

BANK ISLAM MALAYSIA BERHAD

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2019**

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	18
7. Statements of Profit or Loss and Other Comprehensive Income	19
8. Consolidated Statement of Changes in Equity	21
9. Statement of Changes in Equity	23
10. Statements of Cash Flow	25
11. Notes to the Financial Statements	28

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Directors' Report for the financial year ended 31 December 2019

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 2019.

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 and subsequent events during the financial year 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 *haji* 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	843,480	841,458
Zakat and tax expense	<u>(215,871)</u>	<u>(215,455)</u>
Profit for the year	<u><u>627,609</u></u>	<u><u>626,003</u></u>

Reserves and provisions

During the financial year ended 31 December 2019, the Group and the Bank have recognised the impact, net of tax, on the opening balance of retained earnings following the transition to MFRS 16, *Leases* amounting to RM67,316,000, as disclosed in Note 2.1(b).

There were no other 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 2018 as reported in the Directors' Report of that year:	
Final dividend of approximately 6.07 sen per ordinary share paid on 27 May 2019	152,310
In respect of the financial year ended 31 December 2019:	
Interim dividend of approximately 6.40 sen per ordinary share paid on 11 September 2019	160,639
	<u>312,949</u>

The Directors recommend a final dividend of 6.05 sen per ordinary share totalling RM151,854,000 for the financial year ended 31 December 2019.

Directors of the Bank

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

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 (appointed on 1 July 2019)
Datuk Zamani Abdul Ghani (Chairman) (resigned on 1 March 2020)
Tan Sri Dato' Dr. Abdul Shukor Husin (resigned on 1 April 2019)
Datuk Zaiton Mohd Hassan (resigned on 18 February 2019)

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	Najmuddin Mohd Lutfi Dato' Ghazali Awang Dr. Mohd Hatta Dagap Datin Maznah Mahbob (appointed on 1 April 2019) Azizan Abd Aziz (appointed on 22 August 2019) Mohamed Ridza Mohamed Abdulla (appointed on 1 October 2019) Datuk Nik Mohd Hasyudeen Yusoff (resigned on 31 August 2019) Malkiat Singh @ Malkit Singh Maan A/L Delbara Singh (resigned on 28 June 2019)

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.	Maria Mat Said Zaharin Mohd Ali (appointed on 1 September 2019) Razman Ismail (resigned on 1 September 2019)

None of the Bank and subsidiaries' Directors holding office as at 31 December 2019 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

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

Indemnity and Takaful costs

During the financial year, there was no indemnity given to or Takaful cost incurred for Directors and Officers of the Group and the Bank.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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.

2020 Business Plan and Outlook

Business Plan, Strategy and Future Outlook

The Malaysian banking sector is expected to face a very challenging operating environment following the Covid-19 pandemic. Banking institutions earnings are expected to endure a rough tide ahead. Nevertheless, expansionary fiscal policies alongside with a very accommodative monetary policy in 2020 introduced by the Government, financing activities to households and non-households sector are expected to be well supported albeit cautiously.

With the current landscape, Bank Negara Malaysia ("BNM") has announced additional measures to assist financing customers experiencing temporary financial constraints due to Covid-19 outbreak. These measures aim to ensure that the financial intermediation function of the financial sector remains intact, access to financing continues to be available and banking institutions remain focused on supporting the economy during these exceptional circumstances.

In supporting BNM's relief plan, Bank Islam is offering automatic deferment of all financing repayments for six months for individual customers and Small Medium Enterprises ("SME"). The Bank is also implementing SME Special Relief Facility ("SSRF") to help alleviate the short-term cash flow predicament faced by individuals and SMEs. This initiative is to help bridge the sustenance of Real Economy, by preserving jobs and ensuring continued economic activity during this period of volatility.

The Bank perseveres to ensuring service deliverables to the level best. With Sustainability as the overarching theme in the Bank's strategic direction, the Bank has adopted Value-based Intermediation ("VBI") at the heart of its business model. VBI was launched within the Islamic banking sector in 2017, an initiative through which Islamic banking institutions transform their business activities to enable delivery of sustainable and positive impact on the community, economy and the environment.

Bank Islam's strategic intent has been well guided by the concept Triple Bottom Line concept ("TBL"), a principle of VBI advocating for the good of people, planet and prosperity. Premised on these measures in place, along with "Halal" and "Trustworthy" being our key distinctive features, Bank Islam hopes to be able to cushion the impact of the current adversaries for all communities across the society towards continuous prosperity and well-being for our people.

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:

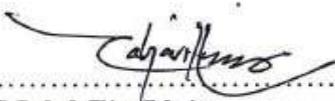
Rating agency	Date re-affirmed	Ratings
RAM Rating Services Berhad	18 December 2019	Long-term rating: AA3 Short-term rating: P1 Outlook: Stable

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:



.....
Zahari @ Mohd Zin Idris
Director



.....
Noraini Che Dan
Director

Kuala Lumpur,

Date: 13 May 2020

Bank Islam Malaysia Berhad

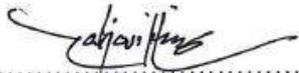
[Registration No. 198301002944 (98127-X)]

(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 18 to 155 are drawn up in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”), and the requirements of the Companies Act 2016 in Malaysia, and Shariah requirements so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2019 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:



.....
Zahari @ Mohd Zin Idris
Director



.....
Noraini Che Dan
Director

Kuala Lumpur,

Date: 13 May 2020

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، هادياً مهندياً، وسراجاً منيراً، وعلى آله وصحبه أجمعين، ومن تبعهم بإحسان إلى يوم الدين، وبعد،

السلام عليكم ورحمة الله وبركاته and “Salam Sejahtera”

In carrying out the roles and the responsibilities of the Shariah Supervisory Council (“SSC”) as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia (“BNM”) and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2019.

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 nine (9) 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 order to provide us with sufficient evidences to give reasonable assurance that the Bank has complied with the Shariah rules and principles.

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

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

Approvals

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

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 development of Shariah Compliance Operational Guidelines as well as the review and updates of the Shariah Compliance Policy and Shariah Risk Management Guideline that aim, 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”) aimed 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, continuous process of identifying and assessing Shariah non-compliance risk at respective functional areas has been carried out by all Risk Controllers (“RC”s). The RCs are also mandated to drive appropriate controls to mitigate any occurrence of Shariah non-compliances in meeting the business objectives in 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.

Shariah Review & Shariah Audit

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

Both Shariah Audit and Shariah Review 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) Central Financing Processing Centre	1) Assessment on the Bank’s compliance with BNM Shariah Contract Policy Documents: Hibah, Ijarah and Qard
2) Bank Islam Card Centre	2) Decision of SSC
3) SME Banking Division	3) Electronic Banking
4) Deposits & Cash Management Division	4) Internal Sales Staff Campaign/Program
5) eChannels Department	5) Qard Interbank: Treasury
6) Treasury & Markets Division	6) Treatment of Defaulted Accounts (Court Cases) at Recovery and Rehabilitation Division
7) Bank Islam Labuan Offshore Branch (“BILOB”)^	7) Bank Islam Labuan Offshore Branch (“BILOB”)

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Shariah Review & Shariah Audit (continued)

Shariah Audit	Shariah Review
8) Bureau De Change	8) Commodity Trading Platform (Bursa Suq As-Sila') & Commodity Supplying Participant
9) Corporate Support Division	9) iGAIN: Current Account Mudarabah for Individual
10) Shariah Division	10) Marketing of Third party product ("Takaful"): i. Prudential BSNTakaful: Takaful Azam & Takaful Aman ii. Sun Life Takaful: Takaful Sun Mozi iii. AIA Public Takaful: Takaful Haj Plan
11) Brand & Marketing Communications Division	11) Marketing of Third party product ("Unit Trust") i. BIMB-Arabesque Asia Pacific Shariah ESG (Equity Fund) ii. BIMB ESG Sukuk Fund
12) Assessment on the Bank's compliance with BNM Shariah Contract Policy Documents: Wa'd, Ijarah and Bai' al-Sarf	
13) Commodity Trading Platform (Bursa Suq As-Sila') & Commodity Supplying Participant	
14) 52 Bank Islam Branches, 3 Ar Rahnun Outlets and 6 BDC Outlets*	

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

Shariah Training & Awareness

During the year, nine (9) Shariah training and briefing sessions were held covering 1218 participants among the Bank's employees nationwide. The coverage of the sessions includes Shariah governance updates, Shariah risk management and Fundamental of Shariah in the business operations. This includes two (2) Shariah Town Hall sessions for all Risk Controllers ("RC") where the sessions updated the RCs on new Shariah requirements issued either by the regulators, our latest decision and lesson learnt from new Shariah non-compliance events in the Bank.

The Bank had also continued to elevate the Shariah and Islamic banking knowledge of its staff by engaging Association of Shariah Advisors in Islamic Finance ("ASAS") for in-house certification programme of Certified Shariah Advisors ("CSA") and Certified Shariah Practitioner ("CSP"). In addition, Shariah officers the Bank were also encouraged to enroll for certification programs and during this financial year a Shariah officer has been awarded Certified Shariah Advisor and Auditor ("CSAA") by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").

Shariah Non-Compliant Events & Income

Throughout 2019, we confirmed five (5) incidences of Shariah non-compliance event as follows:

- i) Recognition of interchange fee received from non-halal merchant category code as income;
- ii) Non-purification of rental income received from leasing of Bank's land used for Negotiable Islamic Debt Certificate's underlying asset;
- iii) Void Personal Financing-i and Credit Card-i transactions due to void *wakalah* aqad execution arising from fraudulent cases;
- iv) Wrong application form used for opening of Foreign Currency Account-i; and
- v) Non-execution of commodity trading for Revolving Credit-i ("RC-i")

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Shariah Non-Compliant Events & Income (continued)

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

Within the financial year, the Bank has collected and purified Shariah non-compliant income amounted RM89,339.69 and RM50,758.80 from the total amount was disposed to charitable causes upon our approval as further described in the Note 23 (Sources and Uses of Charity Fund) and the remaining amount of RM38,580.89 was refunded to the counterparties based on approved rectification plan.

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 and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji (JAWHAR). The Bank paid the *zakat* on the Bank's portion i.e. shareholders' fund as well as other funds received by the Bank except depositors' fund.

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

Safeguarding the Investment Account Holders ("IAH") Interest

In ensuring the interest of IAH is protected, we 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 is 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 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 Charity Committee that is chaired by the Chief Shariah Officer has been mandated to oversee the conduct of the Sadaqa House initiative.

We had also reviewed the financial statement of the Bank and confirmed that the financial statement is in compliance with the Shariah rules and principles.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Based on the above, in our opinion:

- 1) The contracts, transactions and dealings entered into by the Bank, excluding the five (5) Shariah non-compliance incidences mentioned above, during the financial year ended 31 December 2019 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 financial year ended 31 December 2019 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



.....
Assistant Professor Dr. Uzaimah Ibrahim

Kuala Lumpur,

Date: 13 May 2020

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statutory Declaration

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

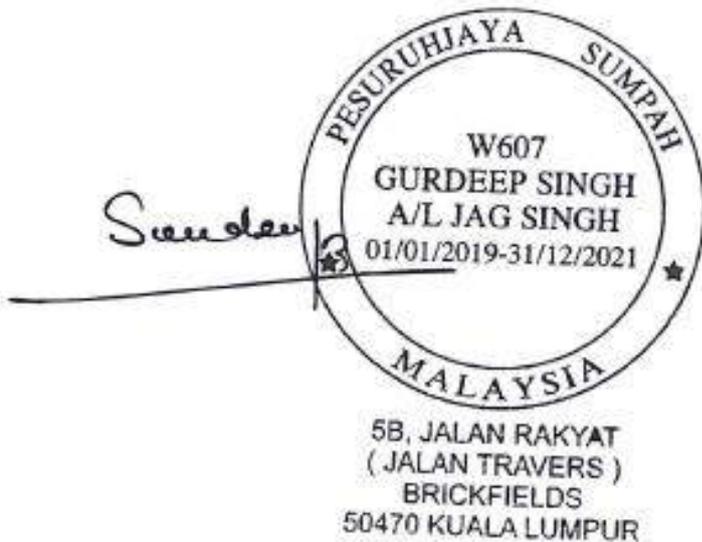
I, **Azizan Abd Aziz**, the officer primarily responsible for the financial management of Bank Islam Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 18 to 155 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously 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 13 May 2020.



.....
Azizan Abd Aziz

Before me,





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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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 2019, 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 2019 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 155.

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’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors’ report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors’ Report, Report of the Shariah Supervisory Council and Annual Report, but 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.

*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)
(Registration No. 198301002944 (98127-X))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of 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.

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.



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- (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.
- (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
13 May 2020

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Financial Position as at 31 December 2019

	Note	Group		Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets					
Cash and short-term funds	3	2,814,333	2,092,654	2,813,456	2,086,703
Deposits and placements with banks and other financial institutions	4	658,053	2,432,000	658,053	2,432,000
Financial assets at fair value through profit or loss	5	663,068	364,959	657,443	359,533
Derivative financial assets	6	33,326	34,148	33,326	34,148
Financial assets at fair value through other comprehensive income	7	12,146,640	11,354,299	12,147,378	11,355,089
Financing, advances and others	8	49,472,522	45,680,680	49,472,522	45,680,680
Other financial assets at amortised cost	9	145,217	129,042	140,562	126,533
Statutory deposits with Bank Negara Malaysia	10	1,170,136	1,602,284	1,170,136	1,602,284
Current tax assets		32,003	8,466	32,002	8,403
Deferred tax assets	11	33,774	51,385	32,268	49,842
Right-of-use assets	12	229,135	-	229,135	-
Investments in subsidiaries	13	-	-	15,525	15,525
Property and equipment	14	195,595	188,816	195,100	188,153
Total assets		67,593,802	63,938,733	67,596,906	63,938,893
Liabilities and equity					
Deposits from customers	15	47,408,738	49,895,232	47,476,872	49,909,199
Investment accounts of customers	16	10,240,373	5,176,819	10,240,373	5,176,819
Derivative financial liabilities	6	36,746	19,520	36,746	19,520
Bills and acceptance payable		49,084	41,114	49,084	41,114
Recourse obligations on financing sold to Cagamas	17	1,501,187	1,501,187	1,501,187	1,501,187
Subordinated Sukuk Murabahah	18	1,308,694	1,308,634	1,308,694	1,308,634
Other liabilities	19	991,540	706,133	931,685	695,714
Lease liabilities	12	325,559	-	325,559	-
Zakat and taxation	20	17,428	13,687	17,142	13,539
Total liabilities		61,879,349	58,662,326	61,887,342	58,665,726
Equity					
Share capital	21	3,012,368	3,012,368	3,012,368	3,012,368
Reserves	22	2,702,085	2,264,039	2,697,196	2,260,799
Total equity		5,714,453	5,276,407	5,709,564	5,273,167
Total liabilities and equity		67,593,802	63,938,733	67,596,906	63,938,893
Restricted investment accounts managed by the Bank	16	35,062	78,717	35,062	78,717
Total Islamic banking assets owned and managed by the Bank		67,628,864	64,017,450	67,631,968	64,017,610
Commitments and contingencies	42	17,414,181	14,162,355	17,414,181	14,162,355

The notes on pages 18 to 155 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 and Other Comprehensive Income for the financial year ended 31 December 2019

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds	24	2,757,704	2,601,825	2,757,704	2,601,825
Income derived from investment account funds	25	395,664	257,915	395,664	257,915
Income derived from investment of shareholders' funds	26	490,882	476,277	462,227	442,331
Net allowance for impairment on financing and advances, net of recoveries	27	(83,688)	(81,454)	(83,688)	(81,454)
Net allowance for impairment on other financial assets		(3,760)	43	(3,760)	43
Direct expenses		(16,444)	(17,870)	(16,444)	(17,870)
Total distributable income		3,540,358	3,236,736	3,511,703	3,202,790
Wakalah fees from restricted investment accounts	16	446	485	446	485
Income attributable to depositors	28	(1,376,324)	(1,289,275)	(1,376,599)	(1,289,542)
Income attributable to investment account holders	29	(175,621)	(94,559)	(175,621)	(94,559)
Total net income		1,988,859	1,853,387	1,959,929	1,819,174
Personnel expenses	30	(662,393)	(595,319)	(648,838)	(583,460)
Other overhead expenses	31	(395,006)	(391,099)	(381,653)	(370,766)
		931,460	866,969	929,438	864,948
Finance cost	34	(87,980)	(56,711)	(87,980)	(56,711)
Profit before zakat and tax		843,480	810,258	841,458	808,237
Zakat		(11,000)	(13,664)	(10,796)	(13,530)
Tax expense	35	(204,871)	(202,707)	(204,659)	(204,179)
Profit for the year		627,609	593,887	626,003	590,528
Earnings per share (sen)	36	25.00	23.96		

The notes on pages 18 to 155 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 and Other Comprehensive Income for the financial year ended 31 December 2019 (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit for the year	<u>627,609</u>	<u>593,887</u>	<u>626,003</u>	<u>590,528</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	4,129	(8,290)	4,086	(7,973)
Movement in fair value reserve (debt securities):				
Net change in fair value	324,742	47,704	324,794	47,704
Changes in expected credit loss	37	43	37	43
Net amount transferred to profit or loss	(96,607)	(27,444)	(96,607)	(27,444)
Income tax effect relating to components of other comprehensive income	(53,040)	(3,633)	(53,040)	(3,633)
	<u>179,261</u>	<u>8,380</u>	<u>179,270</u>	<u>8,697</u>
Items that will not be reclassified to profit or loss				
Movement in fair value reserve (equity instrument):				
Net change in fair value	<u>11,441</u>	<u>(5,166)</u>	<u>11,389</u>	<u>(5,166)</u>
Other comprehensive income for the year, net of tax	<u>190,702</u>	<u>3,214</u>	<u>190,659</u>	<u>3,531</u>
Total comprehensive income for the year	<u>818,311</u>	<u>597,101</u>	<u>816,662</u>	<u>594,059</u>

The notes on pages 18 to 155 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 2019

Group	← Attributable to equity holders of the Bank →					
	Note	← Non-distributable Share capital RM'000	Share premium RM'000	→ Other Reserves RM'000	Distributable Retained earnings RM'000	Total equity 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 18 to 155 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 2019 (continued)

Group	← Attributable to equity holders of the Bank →					
	Note	← Non-distributable Share capital RM'000	Share premium RM'000	→ Other reserves RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2018		2,869,498	-	(47,006)	2,006,994	4,829,486
Profit for the year		-	-	-	593,887	593,887
Currency translation difference in respect of foreign operations		-	-	(8,290)	-	(8,290)
Fair value reserve (debt securities):						
Net change in fair value		-	-	47,704	-	47,704
Changes in expected credit losses		-	-	43	-	43
Net amount transferred to profit or loss		-	-	(27,444)	-	(27,444)
Income tax effect relating to components of other comprehensive income		-	-	(3,633)	-	(3,633)
Fair value reserve (equity instruments):						
Net change in fair value		-	-	(5,166)	-	(5,166)
Total comprehensive income for the year		-	-	3,214	593,887	597,101
Transfer from regulatory reserve to retained earnings	22	-	-	(54,645)	54,645	-
Dividends paid on ordinary shares	37	-	-	-	(293,050)	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan		142,870	-	-	-	142,870
At 31 December 2018		3,012,368	-	(98,437)	2,362,476	5,276,407

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statement of Changes in Equity for the financial year ended 31 December 2019

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	Distributable 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 18 to 155 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 2019 (continued)

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	Distributable Retained earnings RM'000	
At 1 January 2018		2,869,498	-	(47,147)	2,006,937	4,829,288
Profit for the year		-	-	-	590,528	590,528
Currency translation difference in respect of foreign operations		-	-	(7,973)	-	(7,973)
Fair value reserve (debt instruments):						
Net change in fair value		-	-	47,704	-	47,704
Changes in expected credit losses		-	-	43	-	43
Net amount transferred to profit or loss		-	-	(27,444)	-	(27,444)
Income tax effect relating to components of other comprehensive income		-	-	(3,633)	-	(3,633)
Fair value reserve (equity instruments):						
Net change in fair value		-	-	(5,166)	-	(5,166)
Total comprehensive income for the year		-	-	3,531	590,528	594,059
Transfer from regulatory reserve to retained earnings	22	-	-	(54,645)	54,645	-
Dividends paid on ordinary shares	37	-	-	-	(293,050)	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan		142,870	-	-	-	142,870
At 31 December 2018		3,012,368	-	(98,261)	2,359,060	5,273,167

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Cash Flow for the financial year ended 31 December 2019

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities				
Profit before zakat and tax	843,480	810,258	841,458	808,237
Adjustments for:				
Depreciation of property and equipment	52,049	47,970	51,823	47,723
Depreciation of right-of-use assets	15,141	-	15,141	-
Net gain on disposal of property and equipment	(421)	(372)	(421)	(372)
Property and equipment written-off	82	332	82	332
Allowance for impairment on financing, advances and others	190,829	186,402	190,829	186,402
Net allowance for impairment on other financial assets	3,760	(43)	3,760	(43)
Net gain on sale of financial assets at FVTPL	(26,178)	(4,535)	(26,178)	(4,535)
Net gain on sale of financial assets at FVOCI	(96,607)	(27,444)	(96,607)	(27,444)
Fair value gain on FVTPL	(11,164)	(206)	(11,164)	(204)
Dividends from securities	(9,458)	(1,763)	(9,283)	(1,612)
Net derivative loss/(gain)	36	(52)	36	(52)
Finance cost on Subordinated Sukuk Murabahah	69,940	56,711	69,940	56,711
Profit expense on lease	18,040	-	18,040	-
Operating profit before changes in assets and liabilities	<u>1,049,529</u>	<u>1,067,258</u>	<u>1,047,456</u>	<u>1,065,143</u>
Changes in assets and liabilities:				
Financing, advances and others	(3,982,671)	(3,897,070)	(3,982,671)	(3,897,070)
Statutory deposits with Bank Negara Malaysia	432,148	(195,000)	432,148	(195,000)
Bills and other receivables	(19,150)	(16,603)	(17,004)	(16,535)
Deposits from customers	(2,486,494)	3,702,322	(2,432,327)	3,700,171
Investment accounts of customers	5,063,554	916,634	5,063,554	916,634
Bills and acceptance payable	7,970	(379,144)	7,970	(379,144)
Other liabilities	302,592	(131,979)	253,157	(133,869)
Recourse obligations on financing sold to Cagamas	-	1,501,187	-	1,501,187
Cash generated from operations	<u>367,478</u>	<u>2,567,605</u>	<u>372,283</u>	<u>2,561,517</u>

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Statements of Cash Flow

for the financial year ended 31 December 2019 (continued)

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Zakat paid	(13,589)	(12,678)	(13,525)	(12,628)
Tax paid	(238,032)	(219,087)	(237,864)	(218,947)
Tax refund	1,788	60	1,734	-
Net cash generated from operating activities	117,645	2,335,900	122,628	2,329,942
Cash flows from investing activities				
Purchase of property and equipment	(58,912)	(65,167)	(58,854)	(65,020)
Proceeds from disposal of property and equipment	423	425	423	425
Dividends from securities	9,458	1,763	9,283	1,612
Net proceeds from disposal/purchase of securities	(716,851)	(2,020,930)	(716,600)	(2,021,100)
Net cash used in investing activities	(765,882)	(2,083,909)	(765,748)	(2,084,083)
Cash flows from financing activities				
Subordinated Sukuk Murabahah	-	300,000	-	300,000
Dividend paid on ordinary shares	(312,949)	(293,050)	(312,949)	(293,050)
Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan	-	142,870	-	142,870
Finance cost paid on Subordinated Sukuk Murabahah	(69,880)	(54,563)	(69,880)	(54,563)
Finance lease paid on right-of-use assets	(25,331)	-	(25,331)	-
Net cash (used in)/generated from financing activities*	(408,160)	95,257	(408,160)	95,257
Net increase in cash and cash equivalents	(1,056,397)	347,248	(1,051,280)	341,116
Cash and cash equivalents at 1 January	4,524,654	4,185,697	4,518,703	4,185,561
Exchange difference on translation	4,129	(8,291)	4,086	(7,974)
Cash and cash equivalents at 31 December	3,472,386	4,524,654	3,471,509	4,518,703
Cash and cash equivalents comprise:				
Cash and short-term funds	2,814,333	2,092,654	2,813,456	2,086,703
Deposits and placements with banks and other financial institutions	658,053	2,432,000	658,053	2,432,000
	3,472,386	4,524,654	3,471,509	4,518,703

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

The notes on pages 18 to 155 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 2019 (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's and the Bank's statements of cash flows from financing activities.

	At 1.1.2018 RM'000	Changes from financing cash flows RM'000	Finance cost for the year RM'000	Effect upon adoption of MFRS 16 RM'000	At 1.1.2019 RM'000	New acquisition RM'000	Changes from financing cash flows RM'000	Finance cost for the year RM'000	At 31.12.2019
Group and Bank									
Subordinated sukuk Murabahah									
- Nominal	1,000,000	300,000	-	-	1,300,000	-	-	-	1,300,000
- Finance cost payable	6,486	(54,563)	56,711	-	8,634	-	(69,880)	69,940	8,694
Lease liabilities	-	-	-	322,685	322,685	10,165	(25,331)	18,040	325,559
	1,006,486	245,437	56,711	322,685	1,631,319	10,165	(95,211)	87,980	1,634,253

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

Notes to the financial statements for the financial year ended 31 December 2019

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 13 May 2020.

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 MFRS 16, Leases has been applied. Changes to significant accounting policies are described in Note 2.1(b).

Other than as disclosed in Note 2.1(b) on adoption of MFRS 16, the adoption of other accounting standards, interpretations and amendments did not have any significant impact on the Group and the Bank.

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)

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 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

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

- MFRS 17, *Insurance Contracts*

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:

- from the annual period beginning on 1 January 2020 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2020.
- from the annual period beginning on 1 January 2021 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2021.

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Bank.

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)

(b) Changes in significant accounting policies

MFRS 16 Leases

MFRS 16 supersedes MFRS 117 'Leases' and the related interpretations. The Group and the Bank have adopted MFRS 16 under modified retrospective approach effective from 1 January 2019 upon its mandatory adoption date, but have not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Prior to 1 January 2019, the Group and the Bank classified leases of property as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

On adoption of MFRS 16, 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.

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Right-of-use asset for a non-cancellable property lease is measured on a retrospective basis as if the new rules had always been applied. All other ROU assets are measured at the amount of the lease liability on adoption, adjusted by for any prepaid or accrued lease payments. 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 the same incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 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.

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)

(b) Changes in significant accounting policies (continued)

MFRS 16 Leases (continued)

The following table summarises the effects upon adoption of MFRS 16 as at 1 January 2019:

Group	As previously report RM'000	Effects upon adoption of MFRS 16 RM'000	As restated RM'000
Deferred tax assets	51,385	21,258	72,643
Right-of-use assets	-	234,111	234,111
Lease liabilities	-	322,685	322,685
Reserves	2,264,039	(67,316)	2,196,723
Bank			
Deferred tax assets	49,842	21,258	71,100
Right-of-use assets	-	234,111	234,111
Lease liabilities	-	322,685	322,685
Reserves	2,260,799	(67,316)	2,193,483

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

Group and Bank	RM'000
Operating lease commitments disclosed at 31 December 2018	381,308
Lease-type obligations (service agreements)	142,152
Discounted using incremental borrowing rate	(200,775)
Total lease liabilities recognised under MFRS 16 as at 1 January 2019	<u>322,685</u>

The recognised right-of-use assets relate to the following type of assets:

Building	<u>234,111</u>
----------	----------------

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)

(c) 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.

(d) 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.

(e) 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.

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 2.10 – 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.

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)

(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.

(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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.3 Foreign currency

(a) Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of 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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments

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

Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group 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 and Ijarah Thumma Al-Bai), 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 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, derivative financial liabilities, bills and acceptance payables, Subordinated Sukuk Murabahah and other liabilities.

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

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

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

(ii) *Restricted investment accounts*

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

RIA is accounted for as off balance sheet as the Bank has no risk and reward in respect of the assets related to the RIA or to the residual cash flows from those assets except for the fee income generated by the Bank for managing the RIA. The Bank also has no ability to exercise power over the RIA to affect the amount of the Bank’s return. The RIA 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 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 Lessee accounting – Policy applicable after 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group and the Bank 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 has 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 has 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.

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.7 Lessee accounting – Policy applicable after 1 January 2019 (continued)

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 has 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 – Policy applicable after 1 January 2019

The Group's and the Bank's accounting policy under MFRS 16 has not changed from the comparative period. 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.

Leased assets – Finance lease : Policy applicable before 1 January 2019

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

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

2.8 Lessor accounting

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.

Until the financial year ended 31 December 2018, when the Group and the Bank were an intermediate lessor, the subleases were classified as finance or operating leases by reference to the underlying assets.

From 1 January 2019, 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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.9 Bills and other receivables

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

2.10 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.

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.

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

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.10 Impairment (continued)

Impairment of financial assets (continued)

(i) Impairment of financial assets (continued)

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 ("KLCCI"), House Price Index ("HPI"), Consumer Price Index ("CPI"), Unemployment Rate and Industrial Production Index ("IPI").

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, assigned a 60% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned 30% and 10% probability of occurring respectively.

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.

Bank Islam Malaysia Berhad

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

2. Summary of significant accounting policies (continued)

2.10 Impairment (continued)

Impairment of financial assets (continued)

(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.

(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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.10 Impairment (continued)

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.

2.11 Bills and acceptances payable

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

2.12 Provisions

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

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

2.13 Contingent liabilities

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.14 Contingent assets

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

2.15 Segment reporting

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

2.16 Share Capital

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

2.17 Recognition of income

Financing income

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

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

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

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.17 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 taxes and discounts on completion of each stage of the assignment.

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

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

2. Summary of significant accounting policies (continued)

2.20 Employee benefits

Short-term employee benefits

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

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

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

2.21 Earnings per ordinary shares

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

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

2.22 Fair value measurements

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group and the Bank has 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.

Bank Islam Malaysia Berhad

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

2. Summary of significant accounting policies (continued)

2.22 Fair value measurements (continued)

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	821,600	891,697	821,071	886,074
Money at call and interbank placements with remaining maturity not exceeding one month	1,992,733	1,200,957	1,992,385	1,200,629
	<u>2,814,333</u>	<u>2,092,654</u>	<u>2,813,456</u>	<u>2,086,703</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 RM54,764,000 (2018: RMNil) 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 and Bank	
	2019 RM'000	2018 RM'000
Bank Negara Malaysia	<u>658,053</u>	<u>2,432,000</u>

5. Financial assets at fair value through profit and loss

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At fair value				
Malaysian Government Investment Issues	274,162	30,328	274,162	30,328
Unit trust	239,130	219,808	233,505	214,382
Malaysian Islamic Treasury Bills	99,571	-	99,571	-
Islamic Commercial Paper	50,189	-	50,189	-
Sukuk	16	-	16	-
Bank Negara Monetary Notes	-	114,823	-	114,823
	<u>663,068</u>	<u>364,959</u>	<u>657,443</u>	<u>359,533</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	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)

Group and Bank	Notional amount RM'000	2018 Fair value	
		Assets RM'000	Liabilities RM'000
Forward contracts	2,869,455	30,653	(17,752)
Profit rate swaps	578,379	3,495	(1,768)
	3,447,834	34,148	(19,520)

7. Financial assets at fair value through other comprehensive income

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Financial assets at fair value through other comprehensive income:				
(a) Debt instrument	12,099,681	11,318,781	12,099,681	11,318,781
(b) Equity instrument	46,959	35,518	47,697	36,308
	12,146,640	11,354,299	12,147,378	11,355,089

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

(a) Debt instrument at fair value through other comprehensive income

	Group and Bank	
	2019	2018
	RM'000	RM'000
Unquoted		
Malaysian Government Investment Issues	2,253,390	2,129,754
Sukuk	9,615,420	8,493,541
Islamic Commercial Papers	230,871	306,255
Bank Negara Monetary Notes	-	389,231
	<u>12,099,681</u>	<u>11,318,781</u>

Movement of allowance for impairment on financial assets at fair value through other comprehensive income:

	Group and Bank	
	2019	2018
	RM'000	RM'000
Stage 1		
At 1 January	302	345
Reversal of impairment during the year	(37)	(43)
At 31 December	<u>265</u>	<u>302</u>

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Quoted Shares				
- outside Malaysia#	<u>8,978</u>	<u>12,446</u>	<u>8,978</u>	<u>12,446</u>
Unquoted Shares				
- in Malaysia*	37,979	23,056	38,717	23,846
- outside Malaysia	<u>2</u>	<u>16</u>	<u>2</u>	<u>16</u>
	<u>37,981</u>	<u>23,072</u>	<u>38,719</u>	<u>23,862</u>
	<u>46,959</u>	<u>35,518</u>	<u>47,697</u>	<u>36,308</u>

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

	Fair value		Dividend income	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
#Amana Bank Limited	8,978	12,446	545	-
*Payment Networks Malaysia Sdn Bhd	<u>37,264</u>	<u>22,781</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 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	Ijarah Thumma Al-Bai ^ 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

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 2018	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai' Al-Dayn RM'000	Bai' Al-Inah RM'000	At- Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek ^ RM'000	Ijarah Thumma Al-Bai ^ RM'000	Istisna' RM'000	Ar- Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	1,875	1,521,991	-	-	-	-	1,523,866
Term financing										
House financing	3,764,219	-	-	-	14,285,203	-	-	51,490	-	18,100,912
Syndicated financing	-	-	-	41,327	665,745	-	89,540	-	-	796,612
Leasing financing	-	-	-	-	-	106,520	35	-	-	106,555
Bridging financing	-	-	-	-	-	-	-	65,268	-	65,268
Personal financing	-	-	-	10,178	13,755,492	-	-	-	-	13,765,670
Other term financing	1,099,152	1,239,988	-	6,650	7,992,899	-	-	1,194	-	10,339,883
Staff financing	60,777	9,322	-	-	155,590	-	-	9,846	-	235,535
Credit cards	-	-	-	-	477,602	-	-	-	-	477,602
Trade bills discounted	-	820,833	144,827	-	-	-	-	-	-	965,660
Trust receipts	-	10,113	-	-	-	-	-	-	-	10,113
Pawn broking	-	-	-	-	-	-	-	-	73,110	73,110
Investment Account Platform *	-	-	-	-	9,599	-	-	-	-	9,599
	4,924,148	2,080,256	144,827	60,030	38,864,121	106,520	89,575	127,798	73,110	46,470,385
Allowance for impairment on financing, advances and others										
- Stage 1										(416,450)
- Stage 2										(129,402)
- Stage 3										(243,853)
Net financing, advances and others										45,680,680

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

8. Financing, advances and others (continued)

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

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

	Note	Group and Bank	
		2019 RM’000	2018 RM’000
House financing			
Unrestricted Investment Accounts	16	6,726,143	3,886,107
Sold to Cagamas with recourse	17	1,501,187	1,501,187
		8,227,330	5,387,294
Personal financing			
Unrestricted Investment Accounts	16	3,514,230	1,290,712

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

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

(b) By type of customer

	Group and Bank	
	2019 RM’000	2018 RM’000
Domestic non-bank financial institutions	1,595,043	1,637,318
Domestic business enterprise	8,384,026	6,924,836
Small & medium enterprises	2,017,946	2,092,024
Government & statutory bodies	729,905	601,285
Individuals	37,227,020	35,069,160
Other domestic entities	71,582	18,947
Foreign entities	198,447	126,815
	50,223,969	46,470,385

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	
	2019	2018
	RM'000	RM'000
Fixed rate		
House financing	985,880	1,073,575
Others	3,700,354	3,102,294
Floating rate		
House financing	19,299,203	17,636,273
Others	26,238,532	24,658,243
	<u>50,223,969</u>	<u>46,470,385</u>

(d) By remaining contractual maturity

	Group and Bank	
	2019	2018
	RM'000	RM'000
Maturity within one year	4,615,374	4,774,098
More than one year to three years	1,265,070	1,299,229
More than three years to five years	3,230,831	2,921,287
More than five years	41,112,694	37,475,771
	<u>50,223,969</u>	<u>46,470,385</u>

(e) By geographical distribution

	Group and Bank	
	2019	2018
	RM'000	RM'000
Central Region	23,794,695	22,125,064
Eastern Region	7,861,683	7,646,307
Northern Region	6,673,024	6,640,816
Southern Region	8,278,422	6,723,490
East Malaysia Region	3,616,145	3,334,708
	<u>50,223,969</u>	<u>46,470,385</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	
	2019 RM'000	2018 RM'000
Primary agriculture	1,266,687	754,835
Mining and quarrying	38,712	9,060
Manufacturing (including agro-based)	881,445	909,850
Electricity, gas and water supply	1,863,658	371,479
Wholesale & retail trade, and restaurants & hotels	927,772	1,098,346
Construction	2,238,954	2,417,262
Transport, storage and communications	918,959	824,949
Finance, insurance, real estate and business activities	3,731,211	4,011,569
Education, health and others	1,126,374	1,000,735
Household sectors	37,230,197	35,072,300
	<u>50,223,969</u>	<u>46,470,385</u>

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

	Group and Bank	
	2019 RM'000	2018 RM'000
At 1 January	425,937	398,277
Classified as impaired during the year	701,221	621,974
Reclassified as not impaired during the year	(372,172)	(321,635)
Amount recovered	(97,001)	(117,477)
Amount written-off	(224,984)	(155,202)
At 31 December	<u>433,001</u>	<u>425,937</u>
Gross impaired financing as a percentage of gross financing, advances and others	<u>0.86%</u>	<u>0.92%</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	
	2019 RM'000	2018 RM'000
Central Region	181,730	245,531
Eastern Region	101,743	101,868
Northern Region	79,976	25,349
Southern Region	47,527	31,320
East Malaysia Region	22,025	21,869
	<u>433,001</u>	<u>425,937</u>

(i) Impaired financing by sector

	Group and Bank	
	2019 RM'000	2018 RM'000
Manufacturing (including agro-based)	45,715	21,426
Wholesale & retail trade, and hotels & restaurants	97,043	56,665
Construction	29,361	123,007
Transport, storage and communications	10,217	10,936
Finance, insurance, real estate and business activities	8,125	3,066
Education, health & others	8,179	4,642
Household sectors	234,361	206,195
	<u>433,001</u>	<u>425,937</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 2018	390,478	139,501	231,636	761,615
Transfer to Stage 1	6,841	(6,525)	(316)	-
Transfer to Stage 2	(4,419)	8,639	(4,220)	-
Transfer to Stage 3	(523)	(8,454)	8,977	-
Net allowance made during the year	(22,326)	1,175	160,491	139,340
New financial assets originated or purchased	88,675	7,437	5,090	101,202
Financial assets that have been derecognised	(39,166)	(12,371)	(2,603)	(54,140)
Write-offs	-	-	(155,202)	(155,202)
Exchange differences	(3,110)	-	-	(3,110)
At 31 December 2018/1 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	431,135	148,115	172,197	751,447

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	
	2019 RM'000	2018 RM'000
Amortised cost before the modification	10,405	15,756
Gross carrying amount at end of reporting period	<u>10,268</u>	<u>15,921</u>

9. Other financial assets at amortised cost

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Sukuk	5,684	6,887	5,684	6,887
Other receivables	116,813	97,473	112,856	95,680
Deposit and prepayments	32,846	31,458	32,071	30,434
Related companies*	<u>1,033</u>	<u>586</u>	<u>1,110</u>	<u>894</u>
	156,376	136,404	151,721	133,895
Less: Allowance for impairment				
Stage 3				
-Sukuk	(5,684)	(6,887)	(5,684)	(6,887)
-Other receivables	<u>(5,475)</u>	<u>(475)</u>	<u>(5,475)</u>	<u>(475)</u>
	<u>145,217</u>	<u>129,042</u>	<u>140,562</u>	<u>126,533</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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deferred tax assets:				
Provisions	33,347	29,787	33,347	29,532
Impairment allowances	33,108	26,860	33,108	26,860
Leases	23,142	-	23,142	-
Unabsorbed capital allowances	-	829	-	829
Tax losses	1,510	1,308	-	-
Offsetting	(57,329)	(7,379)	(57,329)	(7,379)
Total deferred tax assets	<u>33,778</u>	<u>51,405</u>	<u>32,268</u>	<u>49,842</u>
Deferred tax liabilities:				
Property and equipment	(3,462)	(6,568)	(3,458)	(6,548)
Change in fair value reserves	(53,871)	(831)	(53,871)	(831)
Offsetting	57,329	7,379	57,329	7,379
Total deferred tax liabilities	<u>(4)</u>	<u>(20)</u>	<u>-</u>	<u>-</u>
Net deferred tax assets	<u>33,774</u>	<u>51,385</u>	<u>32,268</u>	<u>49,842</u>

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	Impair- ment allowances RM'000	Leases RM'000	Unabsorbed capital allowances 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 2018	26,478	-	-	12,829	-	(8,986)	2,802	33,123
Recognised in profit or loss	3,309	26,860	-	(12,000)	1,308	2,418	-	21,895
Recognised in other comprehensive income	-	-	-	-	-	-	(3,633)	(3,633)
At 31 December 2018	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	33,347	33,108	23,142	-	1,510	(3,462)	(53,871)	33,774
Bank								
At 1 January 2018	26,478	-	-	12,829	-	(8,986)	2,802	33,123
Recognised in profit or loss	3,054	26,860	-	(12,000)	-	2,438	-	20,352
Recognised in other comprehensive income	-	-	-	-	-	-	(3,633)	(3,633)
At 31 December 2018	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	33,347	33,108	23,142	-	-	(3,458)	(53,871)	32,268

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Unabsorbed capital allowance	131,819	128,475	131,784	128,440
Unutilised tax losses	1,251	1,251	-	-
Deductible temporary differences	329	329	-	-
	<u>133,399</u>	<u>130,055</u>	<u>131,784</u>	<u>128,440</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 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	
	31.12.2019 RM'000	1.1.2019 RM'000
Right-of-use assets:		
Buildings	<u>229,135</u>	<u>234,111</u>
Lease liabilities	<u>325,559</u>	<u>322,685</u>

Additions to the right-of-use assets during the 2019 financial year were RM10,165,000.

The statement of profit or loss as at 31 December 2019 shows the following amounts relating to leases:

	Group RM'000	Bank RM'000
Depreciation charge on right-of-use assets:	15,141	15,141
Finance cost	(18,040)	(18,040)
Expenses relating to short-term leases	<u>36,119</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:

Right-of-use assets	No. of leases	Range of remaining terms	Average remaining lease terms	No. of leases with termination option
Buildings	8	1.3 - 16.5 years	14.97 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 2019 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 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
1 January 2019				
Lease payment	25,330	78,440	419,690	523,460
Finance cost	18,040	51,187	131,549	200,776
Net present value	7,321	27,253	288,111	322,685

13. Investments in subsidiaries

	Bank	
	2019 RM'000	2018 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	
		2019 %	2018 %
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 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)

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 2018	14,784	33,858	125,078	95,086	360,310	943	2,491	19,841	652,391
Additions	-	789	4,807	4,253	25,972	-	4,459	24,887	65,167
Reclassifications	-	89	1,694	321	7,854	-	(2,104)	(7,854)	-
Disposals	-	-	(13)	(333)	(5,479)	-	-	-	(5,825)
Written-off	-	(133)	(688)	(563)	(285)	-	-	-	(1,669)
Exchange difference	-	1	6	9	7	-	-	-	23
At 31 December 2018	14,784	34,604	130,884	98,773	388,379	943	4,846	36,874	710,087
<i>Accumulated depreciation</i>									
At 1 January 2018	1,826	24,231	83,755	78,251	291,810	515	-	-	480,388
Depreciation for the year	174	1,965	9,451	7,012	29,275	93	-	-	47,970
Disposals	-	-	(13)	(328)	(5,431)	-	-	-	(5,772)
Written-off	-	(72)	(476)	(506)	(283)	-	-	-	(1,337)
Exchange difference	-	-	6	9	7	-	-	-	22
At 31 December 2018	2,000	26,124	92,723	84,438	315,378	608	-	-	521,271
<i>Net carrying amount</i>									
At 31 December 2018	12,784	8,480	38,161	14,335	73,001	335	4,846	36,874	188,816

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)

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 2018	14,784	33,669	125,002	94,738	358,308	943	2,491	19,841	649,776
Additions	-	743	4,800	4,250	25,881	-	4,459	24,887	65,020
Reclassifications	-	89	1,694	321	7,854	-	(2,104)	(7,854)	-
Disposals	-	-	(13)	(333)	(5,479)	-	-	-	(5,825)
Written-off	-	(133)	(688)	(549)	(237)	-	-	-	(1,607)
Exchange difference	-	1	6	6	1	-	-	-	14
At 31 December 2018	14,784	34,369	130,801	98,433	386,328	943	4,846	36,874	707,378
<i>Accumulated depreciation</i>									
At 1 January 2018	1,826	24,073	83,707	77,919	290,496	515	-	-	478,536
Depreciation for the year	174	1,935	9,442	7,010	29,069	93	-	-	47,723
Disposals	-	-	(13)	(328)	(5,431)	-	-	-	(5,772)
Written-off	-	(72)	(476)	(492)	(235)	-	-	-	(1,275)
Exchange difference	-	-	6	6	1	-	-	-	13
At 31 December 2018	2,000	25,936	92,666	84,115	313,900	608	-	-	519,225
<i>Net carrying amount</i>									
At 31 December 2018	12,784	8,433	38,135	14,318	72,428	335	4,846	36,874	188,153

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

15. Deposits from customers

(a) By type of deposit

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Savings Deposit				
<i>Qard</i>	4,681,710	4,410,537	4,681,710	4,410,537
Demand Deposit				
<i>Qard</i>	10,967,942	10,663,456	11,029,237	10,670,826
Term Deposit	31,653,852	34,727,635	31,660,691	34,734,232
Special Investment Deposit <i>Mudharabah</i>	3,915	6,252	3,915	6,252
General Investment Deposit <i>Mudharabah</i>	209,693	287,013	209,693	287,013
Term Deposit-i <i>Tawarruq</i>	30,448,694	30,751,990	30,455,533	30,758,587
Negotiable Islamic Debt Certificates (NIDC)	991,550	3,682,380	991,550	3,682,380
Others	105,234	93,604	105,234	93,604
Total Deposits	<u>47,408,738</u>	<u>49,895,232</u>	<u>47,476,872</u>	<u>49,909,199</u>

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Due within six months	12,162,445	16,428,971	12,163,806	16,429,087
More than six months to one year	7,726,707	9,685,966	7,727,809	9,691,736
More than one year to three years	9,056,935	6,484,593	9,061,311	6,485,304
More than three years to five years	2,707,765	2,128,105	2,707,765	2,128,105
	<u>31,653,852</u>	<u>34,727,635</u>	<u>31,660,691</u>	<u>34,734,232</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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Domestic non-bank financial institutions	7,823,994	12,385,381	7,892,128	12,399,348
Business enterprises	19,656,635	16,725,704	19,656,635	16,725,704
Government and statutory bodies	11,479,529	12,049,184	11,479,529	12,049,184
Individuals	5,893,922	5,199,550	5,893,922	5,199,550
Domestic banking institutions	149,839	1,634,224	149,839	1,634,224
Others	2,404,819	1,901,189	2,404,819	1,901,189
	<u>47,408,738</u>	<u>49,895,232</u>	<u>47,476,872</u>	<u>49,909,199</u>

16. Investment accounts of customers

(a) By type and Shariah contract

	Group and Bank	
	2019 RM'000	2018 RM'000
Unrestricted investment accounts		
Without maturity:		
<i>Mudharabah</i>	3,211,343	2,594,846
- <i>Savings</i>	2,880,046	2,413,645
- <i>Demand</i>	331,297	181,201
With maturity:		
<i>Wakalah</i>	7,029,030	2,581,973
	<u>10,240,373</u>	<u>5,176,819</u>
Restricted investment accounts ("RIA") managed by the Bank[^]		
With maturity:		
<i>Wakalah</i>	35,062	78,717
	<u>35,062</u>	<u>78,717</u>

[^] Included in RIA managed by the Bank is an arrangement between the Bank and its ultimate holding entity where the Bank acts as an investment agent to manage and administer the RIA, with underlying assets amounting to RM35,062,000 (2018: RM78,285,000).

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

16. Investment accounts of customers (continued)

(b) By type of customers

	Group and Bank	
	2019 RM'000	2018 RM'000
Individuals	3,448,415	2,674,428
Government and statutory bodies	3,747,895	767,996
Business Enterprises	769,038	507,160
Non-bank financial institutions	2,182,680	1,175,273
International Islamic Bank	10,001	2,400
Others	82,344	49,562
	<u>10,240,373</u>	<u>5,176,819</u>

(c) Movement of investment accounts of customers

Group and Bank	Unrestricted investment accounts			Restricted investment accounts
	Mudharabah RM'000	Wakalah RM'000	Total RM'000	Wakalah RM'000
As at 1 January 2018	1,994,491	2,265,694	4,260,185	124,384
<i>Funding inflows/ outflows:</i>				
Net movement	594,825	-	594,825	-
New placement	-	5,477,624	5,477,624	6,000
Redemption/Principal repayment	-	(5,250,374)	(5,250,374)	(60,080)
Income from investment	122,522	135,393	257,915	8,898
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(116,992)	-	(116,992)	-
Wakalah fees	-	(46,364)	(46,364)	(485)
As at 31 December 2018/ 1 January 2019	<u>2,594,846</u>	<u>2,581,973</u>	<u>5,176,819</u>	<u>78,717</u>
<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	<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)

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

Group and Bank	Unrestricted investment accounts			Restricted investment accounts
	Mudharabah RM'000	Wakalah RM'000	Total RM'000	Wakalah RM'000
<i>Investment portfolio:</i>				
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>
2018				
House financing	2,594,846	1,291,261	3,886,107	-
Personal financing	-	1,290,712	1,290,712	-
Other term financing	-	-	-	78,717
	<u>2,594,846</u>	<u>2,581,973</u>	<u>5,176,819</u>	<u>78,717</u>

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

	Investment account holders			
	Total amount RM'000	Average profit sharing ratio (%)	Average rate of return (%)	Bank's wakalah fee (%)
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)

16. Investment accounts of customers (continued)

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

		Investment account holders		
	Total amount RM'000	Average profit sharing ratio (%)	Average rate of return (%)	Bank's wakalah fee (%)
2018				
Unrestricted investment accounts:				
<i>Less than 3 months</i>				
- <i>Mudharabah</i>	2,594,846	2	0.24	-
- <i>Wakalah</i>	1,112,699	-	3.81	1.63
	<u>3,707,545</u>			
 <i>Between 3 to 12 months</i>				
- <i>Wakalah</i>	1,469,274	-	3.72	1.72
	<u>5,176,819</u>			
 Restricted investment accounts:				
<i>Less than 2 years</i>	87	-	6.30	0.30
<i>Between 2 to 5 years</i>	78,630	-	1.85	0.46
	<u>78,717</u>			

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.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

18. Subordinated Sukuk Murabahah

	Note	Group and Bank	
		2019 RM'000	2018 RM'000
<i>Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme</i>			
First tranche	(a)	303,356	303,450
Second tranche	(b)	400,964	400,851
Third tranche	(c)	302,046	302,005
		1,006,366	1,006,306
<i>Issued under the RM10.0 billion Sukuk Murabahah Programme</i>			
First tranche	(d)	302,328	302,328
		1,308,694	1,308,634
Finance cost on Subordinated Sukuk Murabahah		69,940	56,711

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

* 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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other payables	389,770	168,224	332,441	160,472
Advance payment	437,053	405,849	437,053	405,849
Accruals	164,717	132,060	162,191	129,393
	<u>991,540</u>	<u>706,133</u>	<u>931,685</u>	<u>695,714</u>

Included in other payables is amount due to trustee amounting to RM54,764,000 (2018: RMNil) attributed to the creation of unit trust funds.

20. Zakat and taxation

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Zakat	11,092	13,685	10,807	13,539
Taxation	6,336	2	6,335	-
	<u>17,428</u>	<u>13,687</u>	<u>17,142</u>	<u>13,539</u>

21. Share capital

Group and Bank	Number of shares (units)		Amount	
	2019 '000	2018 '000	2019 RM'000	2018 RM'000
<i>Issued and fully paid</i>				
Ordinary shares				
At 1 January	2,509,982	2,466,022	3,012,368	2,869,498
Allotment of new ordinary shares	-	43,960	-	142,870
At 31 December	<u>2,509,982</u>	<u>2,509,982</u>	<u>3,012,368</u>	<u>3,012,368</u>

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

22. Reserves

		Group		Bank	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
FVOCI reserve	(a)	189,203	2,630	189,203	2,630
Translation reserve	(b)	(106,938)	(111,067)	(106,805)	(110,891)
Regulatory reserve	(c)	25,000	10,000	25,000	10,000
Total other reserves		107,265	(98,437)	107,398	(98,261)
Retained earnings		2,594,820	2,362,476	2,589,798	2,359,060
		2,702,085	2,264,039	2,697,196	2,260,799

- (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.

23. Sources and uses of charity funds

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

Group and Bank	2019	2018
	RM'000	RM'000
Undistributed funds as at the beginning of the financial year	7	2
Shariah non-compliance income:		
<i>Funds collected/received during the year</i>	51	9
Uses of funds during the year:		
<i>Contribution to Education Fund</i>	(55)	(4)
Undistributed funds as at the end of the financial year	3	7

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

24. Income derived from investment of depositors' funds

	Group and Bank	
	2019	2018
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	16,378	19,074
(ii) Term deposit-i	1,838,249	1,596,723
(iii) Savings and demand deposits	818,128	790,472
(iv) Other deposits	84,949	195,556
	<u>2,757,704</u>	<u>2,601,825</u>

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2019	2018
	RM'000	RM'000
<i>Finance income and hibah</i>		
Financing, advances and others	13,829	16,802
Financial assets:		
- fair value through profit and loss	79	110
- fair value through other comprehensive income	1,454	1,473
- other financial assets at amortised cost	3	4
Money at call and deposits with financial institutions	362	473
	<u>15,727</u>	<u>18,862</u>
<i>Other dealing income</i>		
Net gain from sale of financial assets at fair value through profit or loss	141	30
Net gain on revaluation of financial assets at fair value through profit or loss	8	3
	<u>149</u>	<u>33</u>
<i>Other operating income</i>		
Net gain from sale of financial assets at fair value through other comprehensive income	502	179
	<u>16,378</u>	<u>19,074</u>
<i>of which,</i>		
<i>Financing income earned on impaired financing</i>	<u>182</u>	<u>240</u>

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

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

	Group and Bank	
	2019	2018
	RM'000	RM'000
<i>Finance income and hibah</i>		
Financing, advances and others	1,517,697	1,390,942
Financial assets:		
- fair value through profit and loss	10,164	9,977
- fair value through other comprehensive income	187,059	136,410
- other financial assets at amortised cost	352	368
Money at call and deposits with financial institutions	39,693	38,924
	<u>1,754,965</u>	<u>1,576,621</u>
<i>Other dealing income</i>		
Net gain from sale of financial assets at fair value through profit or loss	17,504	2,799
Net gain on revaluation of financial assets at fair value through profit or loss	871	94
	<u>18,375</u>	<u>2,893</u>
<i>Other operating income</i>		
Net gain from sale of financial assets at fair value through other comprehensive income	64,909	17,209
	<u>1,838,249</u>	<u>1,596,723</u>
<i>of which,</i>		
<i>Financing income earned on impaired financing</i>	<u>23,204</u>	<u>21,904</u>

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

	Group and Bank	
	2019	2018
	RM'000	RM'000
<i>Finance income and hibah</i>		
Financing, advances and others	675,861	688,992
Financial assets:		
- fair value through profit and loss	4,531	4,984
- fair value through other comprehensive income	83,286	67,395
- other financial assets at amortised cost	165	175
Money at call and deposits with financial institutions	17,618	19,142
	<u>781,461</u>	<u>780,688</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	
	2019	2018
	RM'000	RM'000
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	7,726	1,394
Net gain on revaluation of financial assets at fair value through profit or loss	537	114
	<u>8,263</u>	<u>1,508</u>
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	28,404	8,276
	<u>818,128</u>	<u>790,472</u>
<i>of which,</i>		
<i>Financing income earned on impaired financing</i>	<u>10,347</u>	<u>10,924</u>

(iv) Income derived from investment of other deposits

	Group and Bank	
	2019	2018
	RM'000	RM'000
Finance income and hibah		
Financing, advances and others	70,118	170,760
Financial assets:		
- fair value through profit and loss	475	1,247
- fair value through other comprehensive income	8,615	16,620
- other financial assets at amortised cost	15	38
Money at call and deposits with financial institutions	2,017	4,806
	<u>81,240</u>	<u>193,471</u>
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	807	312
Net loss on revaluation of financial assets at fair value through profit or loss	110	(7)
	<u>917</u>	<u>305</u>
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	2,792	1,780
	<u>84,949</u>	<u>195,556</u>
<i>of which,</i>		
<i>Financing income earned on impaired financing</i>	<u>1,094</u>	<u>2,736</u>

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

25. Income derived from investment account funds

	Group and Bank	
	2019 RM'000	2018 RM'000
Finance income		
Unrestricted investment accounts		
- <i>Mudharabah</i>	148,478	122,522
- <i>Wakalah</i>	247,186	135,393
	<u>395,664</u>	<u>257,915</u>

26. Income derived from investment of shareholders' funds

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	6,622	7,345	6,622	7,345
Financial assets:				
- fair value through other comprehensive income	189,567	184,280	189,567	184,280
Money at call and deposits with financial institutions	5	6	4	4
	<u>196,194</u>	<u>191,631</u>	<u>196,193</u>	<u>191,629</u>
<i>Other dealing income</i>				
Net gain from foreign exchange transactions	55,710	54,716	55,710	54,739
Net derivatives (gain)/loss	(36)	52	(36)	52
Net gain on revaluation of financial assets at fair value through profit or loss	9,638	2	9,632	-
	<u>65,312</u>	<u>54,770</u>	<u>65,306</u>	<u>54,791</u>
<i>Other operating income</i>				
Dividend income from debt instruments at FVTPL (unit trust)	8,913	1,763	8,738	1,612
Dividend income from equity instruments at FVOCI	545	-	545	-
	<u>9,458</u>	<u>1,763</u>	<u>9,283</u>	<u>1,612</u>

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<i>Fees and commission</i>				
Card fees and commission	69,370	70,627	69,370	70,627
Takaful service fees and commission	33,502	29,791	33,502	29,791
Financing fees	16,724	18,976	16,724	18,976
Sales charges on unit trust	15,140	24,210	-	-
Unit trust management fees	17,723	15,254	-	-
Commission on MEPS	10,449	13,444	10,449	13,444
Ar-Rahnu fees	9,634	10,863	9,634	10,863
Mobile banking fees	6,624	6,630	6,624	6,630
Corporate advisory fees	8,165	6,549	8,165	6,549
Deposit and payment service fees	5,461	5,959	5,461	5,959
Processing fees	5,857	2,212	5,831	2,188
Commission on bills payment system	1,435	3,006	1,435	3,006
Commission from wealth management services	71	31	5,645	6,579
Ta'widh Charges	1,057	975	1,057	975
Others	15,362	16,754	14,031	15,610
	<u>216,574</u>	<u>225,281</u>	<u>187,928</u>	<u>191,197</u>
<i>Other income</i>				
Rental income	2,443	2,266	2,807	2,638
Net gain on disposal of property and equipment	421	372	421	372
Other income	480	194	289	92
	<u>3,344</u>	<u>2,832</u>	<u>3,517</u>	<u>3,102</u>
	<u>490,882</u>	<u>476,277</u>	<u>462,227</u>	<u>442,331</u>

27. Net allowance for impairment on financing and advances

	Group and Bank	
	2019 RM'000	2018 RM'000
Net allowance for impairment on financing, advances and others:		
- Stage 1	24,186	27,183
- Stage 2	20,032	(3,759)
- Stage 3	146,611	162,978
Bad debts and financing recovered	(107,141)	(104,948)
	<u>83,688</u>	<u>81,454</u>

Bank Islam Malaysia Berhad

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

28. Income attributable to depositors

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits from customers:				
- Mudharabah fund	8,371	9,730	8,371	9,730
- Non-Mudharabah fund	1,296,350	1,236,386	1,296,625	1,236,653
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah fund	402	409	402	409
Recourse obligation on financing sold to Cagamas	71,201	42,750	71,201	42,750
	<u>1,376,324</u>	<u>1,289,275</u>	<u>1,376,599</u>	<u>1,289,542</u>

29. Income attributable to investment account holders

	Group and Bank	
	2019 RM'000	2018 RM'000
Unrestricted investment accounts		
- <i>Mudharabah</i>	9,987	5,530
- <i>Wakalah</i>	165,634	89,029
	<u>175,621</u>	<u>94,559</u>

30. Personnel expenses

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Salaries and wages	358,078	315,500	350,419	309,152
Allowances and bonuses	161,831	159,001	159,625	156,754
Employees' Provident Fund	64,954	57,338	63,605	56,170
Directors and Shariah Supervisory Council Members' remuneration	7,136	7,312	6,076	6,362
Medical benefits	29,048	21,032	28,519	20,537
Staff sales commission	15,551	14,104	15,551	14,104
Others	25,795	21,032	25,043	20,381
	<u>662,393</u>	<u>595,319</u>	<u>648,838</u>	<u>583,460</u>

Bank Islam Malaysia Berhad

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

31. Other overhead expenses

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Promotion				
Credit and debit card expenses	34,631	30,802	34,631	30,802
Advertisement and publicity	17,713	9,692	17,339	9,336
Others	22,129	30,030	8,982	9,319
	<u>74,473</u>	<u>70,524</u>	<u>60,952</u>	<u>49,457</u>
Establishment				
Depreciation of property and equipment	52,049	47,970	51,823	47,723
Depreciation of right-of-use assets	15,141	-	15,141	-
Office rental	30,431	54,207	30,376	54,152
Information technology expenses	47,838	50,842	47,838	50,842
Security services	9,147	9,954	9,147	9,954
Utilities	14,750	14,306	14,660	14,235
Office maintenance	11,048	11,324	10,822	11,107
Takaful	9,233	8,335	9,227	8,329
Rental of equipment	5,688	4,700	5,603	4,619
Others	320	320	320	320
	<u>195,645</u>	<u>201,958</u>	<u>194,957</u>	<u>201,281</u>
General expenses				
Indirect tax expenses	2	11,848	2	11,847
Outsourcing fees				
- Management of self- service terminal	12,129	12,608	12,129	12,608
- Credit recovery	277	2,417	277	2,417
- Others	4,760	2,674	4,760	2,674
Office supplies	8,686	8,202	8,545	8,067
Licenses	10,507	8,246	10,507	8,246
Travelling and transportation	8,073	8,135	7,861	7,947
Bank and service charges	14,844	6,984	14,819	6,958
General expenses	23,947	19,208	23,947	19,208
Security services for cash in transit	7,294	6,523	7,294	6,523
Postage and delivery charges	5,884	6,418	5,850	6,387
Management fees	-	-	7,557	8,589
Subscription fees	4,252	3,739	4,252	3,739
Professional fees	9,758	6,245	9,496	6,078
Mobile banking expenses	1,979	1,602	1,979	1,602
Auditors' remuneration				
- statutory audit fees	957	925	878	848
- others	275	1,365	275	1,365
Processing charges	1,362	980	1,362	980
Property and equipment written-off	82	332	82	332
Others	9,820	10,166	3,872	3,613
	<u>124,888</u>	<u>118,617</u>	<u>125,744</u>	<u>120,028</u>
	<u>395,006</u>	<u>391,099</u>	<u>381,653</u>	<u>370,766</u>

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
<i>Chief Executive Officer:</i>				
Salaries and other remuneration, including meeting allowances	2,546	2,745	2,546	2,744
Benefits-in-kind	34	31	34	31
	<u>2,580</u>	<u>2,776</u>	<u>2,580</u>	<u>2,775</u>
<i>Non-Executive Directors:</i>				
Fees	1,409	1,663	1,375	1,627
Other emoluments	1,588	1,424	1,569	1,406
Benefits-in-kind	229	234	229	234
	<u>3,226</u>	<u>3,321</u>	<u>3,173</u>	<u>3,267</u>
<i>Directors of subsidiaries</i>				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	865	742	-	-
	<u>865</u>	<u>742</u>	<u>-</u>	<u>-</u>
<i>Non-Executive Directors:</i>				
Fees	66	72	-	-
Other emoluments	64	65	-	-
	<u>130</u>	<u>137</u>	<u>-</u>	<u>-</u>
Total	<u>6,801</u>	<u>6,976</u>	<u>5,753</u>	<u>6,042</u>
<i>Members of Shariah Supervisory Council (SSC)</i>				
- SSC of the Bank	592	592	586	585
- SSC of a subsidiary	6	9	-	-
Total	<u>598</u>	<u>601</u>	<u>586</u>	<u>585</u>
Grand total (excluding benefits-in-kind) (Note 30)	<u>7,136</u>	<u>7,312</u>	<u>6,076</u>	<u>6,362</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 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 (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 2018								
<i>Chief executive officer:</i>								
Mohd Muazzam Mohamed	61	-	14	2	77	-	-	77
Khairul Kamarudin	1,908	-	761	29	2,698	-	1	2,699
	1,969	-	775	31	2,775	-	1	2,776
<i>Non-Executive Directors:</i>								
Datuk Zamani Abdul Ghani	-	240	228	89	557	-	-	557
Dato' Sri Khazali Ahmad	-	105	63	25	193	-	-	193
Zahari @ Mohd Zin Idris	-	216	225	20	461	12	7	480
Mohamed Ridza Mohamed Abdulla	-	108	121	-	229	-	-	229
Datuk Nik Mohd Hasyudeen Yusoff	-	226	196	25	447	24	11	482
Noraini Che Dan	-	209	191	50	450	-	-	450
Azizan Ahmad	-	154	84	25	263	-	-	263
Tan Sri Dato' Dr. Abdul Shukor Husin	-	156	127	-	283	-	-	283
Datuk Zaiton Mohd Hassan	-	213	171	-	384	-	-	384
	-	1,627	1,406	234	3,267	36	18	3,321
	1,969	1,627	2,181	265	6,042	36	19	6,097

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 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
31 December 2018					
Professor Dato' Dr. Ahmad Hidayat Buang	72	84	156	-	156
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	66	36	102	7	109
Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir	66	36	102	-	102
Assistant Professor Dr. Uzaimah Ibrahim	66	45	111	-	111
Ustazah Dr. Yasmin Hanani Mohd Safian	66	48	114	-	114
	336	249	585	7	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	
	2019	2018
	RM'000	RM'000
Other key management personnel:		
Short-term employee benefits	<u>22,327</u>	<u>21,275</u>

Number of employees categorised as key management personnel as at 31 December 2019 was 25 (2018: 23).

34. Finance cost

	Group and Bank	
	2019	2018
	RM'000	RM'000
Finance cost:		
Subordinated Sukuk Murabahah	69,940	56,711
Profit expense on lease	18,040	-
	<u>87,980</u>	<u>56,711</u>

35. Tax expense

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax:				
Current year	217,957	231,420	217,800	231,287
Under/(Over) provision in prior years	1,085	(6,818)	1,067	(6,756)
	<u>219,042</u>	<u>224,602</u>	<u>218,867</u>	<u>224,531</u>
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	(14,310)	(22,070)	(14,310)	(20,527)
Under provision in prior years	139	175	102	175
	<u>(14,171)</u>	<u>(21,895)</u>	<u>(14,208)</u>	<u>(20,352)</u>
	<u>204,871</u>	<u>202,707</u>	<u>204,659</u>	<u>204,179</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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax	<u>843,480</u>	<u>810,258</u>	<u>841,458</u>	<u>808,237</u>
Income tax calculated using Malaysian tax rate of 24%	202,435	194,462	201,950	193,977
Income not subject to tax	(1,299)	(394)	(968)	(352)
Non-deductible expenses	5,914	4,967	5,911	5,135
Zakat	<u>(3,403)</u>	<u>-</u>	<u>(3,403)</u>	<u>-</u>
	<u>203,647</u>	<u>199,035</u>	<u>203,490</u>	<u>198,760</u>
Derecognition of deferred tax assets	-	10,315	-	12,000
(Over)/Under provision in prior years				
- Income tax	1,085	(6,818)	1,067	(6,756)
- Deferred tax	<u>139</u>	<u>175</u>	<u>102</u>	<u>175</u>
	<u>204,871</u>	<u>202,707</u>	<u>204,659</u>	<u>204,179</u>

36. Earnings per share

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM627,609,000 (2018: RM593,887,000) and the weighted average number of ordinary shares outstanding during the year of 2,509,982,000 (2018: 2,478,307,000).

37. Dividends

Dividends paid by the Bank:

	Sen per share	Total amount RM'000	Date of payment
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>	
2018			
Final 2017	6.09	150,180	4 June 2018
Interim 2018	5.79	<u>142,870</u>	20 September 2018
		<u>293,050</u>	

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

37. Dividends (continued)

On 27 May 2019, the Bank paid a final dividend of approximately 6.07 sen per ordinary share totalling RM152.310 million for the financial year ended 31 December 2018. The total dividend amounting to RM152.310 million was paid wholly in cash.

From the total dividend amount paid of RM142.870 million on 20 September 2018, 100% or RM142.870 million was reinvested to subscribe for 43,960,000 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 2019 ordinary dividend	<u>6.05</u>	<u>151,854</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)

2019	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	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)

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
2018						
Total Revenue	2,087,356	628,548	574,513	60,165	(14,080)	3,336,502
Net fund based income	978,022	388,978	(19,242)	287,632	-	1,635,390
Non-fund based income	153,893	36,459	88,224	52,515	(13,813)	317,278
Net income	1,131,915	425,437	68,982	340,147	(13,813)	1,952,668
Net allowance for impairment on financial assets	(24,420)	(57,034)	-	43	-	(81,411)
Profit before overheads, zakat and tax	1,107,495	368,403	68,982	340,190	(13,813)	1,871,257
Operating expenses						(1,060,999)
Profit before zakat and tax						810,258
Segment assets	34,711,553	10,969,128	15,381,399	46,194	(30,829)	61,077,445
Unallocated assets						2,861,288
Total assets						63,938,733

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management

Overview

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

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

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

(a) Financial instruments by categories

The table in subsequent pages 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 2019	RM'000	RM'000	RM'000	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*	135,953	-	-	135,953
Statutory deposits with Bank Negara Malaysia	1,170,136	-	-	1,170,136
	67,088,267	690,769	12,147,378	54,250,120
<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
	61,382,450	36,746	-	61,345,704

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 2018	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	4,518,703	-	-	4,518,703
Financial assets at FVTPL	359,533	359,533	-	-
Derivative financial assets	34,148	34,148	-	-
Financial assets at FVOCI	11,355,089	-	11,355,089	-
Financing, advances and others	45,680,680	-	-	45,680,680
Other financial assets at amortised cost*	122,288	-	-	122,288
Statutory deposits with Bank Negara Malaysia	1,602,284	-	-	1,602,284
	63,672,725	393,681	11,355,089	51,923,955
<i>Financial liabilities</i>				
Deposits from customers	49,909,199	-	-	49,909,199
Investment accounts of customers	5,176,819	-	-	5,176,819
Derivative financial liabilities	19,520	19,520	-	-
Bills and acceptance payable	41,114	-	-	41,114
Recourse obligations on financing sold to Cagamas	1,501,187	-	-	1,501,187
Subordinated Sukuk Murabahah	1,308,634	-	-	1,308,634
Other liabilities^	566,321	-	-	566,321
	58,522,794	19,520	-	58,503,274

* 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 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 Bank has 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 Bank's credit risk policies and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance levels.

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

Management of credit risk

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

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

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

Bank Islam Malaysia Berhad

[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	
	2019	2018
	RM'000	RM'000
Cash and short-term funds and deposits and placements with financial institutions	3,471,509	4,518,703
Financial assets at FVTPL*	423,938	145,151
Derivative financial assets (a)	33,326	34,148
Financial assets at FVOCI^	12,099,681	11,318,781
Financing, advances and others (b)	49,472,522	45,680,680
Other financial assets at amortised cost @	135,953	122,288
Sub-total	<u>65,636,929</u>	<u>61,819,751</u>
Credit related obligation:		
Financial guarantee contracts (c)	1,950,487	1,750,186
Financing commitments (d)	9,061,076	8,964,335
Sub-total	<u>11,011,563</u>	<u>10,714,521</u>
Total credit exposures	<u>76,648,492</u>	<u>72,534,272</u>

* Excludes unit trust

^ Excludes equity instruments

@ Excludes prepayment

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 2019, the gross exposure of credit-impaired financing and advances to corporate and commercial customers amounted to RM198,655,000 (2018: RM219,737,000) and the value of collateral held against those financing and advances amounted to RM310,524,000 (2018: RM104,605,000).

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	
	2019 RM'000	2018 RM'000
<i>Credit-impaired financing</i>		
Less than 51%	31,884	22,469
51-70%	19,801	11,662
More than 70%	110,477	94,169
Total	<u>162,162</u>	<u>128,300</u>

(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 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	2,650,786	423,938	9,901	5,410,186	3,669,708	12,164,519	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	821,600	-	4,419	1,683,597	-	2,509,616	404,281	3,876,106
	3,472,386	423,938	33,326	12,099,681	49,472,522	65,501,853	1,950,487	9,061,076

* 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 2018	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	-	-	-	19,736	736,860	756,596	9,028	130,909
Mining and quarrying	-	-	-	-	8,383	8,383	6,700	12,578
Manufacturing (including agro-based)	-	-	1	-	880,341	880,342	154,734	436,190
Electricity, gas and water	-	-	-	1,804,882	360,208	2,165,090	82,046	33,285
Wholesale & retail trade, and hotels & restaurants	-	-	3,221	61,391	1,037,141	1,101,753	170,353	391,024
Construction	-	-	3	724,487	2,241,403	2,965,893	334,191	1,160,442
Transport, storage and communications	-	-	-	1,287,410	799,778	2,087,188	126,107	421,043
Finance, insurance, real estate and business activities	3,632,957	145,151	3,215	6,598,439	3,922,994	14,302,756	147,996	1,885,391
Education, health and others	-	-	27,654	45,786	982,759	1,056,199	119,302	1,666,612
Household sectors	-	-	-	-	34,710,813	34,710,813	-	649,761
Other sectors	891,697	-	54	776,650	-	1,668,401	599,729	2,177,100
	4,524,654	145,151	34,148	11,318,781	45,680,680	61,703,414	1,750,186	8,964,335

* Financing commitments excluding derivative financial assets

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

39. Financial Risk Management (continued)

(c) Credit risk (continued)

(ii) Concentration of credit risk 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	2,650,438	423,938	9,901	5,410,186	3,669,708	12,164,171	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	821,071	-	4,419	1,683,597	-	2,509,087	404,281	3,876,106
	3,471,509	423,938	33,326	12,099,681	49,472,522	65,500,976	1,950,487	9,061,076

* 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 2018	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	-	-	-	19,736	736,860	756,596	9,028	130,909
Mining and quarrying	-	-	-	-	8,383	8,383	6,700	12,578
Manufacturing (including agro-based)	-	-	1	-	880,341	880,342	154,734	436,190
Electricity, gas and water	-	-	-	1,804,882	360,208	2,165,090	82,046	33,285
Wholesale & retail trade, and hotels & restaurants	-	-	3,221	61,391	1,037,141	1,101,753	170,353	391,024
Construction	-	-	3	724,487	2,241,403	2,965,893	334,191	1,160,442
Transport, storage and communications	-	-	-	1,287,410	799,778	2,087,188	126,107	421,043
Finance, insurance, real estate and business activities	3,632,629	145,151	3,215	6,598,439	3,922,994	14,302,428	147,996	1,885,391
Education, health and others	-	-	27,654	45,786	982,759	1,056,199	119,302	1,666,612
Household sectors	-	-	-	-	34,710,813	34,710,813	-	649,761
Other sectors	886,074	-	54	776,650	-	1,662,778	599,729	2,177,100
	4,518,703	145,151	34,148	11,318,781	45,680,680	61,697,463	1,750,186	8,964,335

* 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 2019 and 31 December 2018, 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 2019	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	42,776,005	372,582	-	43,148,587
- Satisfactory	5,281,199	546,463	-	5,827,662
- Fair	208,508	47,241	-	255,749
	48,265,712	966,286	-	49,231,998
Past due but not impaired ("PDNI"):				
Impaired	-	558,970	-	558,970
	-	-	433,001	433,001
Gross carrying amount	48,265,712	1,525,256	433,001	50,223,969

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 2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
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
	8,809,350	221,765	-	9,031,115
PDNI	-	13,427	-	13,427
Impaired	-	-	16,534	16,534
Gross exposure	8,809,350	235,192	16,534	9,061,076
Impairment allowances	(402,059)	(147,588)	(172,197)	(721,844)
Net exposure	56,673,003	1,612,860	277,338	58,563,201
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
	1,937,200	12,708	-	1,949,908
PDNI	-	-	-	-
Impaired	-	-	579	579
Gross exposure	1,937,200	12,708	579	1,950,487
Impairment allowances	(29,076)	(527)	-	(29,603)
Net exposure	1,908,124	12,181	579	1,920,884

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 2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financing, advances and others				
NPDNI:				
- Excellent	41,801,620	293,750	-	42,095,370
- Satisfactory	2,734,627	347,516	-	3,082,143
- Fair	242,626	32,800	-	275,426
	<u>44,778,873</u>	<u>674,066</u>	<u>-</u>	<u>45,452,939</u>
PDNI	-	591,509	-	591,509
Impaired	-	-	425,937	425,937
Gross carrying amount	<u>44,778,873</u>	<u>1,265,575</u>	<u>425,937</u>	<u>46,470,385</u>
Financing commitments				
NPDNI:				
- Excellent	8,234,213	28,251	-	8,262,464
- Satisfactory	583,981	72,491	-	656,472
- Fair	14,424	104	-	14,528
	<u>8,832,618</u>	<u>100,846</u>	<u>-</u>	<u>8,933,464</u>
PDNI	-	10,520	-	10,520
Impaired	-	-	20,352	20,352
Gross exposure	<u>8,832,618</u>	<u>111,366</u>	<u>20,352</u>	<u>8,964,336</u>
Impairment allowances	<u>(380,940)</u>	<u>(128,360)</u>	<u>(243,853)</u>	<u>(753,153)</u>
Net exposure	<u>53,230,551</u>	<u>1,248,581</u>	<u>202,436</u>	<u>54,681,568</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 2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financial guarantee contracts				
NPDNI:				
- Excellent	1,692,780	3,138	-	1,695,918
- Satisfactory	49,235	3,262	-	52,497
- Fair	-	-	-	-
	<u>1,742,015</u>	<u>6,400</u>	<u>-</u>	<u>1,748,415</u>
PDNI	-	942	-	942
Impaired	-	-	828	828
Gross exposure	<u>1,742,015</u>	<u>7,342</u>	<u>828</u>	<u>1,750,185</u>
Impairment allowances	<u>(35,510)</u>	<u>(1,042)</u>	<u>-</u>	<u>(36,552)</u>
Net exposure	<u>1,706,505</u>	<u>6,300</u>	<u>828</u>	<u>1,713,633</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**

Financing is classified as impaired:

- (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		2018	
	2019	% to gross financing	RM'000	% to gross financing
	RM'000		RM'000	
By ageing				
<i>Month-in-arrears 1</i>	360,615	0.72	357,420	0.77
<i>Month-in-arrears 2</i>	198,355	0.39	234,089	0.50
	<u>558,970</u>	<u>1.11</u>	<u>591,509</u>	<u>1.27</u>

Impaired financing

	Group and Bank	
	2019	2018
	RM'000	RM'000
By ageing		
<i>Month-in-arrears 0</i>	49,828	33,379
<i>Month-in-arrears 1</i>	10,731	8,806
<i>Month-in-arrears 2</i>	5,446	6,344
<i>Month-in-arrears 3 and above</i>	366,996	377,408
	<u>433,001</u>	<u>425,937</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	
	2019 RM'000	2018 RM'000
Consumer	17,120	16,855
Business	61,786	6,859
	78,906	23,714

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	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Kuala Lumpur Composite Index ("KLCP")	1,700.0	1,900.0	1,800.0	2,000.0	1,600.0	1,800.0
House Price Index ("HPI")	1.47%	3.16%	2.86%	4.91%	0.77%	2.11%
Consumer Price Index ("CPI")	1.26%	1.07%	1.09%	0.67%	1.77%	1.35%
Unemployment Rate	3.48%	3.42%	3.22%	3.12%	3.79%	3.66%
Industrial Production Index ("IPI")	1.97	3.61	3.0	4.64	1.46	3.10

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 IPI) will generally correlate with lower allowances for credit losses.

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

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	<u>12,077,621</u>	<u>22,060</u>	<u>12,099,681</u>
Impairment allowances [^]	<u>265</u>	<u>-</u>	<u>265</u>
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	135,953	11,159	147,112
Impairment allowances	-	(11,159)	(11,159)
Net carrying amount	<u>135,953</u>	<u>-</u>	<u>135,953</u>

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 2018	Stage 1 RM'000	Stage 3 RM'000	Total RM'000
Financial assets at FVOCI			
<i>Debt instrument</i>			
Government bonds and treasury bills Sukuk	2,630,367	-	2,630,367
Rated AAA	2,387,886	-	2,387,886
Rated AA1 to AA3	1,407,024	-	1,407,024
Lower than A	-	20,000	20,000
Unrated – Government guaranteed bonds	4,873,504	-	4,873,504
Gross carrying amount	11,298,781	20,000	11,318,781
Impairment allowances [^]	302	-	302
Derivative financial assets			
Bank and financial institution counterparties			5,250
Corporate			28,898
			34,148
Financial assets at FVTPL			
Government bonds and treasury bills			145,151
Other financial assets at AC			
Other unrated financial assets	122,288	7,362	129,650
Impairment allowances	-	(7,362)	(7,362)
Net carrying amount	122,288	-	122,288

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

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

The Bank separates the market risk exposures into either trading 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 Bank's profit rate management of the Bank's assets and liabilities and investment portfolio mainly for liquidity management.

Market risk governance

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

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

Management of market risk

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

All market risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. The management of market risk is guided by 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 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 Bank’s profitability, capital adequacy and liquidity. The stress test provides the Management and the BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

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			
2019	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	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^	-	-	-	-	-	140,119	-	140,119	
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	2,207,802	696,394	67,098,197	

* 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	
Total liabilities	8,785,336	12,703,860	15,020,570	3,663,281	1,309,835	19,852,017	36,746	61,371,645	
On-balance sheet profit sensitivity gap	39,012,351	(11,889,722)	(13,131,863)	3,497,574	5,222,779	(17,644,215)	659,648	5,726,552	
Off-balance sheet profit sensitivity gap (profit rate swaps)	3,634,376	429,403	71,549	-	-	-	-	4,135,328	
Total profit sensitivity gap	42,646,727	(11,460,319)	(13,060,314)	3,497,574	5,222,779	(17,644,215)	659,648	9,861,880	

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 2018	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	3,632,629	-	328	-	-	891,697	-	4,524,654	2.15
Financial assets at FVTPL	-	-	-	-	-	-	364,959	364,959	3.40
Derivative financial assets	-	-	-	-	-	-	34,148	34,148	0.99
Financial assets at FVOCI	500,513	316,389	718,753	5,796,612	4,022,032	-	-	11,354,299	4.29
Financing, advances and others									
- non-impaired	41,418,822	486,810	64,533	1,285,416	2,427,881	360,986	-	46,044,448	5.81
- impaired net of allowances *	-	-	-	-	-	(363,768)	-	(363,768)	
Other financial assets at amortised cost	-	-	-	-	-	124,143	-	124,143	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,602,284	-	1,602,284	
Total assets	45,551,964	803,199	783,614	7,082,028	6,449,913	2,615,342	399,107	63,685,167	

* 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 2018	← 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	9,565,065	9,989,364	9,558,386	5,614,820	-	15,167,597	-	49,895,232	2.69
Investment accounts of customers	983,713	689,013	908,904	343	-	2,594,846	-	5,176,819	1.20
Derivative financial liabilities	-	-	-	-	-	-	19,520	19,520	0.57
Bills and acceptance payable	-	-	-	-	-	41,114	-	41,114	
Recourse obligations on financing sold to Cagamas	-	-	-	1,500,000	-	1,187	-	1,501,187	4.75
Subordinated Sukuk Murabahah	-	-	-	1,300,000	-	8,634	-	1,308,634	5.33
Other liabilities	-	-	-	-	-	574,073	-	574,073	
Total liabilities	10,548,778	10,678,377	10,467,290	8,415,163	-	18,387,451	19,520	58,516,579	
On-balance sheet profit sensitivity gap	35,003,186	(9,875,178)	(9,683,676)	(1,333,135)	6,449,913	(15,772,109)	379,587	5,168,588	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	(400,000)	-	-	-	-	-	
Total profit sensitivity gap	35,103,186	(9,575,178)	(10,083,676)	(1,333,135)	6,449,913	(15,772,109)	379,587	5,168,588	

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						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	-	-	-	-	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	-	-	-	-	-	135,953	-	135,953	
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	2,203,107	690,769	67,088,267	

* 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 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	7,664,989	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	
Total liabilities	8,785,683	12,705,658	15,025,264	3,663,281	1,309,835	19,855,983	36,746	61,382,450	
On-balance sheet profit sensitivity gap	39,012,742	(11,891,520)	(13,136,905)	3,497,574	5,222,779	(17,652,876)	654,023	5,705,817	
Off-balance sheet profit sensitivity gap (profit rate swaps)	3,634,376	429,403	71,549	-	-	-	-	4,135,328	
Total profit sensitivity gap	42,647,118	(11,462,117)	(13,065,356)	3,497,574	5,222,779	(17,652,876)	654,023	9,841,145	

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 2018	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	3,632,629	-	-	-	-	886,074	-	4,518,703	2.16
Financial assets at FVTPL	-	-	-	-	-	-	359,533	359,533	3.40
Derivative financial assets	-	-	-	-	-	-	34,148	34,148	0.99
Financial assets at FVOCI	501,303	316,389	718,753	5,796,612	4,022,032	-	-	11,355,089	4.29
Financing, advances and others									
- non-impaired	41,418,822	486,810	64,533	1,285,416	2,427,881	360,986	-	46,044,448	5.81
- impaired net of allowances*	-	-	-	-	-	(363,768)	-	(363,768)	
Other financial assets at amortised cost	-	-	-	-	-	122,288	-	122,288	
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,602,284	-	1,602,284	
Total assets	45,552,754	803,199	783,286	7,082,028	6,449,913	2,607,864	393,681	63,672,725	

* 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 2018	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	9,566,129	9,991,092	9,561,480	5,615,531	-	15,174,967	-	49,909,199	2.69
Investment accounts of customers	983,713	689,013	908,904	343	-	2,594,846	-	5,176,819	1.20
Derivative financial liabilities	-	-	-	-	-	-	19,520	19,520	0.57
Bills and acceptance payable	-	-	-	-	-	41,114	-	41,114	
Recourse obligations on financing sold to Cagamas	-	-	-	1,500,000	-	1,187	-	1,501,187	4.75
Subordinated Sukuk Murabahah	-	-	-	1,300,000	-	8,634	-	1,308,634	5.33
Other liabilities	-	-	-	-	-	566,321	-	566,321	
Total liabilities	10,549,842	10,680,105	10,470,384	8,415,874	-	18,387,069	19,520	58,522,794	
On-balance sheet profit sensitivity gap	35,002,912	(9,876,906)	(9,687,098)	(1,333,846)	6,449,913	(15,779,205)	374,161	5,149,931	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	(400,000)	-	-	-	-	-	
Total profit sensitivity gap	35,102,912	(9,576,906)	(10,087,098)	(1,333,846)	6,449,913	(15,779,205)	374,161	5,149,931	

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 Bank monitors 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 Bank’s profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

	2019		2018	
	-100bps	+100bps	-100bps	+100bps
	Increase/(Decrease)			
	RM	RM	RM	RM
	million	million	million	million
Bank				
Impact on EaR	(119.4)	119.4	(129.5)	129.5
Impact on EVE	225.5	(225.5)	133.4	(133.4)

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)

(i) 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 Bank is 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 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	1.1.2019 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	As at	1.1.2018 to 31.12.2018		
	31.12.2018 RM million	Average RM million	Maximum RM million	Minimum RM million
Profit rate risk	0.05	1.96	4.08	0.05
Foreign exchange risk	0.26	0.48	1.00	0.15
Overall	0.31	2.44	4.62	0.29

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 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 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 Bank also has in place the sensitivity limit. For the Bank-wide (trading book and banking book portfolios) foreign exchange risk, the Bank manages and controls by limiting the net open exposure on an aggregate basis.

Sensitivity Analysis

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

	2019		2018	
	-1%	+1%	-1%	+1%
	Depreciation	Appreciation	Depreciation	Appreciation
	RM'000	RM'000	RM'000	RM'000
Group and Bank				
US Dollar	11,611	(11,611)	11,830	(11,830)
Euro	4,591	(4,591)	4,938	(4,938)
Others	(279)	279	(112)	112

(d) Liquidity risk

Overview

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

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

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

Savings account, current account, investment accounts (IA) and term deposits form a critical part of the Bank's funding profile and the Bank places considerable importance on maintaining their stability. The stability depends upon preserving depositor confidence in the Bank 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 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 Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The 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 Bank's liquidity risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Escalation procedures are documented and approved by the ALCO and/or BRC, with proper authorities to ratify or approve any excess. In addition, the liquidity risk exposures and limits are reported to the ALCO and the BRC.

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

Another key control feature of the Bank's liquidity risk management is the 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 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 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	140,119	-	-	-	-	-	140,119
Statutory deposits with Bank Negara Malaysia	1,170,136	-	-	-	-	-	1,170,136
Total assets	2,131,855	4,614,019	2,514,413	1,294,564	1,464,309	55,079,037	67,098,197

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
Total liabilities	19,793,052	8,792,138	12,720,500	6,565,227	8,476,522	5,024,206	61,371,645
Net liquidity gap on statement of financial position	(17,661,197)	(4,178,119)	(10,206,087)	(5,270,663)	(7,012,213)	50,054,831	5,726,552
Commitments and contingencies	-	5,599,469	3,048,462	1,775,866	2,884,732	4,105,652	17,414,181
Net liquidity gap	(17,661,197)	(9,777,588)	(13,254,549)	(7,046,529)	(9,896,945)	45,949,179	(11,687,629)

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 2018	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	891,697	3,632,629	-	328	-	-	4,524,654
Financial assets at FVTPL and FVOCI		835,145	316,389	211,427	507,326	9,848,971	11,719,258
Derivative financial assets	-	2,231	13,682	16,448	-	1,787	34,148
Financing, advances and others	-	1,215,358	2,343,527	525,783	536,695	41,059,317	45,680,680
Other financial assets at amortised cost	124,143	-	-	-	-	-	124,143
Statutory deposits with Bank Negara Malaysia	1,602,284	-	-	-	-	-	1,602,284
Total assets	2,618,124	5,685,363	2,673,598	753,986	1,044,021	50,910,075	63,685,167

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 2018	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	15,167,597	9,565,065	9,989,364	5,539,651	4,018,736	5,614,819	49,895,232
Investment accounts of customers	2,594,846	983,713	689,013	743,623	165,281	343	5,176,819
Derivative financial liabilities	-	1,123	6,219	9,413	2,316	449	19,520
Bills and acceptance payable	-	-	-	-	-	41,114	41,114
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,187	1,500,000	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	8,634	1,300,000	1,308,634
Other liabilities	574,073	-	-	-	-	-	574,073
Total liabilities	18,336,516	10,549,901	10,684,596	6,292,687	4,196,154	8,456,725	58,516,579
Net liquidity gap on statement of financial position	(15,718,392)	(4,864,538)	(8,010,998)	(5,538,701)	(3,152,133)	42,453,350	5,168,588
Commitments and contingencies	-	3,012,887	2,161,831	2,083,943	4,012,304	2,891,390	14,162,355
Net liquidity gap	(15,718,392)	(7,877,425)	(10,172,829)	(7,622,644)	(7,164,437)	39,561,960	(8,993,767)

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	135,953	-	-	-	-	-	135,953
Statutory deposits with Bank Negara Malaysia	1,170,136	-	-	-	-	-	1,170,136
Total assets	2,127,160	4,609,132	2,514,413	1,294,216	1,464,309	55,079,037	67,088,267

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
Total liabilities	19,797,018	8,792,485	12,722,298	6,567,516	8,478,927	5,024,206	61,382,450
Net liquidity gap on statement of financial position	(17,669,858)	(4,183,353)	(10,207,885)	(5,273,300)	(7,014,618)	50,054,831	5,705,817
Commitments and contingencies	-	5,599,469	3,048,462	1,775,866	2,884,732	4,105,652	17,414,181
Net liquidity gap	(17,669,858)	(9,782,822)	(13,256,347)	(7,049,166)	(9,899,350)	45,949,179	(11,708,364)

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 2018	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	886,074	3,632,629	-	-	-	-	4,518,703
Financial assets at FVTPL and FVOCI	-	830,509	316,389	211,427	507,326	9,848,971	11,714,622
Derivative financial assets	-	2,231	13,682	16,448	-	1,787	34,148
Financing, advances and others	-	1,215,358	2,343,527	525,783	536,695	41,059,317	45,680,680
Other financial assets at amortised cost	122,288	-	-	-	-	-	122,288
Statutory deposits with Bank Negara Malaysia	1,602,284	-	-	-	-	-	1,602,284
Total assets	2,610,646	5,680,727	2,673,598	753,658	1,044,021	50,910,075	63,672,725

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 2018	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	15,174,967	9,566,129	9,991,092	5,542,430	4,019,051	5,615,530	49,909,199
Investment accounts of customers	2,594,846	983,713	689,013	743,623	165,281	343	5,176,819
Derivative financial liabilities	-	1,123	6,219	9,413	2,316	449	19,520
Bills and acceptance payable	-	-	-	-	-	41,114	41,114
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,187	1,500,000	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	8,634	1,300,000	1,308,634
Other liabilities	566,321	-	-	-	-	-	566,321
Total liabilities	18,336,134	10,550,965	10,686,324	6,295,466	4,196,469	8,457,436	58,522,794
Net liquidity gap on statement of financial position	(15,725,488)	(4,870,238)	(8,012,726)	(5,541,808)	(3,152,448)	42,452,639	5,149,931
Commitments and contingencies	-	3,012,887	2,161,831	2,083,943	4,012,304	2,891,390	14,162,355
Net liquidity gap	(15,725,488)	(7,883,125)	(10,174,557)	(7,625,751)	(7,164,752)	39,561,249	(9,012,424)

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 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
	28,726,190	12,790,628	6,493,891	9,104,407	6,936,269	64,051,385
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
	137,461	152,937	100,145	517,706	1,042,237	1,950,486

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 2018	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	24,658,959	10,055,235	5,620,072	4,144,531	6,120,762	50,599,559
Investment accounts of customers	3,558,107	699,197	770,056	171,526	369	5,199,255
Derivative financial liabilities	2,817	11,555	23,305	40,713	1,283,082	1,361,472
<i>Forward contract</i>	1,112	6,230	8,094	2,316	-	17,752
<i>Islamic Profit Rate Swap</i>	1,705	5,325	15,211	38,397	1,283,082	1,343,720
Bills and acceptance payable	41,114	-	-	-	-	41,114
Recourse obligations on financing sold to Cagamas	8,814	17,627	26,441	35,625	1,743,437	1,831,944
Subordinated Sukuk Murabahah	-	-	27,233	27,407	1,366,183	1,420,823
Other liabilities	709,253	-	-	-	-	709,253
	28,979,064	10,783,614	6,467,107	4,419,802	10,513,833	61,163,420
Commitments and Contingencies						
Direct credit substitutes	26,173	166,731	50,317	93,158	151,141	487,520
Transaction related contingent items	97,100	40,620	57,367	347,303	472,809	1,015,199
Short-term self liquidating trade related contingencies	88,331	106,716	32,448	2,568	17,645	247,708
	211,604	314,067	140,132	443,029	641,595	1,750,427

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

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

- **1st line of defence** – The risk owner or risk taking unit i.e. Business or Support Unit is accountable for putting in place a robust control environment within their respective units. They are responsible for the day-to-day management of operational risk. To reinforce accountability and ownership of risk and control, a Risk Controller for each risk taking unit is appointed to assist in driving the risk and control programme for the Bank.

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 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 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.

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

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 2019	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	-	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)

Group 31 December 2018	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	-	364,959	-	364,959	-	364,959	364,959
Derivative financial assets	-	34,148	-	34,148	-	34,148	34,148
Financial assets at FVOCI	12,446	11,318,781	23,072	11,354,299	-	11,354,299	11,354,299
Financing, advances and others	-	-	-	-	46,594,025	46,594,025	45,680,680
Financial liabilities							
Derivative financial liabilities	-	19,520	-	19,520	-	19,520	19,520
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,517,235	1,517,235	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	1,361,535	1,361,535	1,308,634

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)

Fair value hierarchy (continued)

Bank 31 December 2018	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	-	359,533	-	359,533	-	359,533	359,533
Derivative financial assets	-	34,148	-	34,148	-	34,148	34,148
Financial assets at FVOCI	12,446	11,318,781	23,862	11,355,089	-	11,355,089	11,355,089
Financing, advances and others	-	-	-	-	46,594,025	46,594,025	45,680,680
Financial liabilities							
Derivative financial liabilities	-	19,520	-	19,520	-	19,520	19,520
Recourse obligations on financing sold to Cagamas	-	-	-	-	1,517,235	1,517,235	1,501,187
Subordinated Sukuk Murabahah	-	-	-	-	1,361,535	1,361,535	1,308,634

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 bid prices. For non-actively traded securities, the fair values are valued at cost less impairment or estimated using discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(ii) Financing and advances

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

(iii) Subordinated Sukuk Murabahah 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	
	2019 RM'000	2018 RM'000
Property and equipment		
Contracted but not provided for in the financial statements	<u>105,226</u>	<u>98,094</u>

42. Commitments and contingencies

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

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	<u>7,892,943</u>	-	-
	<u>11,011,563</u>	<u>1,586,218</u>	<u>1,410,289</u>

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Derivative Financial Instruments</i>				
Foreign exchange related contracts				
- less than one year	6,255,520	31,626	72,532	38,011
Profit rate related contracts				
- one year to less than five years	147,098	1,700	7,240	4,886
	<u>6,402,618</u>	<u>33,326</u>	<u>79,772</u>	<u>42,897</u>
Total	<u>17,414,181</u>	<u>33,326</u>	<u>1,665,990</u>	<u>1,453,186</u>

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 2018

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	487,980	487,980	488,189
Transaction related contingent items	1,015,198	507,599	471,867
Short-term self-liquidating trade related contingencies	247,008	49,402	43,608
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- exceeding one year	1,627,618	813,809	630,266
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	7,336,717	-	-
	10,714,521	1,858,790	1,633,930
		Positive Fair	
	Principal	Value of	Credit
	Amount	Derivative	Equivalent
	RM'000	Contracts	Amount
		RM'000	RM'000
			Risk
			Weighted
			Asset
			RM'000
<i>Derivative Financial Instruments</i>			
Foreign exchange related contracts			
less than one year	2,869,455	30,653	65,839
Profit rate related contracts			
- less than one year	400,000	1,708	810
- five years and above	178,379	1,787	10,264
	3,447,834	34,148	76,913
	14,162,355	34,148	1,935,703
Total			1,691,006

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 2 February 2018 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 2019. 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.

As a result, 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 for year 2019 (2018: 6.375%, 7.875% and 9.875%). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

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

	Group		Bank	
	2019	2018	2019	2018
Common Equity Tier I (“CET I”) Capital Ratio	14.215%	13.317%	14.185%	13.287%
Total Capital Ratio	18.661%	17.767%	18.637%	17.741%

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

	Group		Bank	
	2019 RM’000	2018 RM’000	2019 RM’000	2018 RM’000
Paid-up share capital	3,012,368	3,012,368	3,012,368	3,012,368
Retained earnings	2,594,820	2,362,476	2,589,798	2,359,060
Other reserves	107,265	(98,437)	107,398	(98,261)
Less:				
Deferred tax assets	(33,774)	(51,385)	(32,268)	(49,842)
Gain on financial instruments classified as FVOCI	(104,062)	(1,446)	(104,062)	(1,446)
Regulatory reserve	(25,000)	(10,000)	(25,000)	(10,000)
Investment in subsidiaries	-	-	(15,525)	(15,525)
Total CET I and Tier I Capital	5,551,617	5,213,576	5,532,709	5,196,354
Sukuk Murabahah	1,300,000	1,300,000	1,300,000	1,300,000
Loss provisions ^	436,544	441,938	436,356	441,788
Total Tier II Capital	1,736,544	1,741,938	1,736,356	1,741,788
Total Capital	7,288,161	6,955,514	7,269,065	6,938,142

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Credit risk	42,551,894	38,963,775	42,536,846	38,951,812
Less: Credit risk absorbed by unrestricted investment accounts	(7,628,353)	(3,608,741)	(7,628,353)	(3,608,741)
	<u>34,923,541</u>	<u>35,355,034</u>	<u>34,908,493</u>	<u>35,343,071</u>
Market risk	580,444	422,763	580,444	422,763
Operational risk	3,551,083	3,370,712	3,514,162	3,342,947
	<u>39,055,068</u>	<u>39,148,509</u>	<u>39,003,099</u>	<u>39,108,781</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 the Bank, other than key management personnel compensation, are as follows:

	Bank	
	Transaction amounts for 2019 RM'000	2018 RM'000
<i>Ultimate holding entity</i>		
<i>Income</i>		
Wakalah fee	446	485
Office rental	64	74
Fees and commission	38	17

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	
	2019	2018
	RM'000	RM'000
<i>Ultimate holding entity (continued)</i>		
<i>Expenses</i>		
Income attributable to depositors	42,828	76,230
Income attributable to investment account holders	843	-
Finance cost on Subordinated Sukuk Murabahah	5,750	5,750
Office rental	1,229	24,785
Depreciation of right-of-use assets	13,193	-
Profit expense on lease	17,856	-
Other rental	496	450
<i>Holding company</i>		
<i>Income</i>		
Office rental	1,029	964
Others	147	158
<i>Expenses</i>		
Income attributable to depositors	4	11
Income attributable to investment account holders	9,614	13,486
<i>Subsidiaries</i>		
<i>Income</i>		
Fees and commission	5,575	6,547
Office rental	365	356
Others	70	106
<i>Expenses</i>		
Fees and commission	8,311	6,937
Income attributable to depositors	275	267
<i>Other related companies</i>		
<i>Income</i>		
Income from financing, advances and others	363	209
Fees and commission income	210	106
Bancatakaful service fee	28,862	27,555
Others	1,683	2,745

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

	Bank	
	Transaction amounts for	
	2019	2018
	RM'000	RM'000
<i>Other related companies (continued)</i>		
<i>Expenses</i>		
Income attributable to depositors	17,623	13,805
Income attributable to investment account holders	1,205	1,646
Finance cost on Subordinated Sukuk Murabahah	2,750	2,750
Office rental	3,414	3,486
Other rental	12	24
Takaful fee	8,490	7,207
<i>Co-operative society in which the employees have interest</i>		
<i>Income</i>		
Income from financing, advances and others	2,867	2,373
<i>Expenses</i>		
Income attributable to depositors	5	4
Other rental	8	47
Others	177	179

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:

	2019 RM'000	Bank	2018 RM'000
<i>Ultimate holding entity</i>			
Amount due from			
Other receivables	23		10
Amount due to			
Deposits from customers	1,818,541		4,020,634
Investment account of customers	500,000		-
Income payable to depositors	12,938		18,104
Income payable to investment account holders	843		-
Subordinated Sukuk Murabahah	100,000		100,000
Finance cost payable on Subordinated Sukuk Murabahah	1,118		1,118
Commitments and contingencies	3,183		2,576
Other payables	-		17
<i> Holding company</i>			
Amount due from			
Other receivables	11		30
Amount due to			
Deposits from customers	2,101		189
Investment account of customers	410,228		88,280
Income payable to investment account holders	4,288		464
Other payables	205		157
<i>Subsidiaries</i>			
Amount due from			
Redeemable non-cumulative preference shares	2,292		2,344
Others	46		297
Amount due to			
Deposits from customers	67,584		12,542
Income payable to depositors	131		72
Other payables	10		10

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

44. Related party transactions (continued)

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

	2019 RM'000	Bank	2018 RM'000
<i>Other related companies</i>			
Amount due from			
Financing, advances and others	2,928		6,895
Other receivables	99		46
Amount due to			
Deposits from customers	883,827		631,207
Investment account of customers	38,342		83,786
Income payable to depositors	6,265		1,861
Income payable to investment account holders	34		25
Subordinated Sukuk Murabahah	50,000		50,000
Finance cost payable on Subordinated Sukuk Murabahah	121		121
Commitments and contingencies	17,193		11,647
<i>Co-operative society in which the employees have interest</i>			
Amount due from			
Financing, advances and others	64,812		42,946
Amount due to			
Deposits from customers	817		3,000
Income payable to depositors	1		1

Significant other related companies of the Group and of the Bank are as below:

Related parties	Relationship
Syarikat Takaful Malaysia Berhad	Subsidiary company of holding company
Express Rail Link Sdn Bhd	Associate company of ultimate holding company

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

45. Credit transactions and exposures with Connected Parties

	Group and Bank	
	2019 RM'000	2018 RM'000
Outstanding credit exposures with connected parties	1,597,633	1,490,169
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	3.18%	3.21%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0.000%	0.001%

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

46. Significant event

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')

The immediate holding, BIMB Holdings Berhad ("BHB") has on 11 December 2019 announced that it proposes 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

BHB proposes to undertake the proposed internal reorganisation which will entail the disposal by BHB of its entire shareholdings in the identified subsidiaries namely BIMB Securities (Holdings) Sdn. Bhd., BIMB Securities Sdn. Bhd. and Syarikat Al Ijarah Sdn. Bhd. to its wholly owned subsidiary, Bank Islam Malaysia Berhad ("Bank Islam" or "the Bank") to be fully settled in cash. The consideration for these disposals will be based on the latest audited net asset value of these subsidiaries at the time of the signing of the share sale agreement with the Bank and will be funded using internally generated funds of the Bank.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

46. Significant event (continued)

(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.

Upon completion of the proposed distribution and capital repayment, BHB’s shareholders will hold direct equity interest in the Bank and STMKB shares in proportion to their shareholding in BHB and BHB will cease to be a shareholder of the Bank and STMKB. The shareholders through their direct exposure in Bank Islam and STMKB can manage their investment exposure or rebalance their portfolios in banking and takaful industries according to their own investment objectives.

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.

(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 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.

The Proposals are subject to the approvals and/or consent being obtained from Bank Negara Malaysia (“BNM”), Ministry of Finance (“MoF”) (via BNM), 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.

BHB had on 13 December 2019 submitted an application to BNM to seek the approval of BNM and/or its recommendations to MoF for approval for the Proposals.

Bank Islam Malaysia Berhad

[Registration No. 198301002944 (98127-X)]

(Incorporated in Malaysia)

47. Subsequent event

Due to uncertainty of the macroeconomic outlook as a result of the COVID-19 outbreak, both domestically and globally, the Group and the Bank expect that the current situation to have an impact on the Group and the Bank's earnings for 2020.

Nevertheless, BNM had on 24 March 2020 announced an additional measures to assist financing customers affected by the outbreak through automatic 6 months moratorium on all financing payments for individuals and Small Medium Enterprises (“SME”) effective 1 April 2020.

As the current situation is unprecedented, and it is challenging to predict the economic eventualities with high degree of precision, the Group and the Bank are monitoring the situation closely and continue to assess the possible ramifications on the earnings as the situation develops.