------|--|---------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total | | | |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | - | 657,443 | - | 657,443 | - | 657,443 | 657,443 |
| Derivative financial assets | - | 33,326 | - | 33,326 | - | 33,326 | 33,326 |
| Financial assets at FVOCI | 8,978 | 12,099,681 | 38,719 | 12,147,378 | - | 12,147,378 | 12,147,378 |
| Financing, advances and others | - | - | - | - | 52,407,186 | 52,407,186 | 49,472,522 |
| Financial liabilities | | | | | | | |
| Derivative financial liabilities | - | 36,746 | - | 36,746 | - | 36,746 | 36,746 |
| Recourse obligations on financing sold to Cagamas | - | - | - | - | 1,553,085 | 1,553,085 | 1,501,187 |
| Subordinated Sukuk Murabahah | - | - | - | - | 1,334,189 | 1,334,189 | 1,308,694 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (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 measured at FVOCI | Net tangible assets | Net tangible assets | Higher net tangible assets results in higher fair value |

(b) Financial instruments not carried at fair value

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

(i) Other financial assets at amortised cost

The fair values of securities that are actively traded is determined by quoted mid 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 and Recourse obligations on financing sold to Cagamas

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

41. Capital commitments

| | Group and Bank | |
|---|----------------|---------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Property and equipment | | |
| Contracted but not provided for in the financial statements | 149,391 | 105,226 |

42. Commitments and contingencies

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

31 December 2020

| 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 | 449,506 | 449,506 | 442,426 |
| Transaction related contingent items | 899,541 | 449,770 | 436,481 |
| Short-term self-liquidating trade related contingencies | 592,744 | 118,549 | 117,165 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | |
| - exceeding one year | 938,247 | 469,124 | 362,317 |
| 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 | 8,676,980 | - | - |
| | 11,557,018 | 1,486,949 | 1,358,389 |

| | 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 | 8,518,422 | 59,494 | 143,217 | 60,587 |
| Profit rate related contracts | | | | |
| - one year to less than five years | 114,056 | 2,171 | 5,414 | 4,045 |
| | 8,632,478 | 61,665 | 148,631 | 64,632 |
| Total | 20,189,496 | 61,665 | 1,635,580 | 1,423,021 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

42. Commitments and contingencies (continued)

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

31 December 2019

| 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 | 416,059 | 416,059 | 413,653 |
| Transaction related contingent items | 930,689 | 465,344 | 442,978 |
| Short-term self-liquidating trade related contingencies | 603,739 | 120,748 | 120,588 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | |
| - exceeding one year | 1,168,133 | 584,067 | 433,070 |
| Any commitments that are unconditionally cancelled at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness | 7,892,943 | - | - |
| | 11,011,563 | 1,586,218 | 1,410,289 |
| | | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 |
| | Principal Amount RM'000 | | Risk Weighted Asset RM'000 |
| <i>Derivative Financial Instruments</i> | | | |
| Foreign exchange related contracts less than one year | 6,255,520 | 31,626 | 72,532 |
| Profit rate related contracts one year to less than five years | 147,098 | 1,700 | 7,240 |
| | 6,402,618 | 33,326 | 79,772 |
| Total | 17,414,181 | 33,326 | 1,665,990 |
| | | | 1,453,186 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

43. 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 9 December 2020 and Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued on 3 May 2019. 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 2020. 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 2.5% starting 1 January 2019 onwards.

Therefore, the minimum regulatory capital adequacy ratios requirement for CET I capital ratio, Tier I capital ratio and Total Capital ratio are 7.0%, 8.5% and 10.5% respectively starting year 2019 onwards. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

Similar to Note 2.1(a)(iv), BNM has issued a memo on “Additional Measures to Assists Customers Affected by COVID-19 Outbreak” which specifies (amongst others):

- i. Drawdown of CCB of 2.5%; and
- ii. Reduction in regulatory reserves held against expected losses to 0%.

As a result, the minimum CET I capital ratio, Tier I capital ratio and Total Capital Ratio for the year ended 2020 are revised to 4.5%, 6.0% and 8.0% respectively (i.e. without CCB). However BNM requires financial institutions to restore the minimum regulatory requirements by 30 September 2021.

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

| | Group | | Bank | |
|--|----------------|---------|----------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| Common Equity Tier I (“CET I”) Capital Ratio | 14.667% | 14.215% | 14.642% | 14.185% |
| Total Capital Ratio | 19.822% | 18.661% | 19.804% | 18.637% |

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

| | Group | | Bank | |
|---|------------------|----------------|------------------|----------------|
| | 2020 RM’000 | 2019 RM’000 | 2020 RM’000 | 2019 RM’000 |
| Paid-up share capital | 3,306,118 | 3,012,368 | 3,306,118 | 3,012,368 |
| Retained earnings | 2,891,023 | 2,594,820 | 2,884,760 | 2,589,798 |
| Other reserves | 88,558 | 107,265 | 88,707 | 107,398 |
| <u>Less:</u> | | | | |
| Deferred tax assets | (1,511) | (33,774) | - | (32,268) |
| Gain on financial instruments classified as FVOCI | (103,564) | (104,062) | (103,564) | (104,062) |
| Regulatory reserve | - | (25,000) | - | (25,000) |
| Investment in subsidiaries | - | - | (15,525) | (15,525) |
| Total CET I and Tier I Capital | 6,180,624 | 5,551,617 | 6,160,496 | 5,532,709 |
| Sukuk Murabahah | 1,700,000 | 1,300,000 | 1,700,000 | 1,300,000 |
| Loss provisions [^] | 472,256 | 436,544 | 472,005 | 436,356 |
| Total Tier II Capital | 2,172,256 | 1,736,544 | 2,172,005 | 1,736,356 |
| Total Capital | 8,352,880 | 7,288,161 | 8,332,501 | 7,269,065 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

43. Capital adequacy (continued)

^ Impairment allowances 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.

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

| | Group | | Bank | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2020 RM'000 | 2019 RM'000 | 2020 RM'000 | 2019 RM'000 |
| Credit risk | 46,862,577 | 42,551,894 | 46,842,825 | 42,536,846 |
| Less: Credit risk absorbed by unrestricted investment accounts | (9,082,114) | (7,628,353) | (9,082,416) | (7,628,353) |
| | <u>37,780,463</u> | <u>34,923,541</u> | <u>37,760,409</u> | <u>34,908,493</u> |
| Market risk | 638,925 | 580,444 | 638,925 | 580,444 |
| Operational risk | 3,719,636 | 3,551,083 | 3,675,867 | 3,514,162 |
| | <u>42,139,024</u> | <u>39,055,068</u> | <u>42,075,201</u> | <u>39,003,099</u> |

44. 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.

Related party transactions have been entered into in the normal course of business under normal trade terms.

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

| | Bank | |
|--------------------------------|---|----------------|
| | Transaction amounts for 2020 RM'000 | 2019 RM'000 |
| <i>Ultimate holding entity</i> | | |
| <i>Income</i> | | |
| Wakalah fee | 576 | 446 |
| Office rental | 66 | 64 |
| Fees and commission | - | 38 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

| | Bank | |
|---|-------------------------|--------|
| | Transaction amounts for | |
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Ultimate holding entity (continued)</i> | | |
| <i>Expenses</i> | | |
| Income attributable to depositors | 51,173 | 42,828 |
| Income attributable to investment account holders | 8,823 | 843 |
| Finance cost on Subordinated Sukuk Murabahah | 2,348 | 5,750 |
| Office rental | 1,252 | 1,229 |
| Depreciation of right-of-use assets | 13,193 | 13,193 |
| Profit expense on lease | 17,501 | 17,856 |
| Other rental | 383 | 496 |
| <i> Holding company</i> | | |
| <i>Income</i> | | |
| Office rental | 1,038 | 1,029 |
| Others | 129 | 147 |
| <i>Expenses</i> | | |
| Income attributable to depositors | 7 | 4 |
| Income attributable to investment account holders | 9,340 | 9,614 |
| Office rental | 23 | - |
| <i>Subsidiaries</i> | | |
| <i>Income</i> | | |
| Fees and commission | 4,602 | 5,575 |
| Office rental | 382 | 365 |
| Others | 75 | 70 |
| <i>Expenses</i> | | |
| Fees and commission | 7,365 | 8,311 |
| Income attributable to depositors | 220 | 275 |
| Income attributable to investment account holders | 1 | - |
| <i>Other related companies</i> | | |
| <i>Income</i> | | |
| Income from financing, advances and others | 239 | 363 |
| Fees and commission income | 203 | 210 |
| Bancatakaful service fee | 25,551 | 28,862 |
| Others | 1,970 | 1,683 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

| | Bank | |
|---|--------------------------------|---------------|
| | Transaction amounts for | |
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Other related companies (continued)</i> | | |
| <i>Expenses</i> | | |
| Income attributable to depositors | 22,111 | 17,623 |
| Income attributable to investment account holders | 908 | 1,205 |
| Finance cost on Subordinated Sukuk Murabahah | 2,637 | 2,750 |
| Office rental | 3,109 | 3,414 |
| Other rental | 12 | 12 |
| Takaful fee | 6,419 | 8,490 |
| <i>Co-operative society in which the employees have interest</i> | | |
| <i>Income</i> | | |
| Income from financing, advances and others | 2,897 | 2,867 |
| <i>Expenses</i> | | |
| Income attributable to depositors | 4 | 5 |
| Income attributable investment account holders | 17 | - |
| Other rental | - | 8 |
| Others | 95 | 177 |

The inter-company charges of the Group and the Bank with related parties were mainly transacted in Central region.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

| | 2020 RM'000 | Bank 2019 RM'000 |
|--|----------------|------------------------|
| <i>Ultimate holding entity</i> | | |
| Amount due from | | |
| Other receivables | 23 | 23 |
| Amount due to | | |
| Deposits from customers | 3,409,339 | 1,818,541 |
| Investment account of customers | 200,000 | 500,000 |
| Income payable to depositors | 14,656 | 12,938 |
| Income payable to investment account holders | 1,405 | 843 |
| Subordinated Sukuk Murabahah | 85,000 | 100,000 |
| Finance cost payable on Subordinated Sukuk Murabahah | 604 | 1,118 |
| Commitments and contingencies | 2,880 | 3,183 |
| Other payables | 136 | - |
| <i>Holding company</i> | | |
| Amount due from | | |
| Other receivables | 1 | 11 |
| Amount due to | | |
| Deposits from customers | 315 | 2,101 |
| Investment account of customers | 317,269 | 410,228 |
| Income payable to investment account holders | 729 | 4,288 |
| Other payables | 132 | 205 |
| <i>Subsidiaries</i> | | |
| Amount due from | | |
| Redeemable non-cumulative preference shares | 2,292 | 2,292 |
| Others | 72 | 46 |
| Amount due to | | |
| Deposits from customers | 17,306 | 67,584 |
| Investment account of customers | 369 | - |
| Income payable to investment account holders | 1 | - |
| Income payable to depositors | 97 | 131 |
| Other payables | 12 | 10 |

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

| | Bank | |
|---|----------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| <i>Other related companies</i> | | |
| Amount due from | | |
| Financing, advances and others | - | 2,928 |
| Other receivables | 150 | 99 |
| Amount due to | | |
| Deposits from customers | 719,894 | 883,827 |
| Investment account of customers | 51,122 | 38,342 |
| Income payable to depositors | 5,603 | 6,265 |
| Income payable to investment account holders | 44 | 34 |
| Subordinated Sukuk Murabahah | - | 50,000 |
| Finance cost payable on Subordinated Sukuk Murabahah | - | 121 |
| Commitments and contingencies | 16,570 | 17,193 |
| <i>Co-operative society in which the employees have interest</i> | | |
| Amount due from | | |
| Financing, advances and others | 62,568 | 64,812 |
| Amount due to | | |
| Deposits from customers | 119 | 817 |
| Investment account of customers | 569 | - |
| Income payable to depositors | 1 | 1 |
| Income payable to investment account holders | 4 | - |

Significant other related companies of the Bank are as below:

| Relationship | Parties |
|----------------------------------|---|
| Syarikat Takaful Malaysia Berhad | Subsidiary company of holding company |
| Express Rail Link Sdn Bhd | Associate company of ultimate holding company |

45. Credit transactions and exposures with Connected Parties

| | Group and Bank | |
|---|-----------------------|---------------|
| | 2020 | 2019 |
| | RM'000 | RM'000 |
| Outstanding credit exposures with connected parties | 2,411,078 | 1,597,633 |
| Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures | 3.73% | 3.18% |
| Percentage of outstanding credit exposures with connected parties which is non-performing or in default | 0.000% | 0.000% |

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

46. Significant events during the Financial Year

COVID-19 pandemic

The World Health Organisation declared the outbreak of Coronavirus disease (COVID-19) as a global pandemic in March 2020. The direct and indirect effects of the COVID-19 outbreak have impacted the global economy, markets and the Group's and the Bank's counterparties and clients.

The COVID-19 effects have a material negative impact on the Group's and the Bank's results of operations. In particular, the process to determine expected credit losses ("ECL") requires numerous estimates and assumptions, some of which require a high degree of judgement. Changes in the estimates and assumptions can result in significant changes in ECL. The Group and the Bank are not able to predict the COVID-19's potential future direct or indirect effects other than as disclosed in Note 39(b)(iii). However, the Group and the Bank are taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

Proposed placement, proposed scheme of arrangement ("SOA"), proposed internal reorganisation, proposed distribution and capital repayment and proposed transfer of listing status (collectively referred to as the 'Proposals')

On 11 December 2019, the immediate holding, BIMB Holdings Berhad ("BHB") had announced and proposed to undertake the following proposals:

- (i) Proposed placement
Proposed placement of new ordinary shares in BHB to raise gross proceeds of up to RM800 million. The proceeds together with internal cash will be used to fully settle BHB's outstanding sukuk.
- (ii) Proposed scheme of arrangement
Proposed payment to the warrant holder of the outstanding warrants 2013/2023 of BHB by way of a scheme of arrangement under section 366 of the Companies Act 2016 ("the Act"). The total warrants consideration to be paid by BHB will be funded using internally generated funds of BHB.
- (iii) Proposed Internal Reorganisation
The proposed internal reorganisation entails the disposal of BHB's entire shareholdings in the identified subsidiaries namely BIMB Securities (Holdings) Sdn. Bhd., BIMB Securities Sdn. Bhd. and Syarikat Al Ijarah Sdn. Bhd. to the Bank to be fully settled in cash.
- (iv) Proposed distribution and capital repayment
Proposed distribution of the entire shareholdings of BHB in the Bank and Syarikat Takaful Malaysia Keluarga Berhad ("STMKB") by way of distribution-in-specie via a reduction and repayment of the entire share capital of BHB in accordance with Section 115 and Section 116 of the Act as well as using the retained earnings of BHB.

Prior to the proposed distribution and capital repayment, BHB will undergo a capital reduction and the Bank will undertake a share consolidation. This is to match BHB's outstanding shares so that the distribution of the Bank shares will be on a one-for-one basis.

Concurrently with the completion of the proposed distribution and capital repayment, BHB will issue two (2) new BHB shares to the Bank such that BHB will become a wholly-owned subsidiary of Bank Islam.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

46. Significant events during the Financial Year (continued)

(v) Proposed transfer of listing

After the completion of the proposed distribution and capital repayment, the Bank will assume the listing status of BHB. Accordingly, BHB proposed that the Bank be admitted to the official list of Bursa Securities in place of BHB, with the listing and quotation of the entire consolidated the Bank shares on the main market of Bursa Securities.

The Bank will emerge as the first pure-play full-fledged Islamic financial institution to be listed in the region and enhance its corporate stature. The listing will allow Bank Islam to better position itself in the Islamic finance and Islamic capital market and capitalise on the growth of both markets in its efforts to expand its customer base.

The proposed placement, proposed SOA, proposed internal reorganisation, proposed distribution and capital repayment and proposed transfer of listing are not conditional upon each other, save for the following:

- (i) The proposed distribution and capital repayment is conditional upon the proposed internal reorganisation and proposed transfer of listing; and
- (ii) The proposed transfer of listing is conditional upon the proposed internal reorganisation and proposed distribution and capital repayment.

BHB has on 10 December 2020 announced that it has received the approval from the Minister of Finance (on the recommendation of BNM), and BNM in relation to the Proposals.

The Proposals are now subject to the approvals and/or consent being obtained from Securities Commission Malaysia (“SC”), Bursa Malaysia Securities Berhad (“Bursa Securities”), shareholders of BHB at an extraordinary general meeting to be convened, shareholder of the Bank, warrant holders at the court-convened meeting, sanction of the High Court of Malaya, the creditors and/or financiers of the BHB Group, the Bank and Identified Subsidiaries, if required and any other relevant regulatory authorities and/or parties, if required.

47. Event subsequent to the Balance Sheet date

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of Covid-19 cases. The lock down may have a negative impact on the Group’s and Bank’s results of operation, similar to the areas highlighted in Significant Event During the Financial Year. The Group and the Bank are not able to predict the potential future direct or indirect effects resulted from the movement control order other than as disclosed in Note 39(b)(iii). However, the Group and the Bank are taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.