



BANK ISLAM

VALUE-DRIVEN PROGRESS

INTEGRATED ANNUAL REPORT 2018

ABOUT THIS REPORT

BANK ISLAM

Bank Islam is one of Malaysia's nine Islamic banking players committed as an early adopter of Bank Negara Malaysia's Value-based Intermediation initiative. This is aimed at moving the Islamic financial industry to the next level of growth by strengthening the impact of Islamic banking institutions in generating positive and sustainable impact to the economy, environment and society by relying on Shariah in determining underlying values, moral compass and priorities.

Our 2018 annual report is an integrated report that allows us to demonstrate our commitment to realise value for our stakeholders and provide details of our opportunities and challenges in doing so, as well as our strategies for the future.



VALUE-DRIVEN PROGRESS

www.bankislam.com.my/home/corporate-info/annual-reports/

An era of dynamic progress is being ushered. Today the Bank focuses on the many segments of society it impacts with its products and services. Uplifting our commitment to Value-Based banking principles, banking is not just a means of business

but a channel to holistically uplift the economy, environment and society. The soaring visual shows the Bank's focus on heightening our impact on the real economy as we aim to achieve greater heights with our stakeholders.

OUR COMMITMENT TO INTEGRATED REPORTING



We are committed to the principles of integrated reporting as it aligns with our long-term value creation and the role we play as an Islamic bank in society, and makes corporate reporting more transparent and meaningful for our stakeholders. We are mindful that there is more we need to do to truly claim to be an integrated report. Our journey has just begun and together with us, our subsidiaries too have taken the initial step towards developing an integrated reporting mindset.



As part of our efforts to create greater accessibility through technology, and in line with environmental efforts to go paperless, scan this QR Code with your smartphone to view this integrated annual report online.



GET IT

Download the "QR Code Reader" app from the Google Play (Android Market), BlackBerry AppWorld, App Store (iOS/iPhone) or Windows Phone Store



Run it

Run the QR Code Reader app and point your camera at the QR Code



ACCESS IT

Access information and updated news about Bank Islam



COMPLIANCE AND ASSURANCE

Our report complies to Malaysian Financial Reporting Standards and reporting requirements under the Companies Act 2016. The annual financial statements for the financial year ended 31 December 2018 are audited by KPMG Malaysia.

DRIVERS

The Bank is committed to four common underpinning thrusts of Value-based Intermediation as established by Bank Negara Malaysia for Islamic banking institutions:

ENTREPRENEURIAL MINDSET:

Greater involvement in facilitating entrepreneurial activities through holistic offerings.

BEST CONDUCT:

Adoption of practices that improve offerings, processes and treatment towards stakeholders.

COMMUNITY EMPOWERMENT:

Through provision of financial solutions that create positive impact with a balanced consideration between commercial and social aspects.

GOOD SELF-GOVERNANCE:

Inculcating organisational discipline and ensuring meaningful participation of all stakeholders in the governance framework.



SCOPE

All information included in this report refers to the year ended 31 December 2018, unless otherwise stated. The content of this report is the result of extensive engagement with our Board of Directors and Management Team as well as initial feedback from our stakeholder engagement efforts.

A significant component of our stakeholder engagement is the assessment of ever changing trends within our operating environment and the material pillars of our parent company. For more information on how these impact our creation of value for our stakeholders, refer to Our Business Model on page 22 of this report.

These thrusts are incorporated in the following material matters of our parent company, BIMB Holdings Berhad, upon which our strategies are solidly anchored.



RESPONSIBLE FINANCE

Developing ethical products and services that bring positive economic, social and environmental benefits.



INCLUSIVE GROWTH

Ensuring that all layers of community grow along with us through inclusive financial offerings.



TALENT ENRICHMENT

Growing our employees to become valuable assets and be the best they can be.



ETHICAL PRACTICE & REPORTING

Ensuring that our practices are governed by our core values, and that social and environmental considerations are consistently our top priorities.



OVERVIEW

- 6 Chairman's Message
- 12 2018 Financial Highlights

01

OUR IDENTITY & PURPOSE

- 18 About Us
- 19 Our Vision, Mission & Core Values
- 20 Our Purpose
- 22 Our Business Model
- 24 Our VBI Journey
- 28 Engaging Our Stakeholders
- 30 Our 2018 Strategic Priorities

02

MANAGEMENT DISCUSSION & ANALYSIS

- 34 CEO's Reflection on 2018
- 40 Market Landscape
- 42 Financial Performance
- 43 Business Review
 - Optimising Values
 - Disciplined Balance Sheet Management
 - Managing Risks and Compliance for Stable Growth
 - Digital Transformation
- 54 KPI Review
- 62 Corporate Responsibility

03



CORPORATE FRAMEWORK

- 72 Corporate Information
- 74 Shareholding Structure
- 75 Shareholder's Information
- 76 Subsidiaries' Information
- 78 Our Organisation Chart
- 80 Board of Directors
- 82 Profile of Board of Directors
- 91 Profile of Shariah Supervisory Council
- 96 Profile of CEO
- 97 Management Committee
- 100 Profile of Management Committee
- 103 Profile of Regional Managers
- 105 Profile of Heads of Subsidiaries

04

GOVERNANCE & RISK MANAGEMENT

- 108 Ethics, Integrity & Trust
- 110 Statement on Corporate Governance
 - The Board
 - The Shariah Supervisory Council

05

FINANCIAL STATEMENTS

- 138 Financial Statements
- 273 Pillar 3 Disclosure

06

DIRECTORY

- 330 Directory & Branch Network

07

ADVANCING ON STRATEGY TO REACH OUR GOALS

Re-affirmed at
AA3/Stable/P1



by RAM Ratings with Net
Stable Funding Ratio ("NSFR")
readiness at

105.7%

well above the
regulatory-required **100%**



All Bank's staff undertook
a **Corruption Free
Pledge** in January 2018

A **Whistle Blowing**
framework and policy was
issued in August 2018



A **Vendor Code** of
Ethics Guideline was established
in November 2018



A
reduction
of **51%**
in customer
complaints received



ATM uptime was
97.12% while
CDM uptime was
95.68%



Internet Banking
financial
transaction volume
grew by
133%



Revenue
Grew to

RM **3.3** billion

YoY
10.9%

PAZT
Increased to

RM **593.9** million

YoY
4.9%

Return
on Equity **15.8%**

surpassed banking system
average of

13%



Financing
Growth **8.5%**

surpassed banking system
average of

6.1%



Asset
Growth **10.7%**

to RM **63.9** billion

through right-sizing of
balance sheet



Gross Impaired
Financing **0.92%**

Net Impaired
Financing **-0.8%**



CASA Ratio
32.1%



Established



Taska Bank Islam

at Menara Bank Islam

Established



Staff Ihtimam Fund

to assist employees or
dependents of deceased
employees



Revision of HR policies:

- Paid maternity leave extended to 90 days
- Paternity leave extended to 7 days
- Early release for expectant mothers

CHAIRMAN'S MESSAGE



DATUK ZAMANI ABDUL GHANI

Chairman

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

السلام عليكم ورحمة الله وبركاته

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH

DEAR STAKEHOLDERS,

IT HAS BEEN A YEAR OF VALUE-DRIVEN PROGRESS. IN 2018, BANK ISLAM MALAYSIA BERHAD ("BANK ISLAM" OR "THE BANK") COLLECTIVELY AND CONSCIOUSLY EMBRACED THE PRINCIPLES OF VALUE-BASED INTERMEDIATION ("VBI") WITHIN ITS ORGANISATIONAL OVERALL STRATEGY. FOCUS HAS BEEN PLACED BEYOND PROFIT TOWARDS THE TRIPLE BOTTOM LINE IMPACT ON PEOPLE, PLANET AND PROSPERITY AS WE SEEK TO BUILD A SUSTAINABLE BUSINESS THAT MAKES A POSITIVE DIFFERENCE IN ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE.

THE LAUNCH OF SADAQA HOUSE CROWD FUNDING PLATFORM AND THE BIMB-ARABESQUE ASIA-PACIFIC SHARIAH-ESG EQUITY FUND DURING THE YEAR MARKED THIS NEW STRATEGY IN ACTION. CONCERTED EFFORT WAS ALSO DIRECTED TOWARDS ESTABLISHING A MEANINGFUL VISION AND MISSION TOWARDS THIS PURPOSE, AND NECESSARY GROUNDWORK HAS BEEN INITIATED TO ENHANCE THE BANK'S CULTURE. WE WERE THUS DELIGHTED TO ACHIEVE THE ISLAMIC BUSINESS & FINANCE SOUTHEAST ASIA AWARD 2018 FOR BEST SUSTAINABILITY DURING THE YEAR UNDER REVIEW. *ALHAMDULILLAH*, THESE ACHIEVEMENTS WERE SUPPORTED BY STRONG FINANCIAL PERFORMANCE AS PROFIT BEFORE ZAKAT AND TAX ("PBZT") ROSE 5.6% TO RM810.3 MILLION, AND SURPASSED INDUSTRY PERFORMANCE ON ALL FRONTS.

MAKING SMOOTH PROGRESS

It was a year of change and challenges impacted by global trade-related tensions and rising interest rates coupled with domestic uncertainties following the outcome of the 14th Malaysian general election. For Bank Islam, this was followed by a leadership change as our previous Chief Executive Officer ("CEO") Encik Khairul Kamarudin resigned in July 2018. However, the Bank showed resilience, anchored on prudent fundamentals and an effective in-house talent development which saw another leader emerging from the ranks to guide the Bank through a smooth transition.

Encik Mohd Muazzam Mohamed took over the reins as Acting CEO in July 2018 and was officially appointed as the CEO of Bank Islam on 5 December 2018 as he proved capable in leading the team forward along the set strategic path of VBI achievements.

The management team is on track and ready to execute a Culture Change Programme to unlock further value for the Bank. We are leveraging on solid economic fundamentals, favourable regulatory climate and more readily accessible, powerful and economical transformation technologies.

This creation of the Bank's new Vision and Mission as well as the establishment of Transformation Office in January 2019 will play a vital role in attaining the desired collective

results. Traits such as integrity, professionalism, accountability, reliability, quality-driven, detail-oriented and empathy are just some of the essential values being nurtured in accordance with the Bank's commitment to VBI principles.

DELIVERING GOOD PROGRESS

For the year ended 31 December 2018 ("FY2018"), Bank Islam's PBZT rose by RM43.2 million or 5.6% to RM810.3 million, mainly due to higher income resulting from the strong financing growth of 8.5%, which is above the industry's average net financing growth of 4.5%. The Bank's financing grew RM3.6 billion to reach RM45.7 billion in FY2018 with asset quality remained strong and resilient, despite the robust expansion and challenging economic environment.

Good asset quality was reflected in the low gross impaired financing ratio of 0.92%, lower than the 0.93% registered at the end of 2017. This compares positively against the 1.45% registered by the banking system as at end December 2018.

The Bank's financing loss coverage ratio stood at 187.8%, almost double the industry average of 97.5% as at end December 2018.

On the funding side, the Bank's customer deposits and investment accounts stood at RM49.9 billion and RM5.2 billion at 31 December 2018 with a year-on-year increase of RM3.7 billion and RM0.9 billion respectively. The Current and Savings ("CASA") and Investment Accounts ("IA") without maturity, low cost deposits/IA ratio stood at 32.1%. The Bank's funding position also remained healthy with the financing to available funds ratio of 77.7%.

All in all, the Bank's capital position continued to be healthy as reflected by its total Capital Ratio of 17.8%.



For a more detailed analysis of our Financials, please refer to page 42.



PROFIT BEFORE ZAKAT AND TAX GROWTH

5.6%



PROFIT BEFORE ZAKAT AND TAX

RM810.3million

CHAIRMAN'S MESSAGE

(cont'd)

PROGRESSING ON ALL FRONTS

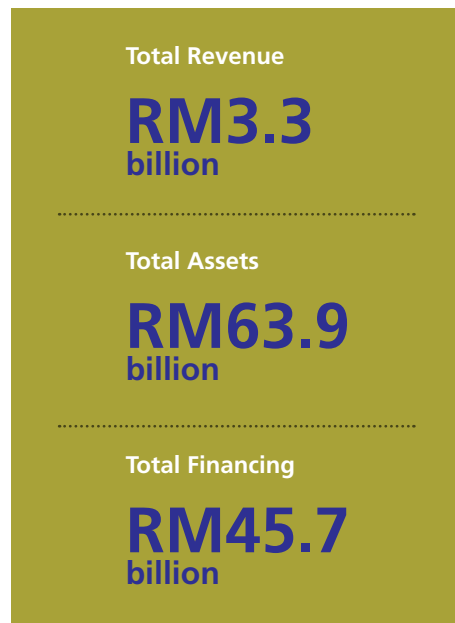
Good progress was sustained within this environment of change and transformation, and Bank Islam was honoured to be named the year's Top VBI Scorer by Bank Negara Malaysia ("BNM"). This was based on a holistic assessment of the Bank's progress on all fronts of the VBI parameters.

The Bank's financial strength, sustainable delivery and steadfast standing as an Employer of Choice were further attested by industry awards throughout the year.

The latest RAM Ratings for the Bank is AA3/Stable/P1, indicating a robust capacity to meet financial obligations. Under the Category of "Secondary Islamic Sukuk Market", the Bank rose from its previous 4th ranking and outperformed bigger banks to be ranked Number 1 in year 2018 for overall Trading Value (out of RM405.4 billion) in Malaysian Government Investment Issue ("MGI"). The Bank was ranked Number 5 for the overall Trading Value (out of RM191.1 billion) in Corporate Sukuk. Other notable achievements were being ranked 4th in the list of Malaysia Top Banks in Government Bonds by The Asset Asia Bond Awards 2018; and being awarded Malaysia Deal of the Year 2017 by Islamic Finance News. These speak much about its strong financial standing and the trust bestowed upon Bank Islam by the people and the industry.

The Bank's progress in achieving holistic value delivery was recognised with the Islamic Business & Finance Southeast Asia Award 2018 for Best Sustainability, followed by Best CSR Initiative (Projek #Buatbaik) 2018 at The Retail Banker International ("RBI") Asia Trailblazer Awards.

We were also proud to be named the Second Runner-up in Banking and Financial Services Sector by Malaysia's 100 Leading Graduate Employers Awards 2018, ranked Top 10 Winners in Banking Category at Graduates' Choice Award 2018, and Best Employer Brand Awards 2018 at the 9th edition of the Best Employer Brand Award.



These achievements show the Bank's sustained commitment in fortifying strengths while realising our current vision where as a business, we are focused on the continued growth of wealth and well-being for the organisation and all its stakeholders. The Bank is expanding its commitment to integrity and governance.





PROGRESSING WITH INTEGRITY

Bank Islam's edge is its intensive understanding, pioneering expertise and sincere adherence to Shariah principles and conduct. The Board of Directors and Shariah Supervisory Council ("SSC") commit to continuously hone this edge and maintain the Bank's position as an industry flag-bearer. During the year, all five SSC members achieved certification as Certified Shariah Advisors ("CSA") with one of them being awarded Honorary status by the Association of Shariah Advisors Malaysia. Shariah awareness and compliance among employees were also beefed up with the introduction of a Shariah e-learning module in April 2018. A follow up module for 2019 has also been developed.

“ Since January 2018, the Bank has been establishing an Embedded Risk & Compliance Unit ("ERU") to comply with BNM's requirements, as an effort to enhance governance, processes and culture for effective risk and compliance oversight. ”

Under the purview of the Board's Audit and Examination Committee, the Ethics and Integrity Department propagates ethical conduct aligned to the code of ethics for the financial services industry. All employees are bound to this code as well as the Bank's internal code of conduct to walk the talk when it comes to integrity, honesty and responsibility. Beyond this, active trainings and campaigns to further promote awareness of the essential policies, systems and procedures are actively implemented.

A number of game changing initiatives were introduced in 2018 towards enhancing our AML/CFT compliance through the use of data analytics, artificial intelligence ("AI") and machine learning; improving Anti-Money Laundering/Foreign Account Tax Compliance Act ("AML/FATCA") system through automation of customer risk profiling; standardising Compliance Risk Assessment ("CRA") throughout the Bank with clearly defined parameters; introducing an Ethics and Integrity Programme to inculcate 'Zero-Tolerance' mindset towards non-compliance culture and redefining corporate culture to embed VBI initiatives as the Bank's value-added propositions.

Since January 2018, the Bank has been establishing an Embedded Risk & Compliance Unit ("ERU") to comply with BNM's requirements, as an effort to enhance governance, processes & culture for an effective risk and compliance oversight for critical business & support functions.



For a more detailed analysis of the Bank's Ethics, Integrity and Trust, please refer to page 108.

TOWARDS SHARED PROGRESS

Value-driven thinking is set to change the way we work, and we are just at the cusp of unveiling new possibilities. In February 2018, Bank Islam established *Taska* Bank Islam on the mezzanine floor of Menara Bank Islam to facilitate work and childcare balance for its staff. This was in response to the government's call for employers to provide childcare facilities at office premises in Malaysia's Budget 2018. So far, our employees have responded positively to the level of service provided by this facility, and it has greatly helped in easing the pressure on staff having to juggle both their family life and working commitments.

Continuing on the theme of looking after the employees, the Bank has established the Staff *Ihtimam* Fund specifically for the welfare of its staff. The fund allows Bank Islam to apportion its employees' zakat contribution as a special fund to provide additional assistance to employees who face financial difficulties or personal hardships. Additionally, this form of assistance can also be diverted to dependents of the deceased employees, or as scholarships for employees' children to continue with their education. Last year, over RM220,000 was disbursed in the form of financial aid and scholarships to 16 employees who were in need.

The highlight of our employees engagement initiative for the year was the signing of Collective Bargaining Agreement between Bank Islam and Kesetia (Workers Union) after a long negotiation process. The agreement signifies an important move forward in addressing salary inequity and bridging earnings gap within our workforce. This move will significantly contribute to the Bank's ability to attract and retain top talent, as we will now reward employees to commensurate with their contributions; in addition to providing benefits that will lead to a conducive and happy working environment.

CHAIRMAN'S MESSAGE

(cont'd)

Bank Islam also continues to value-add its AMAL outreach programme as part of the Bank's corporate responsibility ("CR") efforts. Programmes for the year included continuation of *Program Bantuan Rumah*, which focuses on providing house and comfortable living condition to the underprivileged, and AMAL *Musa'adah*, a community-empowerment initiative and collaborative effort with *Amanah Ikhtiar Malaysia* ("AIM") that provides small business opportunities for single mothers and poor families to earn a living on their own. Additionally, we have initiated various community oriented initiatives designed to provide help to the needy and promote socio-economic progress among the underserved communities. These have been encapsulated by our AMAL *Ihtimam* programmes, held mainly during the holy months of Ramadan, Syawal and Qurban. We are also focused on fulfilling educational needs of poor students, which include the provision of essential school items for underprivileged schoolchildren at various schools nationwide, as well as helping them to excel at essential subjects by organising motivational sessions. Our AMAL activities have been enhanced to ensure we fulfil the objectives of empowering the community that can lead to sustainable prosperity for both the Bank and society.

Bank Islam's zakat fund remains the underpinning factor of our CR-related activities and initiatives. More than RM3.7 million in zakat fund were disbursed during the year; topped by an additional amount of RM486,492 from Bank Islam's own allocation of CR funds.

As part of our effort to foster the spirit of volunteerism among our own employees, year 2018 saw the Bank continuing to conduct its biggest annual signature event yet, *Hari AMAL* (or AMAL Day). During the year, the event saw more than 500 volunteers comprising Bank Islam's staff, members of non-governmental organisations ("NGOs"), and university students, participating in various community-related projects nationwide. These ranged from providing aid and relief for the underprivileged and underserved, to environmental protection and preservation activities. Notable efforts included the planting of more than 200 mangrove trees to better protect the natural ecosystem of our coastal area, and refurbishment of orphanages and old folks' homes.



For a more detailed review of our AMAL programme, please refer to page 62.

SUSTAINING VALUE-DRIVEN PROGRESS

Supportive measures adopted by the Malaysian government as announced in Budget 2019 are in place to ensure the growth of the Islamic economy. These include, the continued prioritisation on Islamic banking, enlargement of the halal productivity industry, increasing the number of Shariah-compliant Small Medium Enterprise ("SME") financing schemes and driving digital initiatives.

The Bank's strategic plan for the next three years is to deliver sustainable performance

“ We will be working to align all divisions' and departments' purpose under the Bank's new Vision to become “The Bank that Advances Prosperity for All” and our Mission “To Provide Solutions That Deliver Value”. ”

with a strategic focus to support the economy, community and environment. This corporate direction is premised on VBI as a driving factor for the business model. With Shariah Principles and Trustworthy being the key distinctive features, the Bank will continue its journey adopting VBI principles such as the Triple Bottom Line ("TBL") considerations, of looking after people and environment, and creating prosperity for all.

We will be working to align all divisions' and departments' purpose under the Bank's new Vision to become “**The Bank that Advances Prosperity for All**” and our mission “**To Provide Solutions That Deliver Value**”.

This realignment within our organisation will involve the centralisation of key Bank functions as part of the overall consolidation of the Bank. We seek to be more agile in the market, capable of innovating with greater speed, efficiency and capability in a fast-changing environment and to meet new industry regulations.

ACKNOWLEDGEMENTS

The Board warmly welcomes Encik Mohd Muazzam Mohamed as the CEO of Bank Islam effective 5 December 2018. He took over the reins of management in July 2018, following the departure of Encik Khairul Kamarudin. As the Bank's former Chief Financial Officer, he was part of the succession plan that had been put in place. The Board has great confidence in his leadership to continue executing the VBI strategies formulated to propel Bank Islam to greater heights.

Bank Islam's progress over the years has been largely due to the continual upliftment of sustainable frameworks and infrastructure for the Islamic finance industry by the Malaysian government and regulatory authorities. I hereby acknowledge our sincere gratitude, in particular to Bank Negara Malaysia ("BNM") and Securities Commission Malaysia ("SC"), for providing effective support and guidance on the way forward within this high growth sector.

Thank you to my fellow directors and the members of the Bank's Shariah Supervisory Council for their dedication in sharing their diverse expertise in maintaining the Bank's standing as a leader in the sector.

I would like to reserve my special thanks to our former CEO, Encik Khairul Kamarudin, for his immense contribution to this hallowed institution. From the day he joined the Bank in 2005, Encik Khairul has ensured his place in the history of Bank Islam by playing a leading role in the strengthening of the Bank's financial position. Throughout his service to the Bank and in various roles, Encik Khairul directed the enhancement of its operations and introduction of innovative solutions, which led to Bank Islam's unprecedented streak of profit growth year after year. He left behind a legacy that others will be hard-pressed to emulate.



Special thanks as well to Datuk Zaiton Mohd Hassan, who has resigned her position at Bank Islam's Board of Directors on 18 February 2019. Her appointment to the Board in 2006 brought enormous credence and a stellar personality to the hallowed institution. Since then she has contributed enormously to the Bank's standing as the premier Islamic banking institution, with a reputation for good governance and steadfast integrity. Datuk Zaiton's absence will be greatly missed by all who have witnessed her unwavering commitment to the Bank's cause and well-being.

To both Encik Khairul and Datuk Zaiton, I wish them all the best for their future endeavours.

All achievements are only possible with the discipline, cooperation and diligence of our employees. Regardless of rank and job scope, your contribution is instrumental in making it possible for us to be where we are today, and for us to progress in our journey ahead. My gratitude goes out to all of you for your hard work and commitment.

Finally, on behalf of the Board, I sincerely thank our shareholders and diverse stakeholders for their constant support and loyalty.

Datuk Zamani Abdul Ghani
Chairman

2018 FINANCIAL HIGHLIGHTS

GROUP FINANCIAL YEAR ENDED 31 DECEMBER

	2018	2017	2016	2015	2014
Operating Results (RM'000)					
Total Revenue	3,336,502	3,008,181	2,868,781	2,649,396	2,436,826
Income attributable to depositors and investment account holders	1,383,834	1,208,337	1,108,024	1,031,693	851,126
Profit before Zakat and Tax	810,258	767,053	720,412	685,661	702,751
Profit after Zakat and Tax	593,887	566,118	530,962	507,262	510,502

Key Statements of Financial Position Items (RM'000)

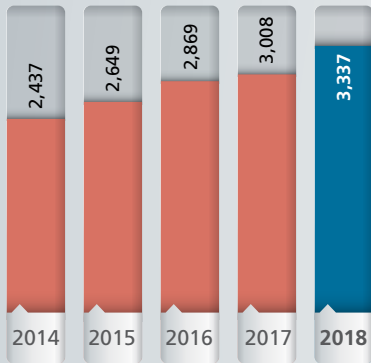
Total Assets	63,938,733	57,742,914	55,676,697	49,763,719	45,820,682
Total Financing	45,680,680	42,113,420	39,189,274	34,294,690	29,524,571
<i>of which:</i>					
Gross Impaired Financing	425,937	398,277	389,445	381,270	344,539
Securities	11,719,258	9,633,608	10,589,824	10,421,041	11,219,044
Deposits from Customers	49,895,232	46,192,910	45,940,414	43,556,350	41,010,332
<i>of which:</i>					
Current and Savings Deposits ("CASA")	15,073,993	15,472,127	14,133,576	15,256,290	15,626,738
Investment Accounts of Customers	5,176,819	4,260,185	3,812,261	676,105	–
Shareholders' Equity	5,276,407	4,959,704	4,385,466	4,032,568	3,729,590
<i>of which:</i>					
Share Capital	3,012,368	2,869,498	2,404,384	2,363,283	2,319,907

RATIO ANALYSIS

Return on Assets	1.33%	1.35%	1.37%	1.43%	1.59%
Return on Equity	15.83%	16.42%	17.12%	17.67%	19.92%
Cost Income Ratio	52.97%	57.26%	52.82%	52.67%	52.13%
Capital Adequacy Ratio	17.77%	16.44%	15.52%	15.32%	13.36%
Gross Impaired Financing Ratio	0.92%	0.93%	0.98%	1.09%	1.14%
Financing to Available Fund Ratio	77.71%	81.41%	77.31%	77.46%	73.42%
Earnings per Share	24 sen	23 sen	22 sen	22 sen	22 sen
Net Tangible Assets Backing	175 sen	173 sen	182 sen	171 sen	161 sen

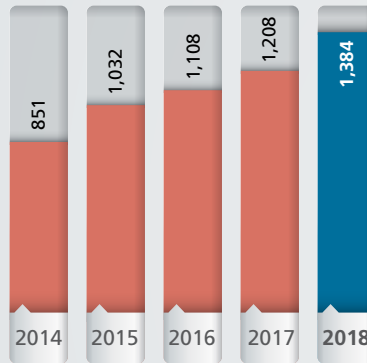
TOTAL REVENUE

RM Million



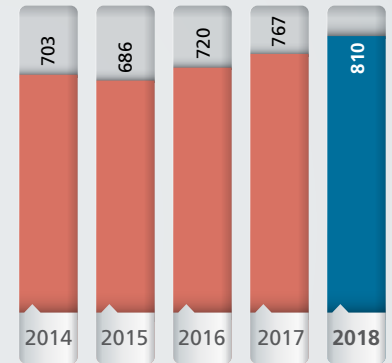
INCOME ATTRIBUTABLE TO DEPOSITORS AND INVESTMENT ACCOUNT HOLDERS

RM Million



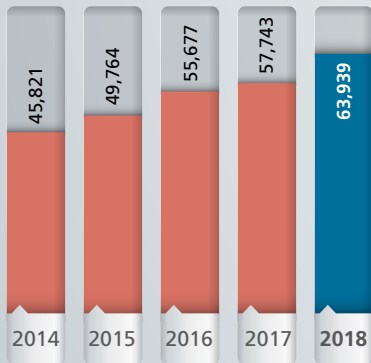
PROFIT BEFORE ZAKAT AND TAX

RM Million



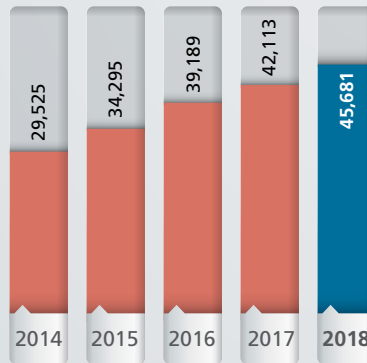
TOTAL ASSETS

RM Million



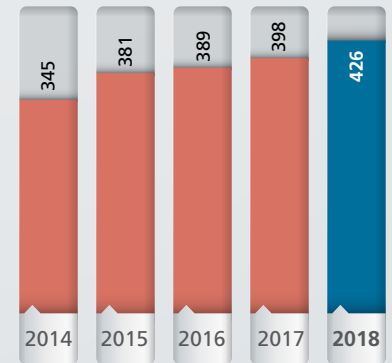
TOTAL FINANCING

RM Million



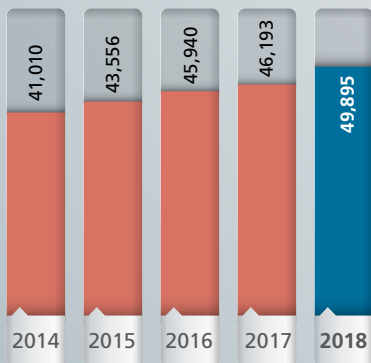
GROSS IMPAIRED FINANCING

RM Million



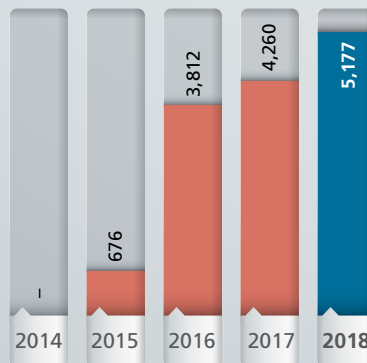
DEPOSITS FROM CUSTOMERS

RM Million



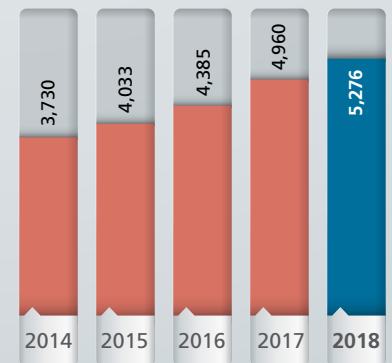
INVESTMENT ACCOUNTS OF CUSTOMERS

RM Million

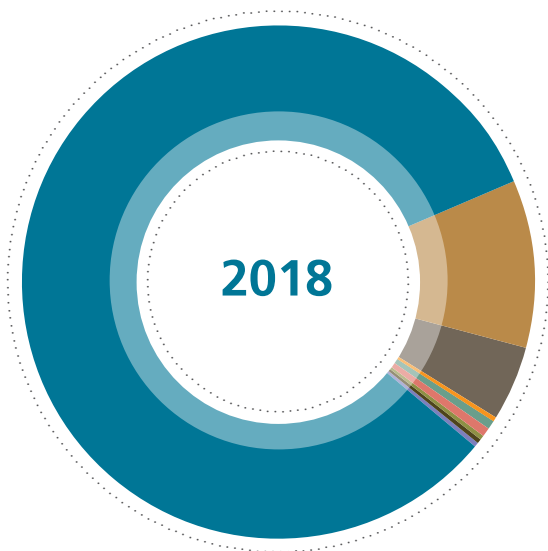


SHAREHOLDERS' EQUITY

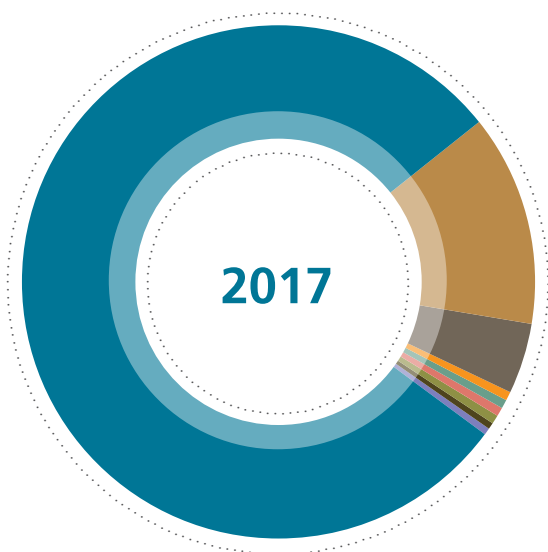
RM Million



FINANCING BY CONTRACT (RM'000)



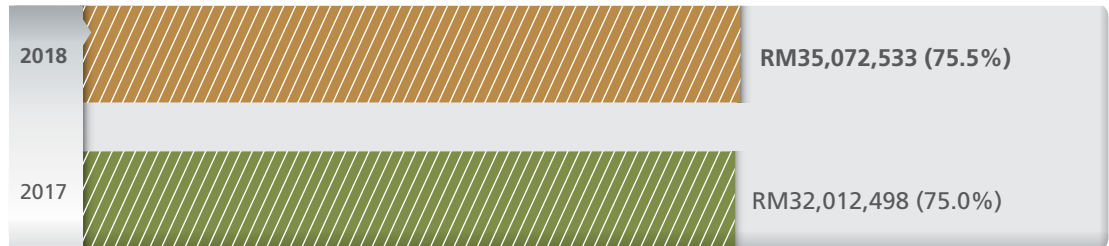
At-Tawarruq RM38,864,121 (83.6%)	Istisna' RM127,798 (0.3%)
Bai' Bithaman Ajil RM4,924,148 (10.6%)	Ijarah Thumma Al-Bai' RM89,575 (0.2%)
Murabahah RM2,080,256 (4.5%)	Ijarah Muntahiah Bit-Tamleek RM106,520 (0.2%)
Bai' Al-Inah RM60,030 (0.1%)	Ar-Rahnu RM73,110 (0.2%)
Bai' Al-Dayn RM144,827 (0.3%)	



At-Tawarruq RM34,280,067 (80.3%)	Istisna' RM145,288 (0.4%)
Bai' Bithaman Ajil RM5,731,253 (13.4%)	Ijarah Thumma Al-Bai' RM108,869 (0.3%)
Murabahah RM1,960,925 (4.6%)	Ijarah Muntahiah Bit-Tamleek RM87,945 (0.2%)
Bai' Al-Inah RM97,934 (0.2%)	Ar-Rahnu RM87,222 (0.2%)
Bai' Al-Dayn RM186,433 (0.4%)	

FINANCING BY SEGMENT OF BUSINESS UNITS (RM'000)

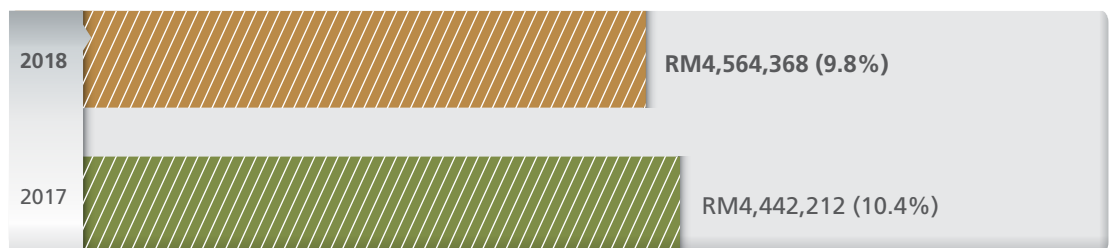
CONSUMER



COMMERCIAL



CORPORATE



TOWARDS SUSTAINABLE & SYMBIOTIC GROWTH

FINTECH FOCUS

Bank Islam will set aside RM100 million for digital banking infrastructure in the next three years to stay competitive and relevant.

— PAGE B2



BANK ISLAM'S RM300m FINTECH PLAN

Lender needs to evolve to stay competitive and relevant, says acting CEO

FARAH ADILLA AND NURHAYATI ABULLAH KUALA LUMPUR
fd.amedia@irina.com.my

BIMB Holdings Bhd's banking arm, Bank Islam Malaysia Bhd, plans to spend RM300 million for its digital banking infrastructure in the next three years to remain competitive as a consumer-focused bank.

Bank Islam acting chief executive officer Mohd Muazzam Mohamed said as the banking industry is getting more competitive with the growing trend of financial technology (fintech), the bank needs to evolve to stay relevant.

"While we need to upgrade our traditional banking infrastructure, it is also crucial to remain relevant and competitive by improving our digital infrastructure.

"This is going to be our focus as a consumer-focused bank. Many of our initiatives are aimed at enhancing customer experience and focusing on the unbanked segment," he said during BIMB's first half financial performance briefing here, yesterday.

Muazzam said Bank Islam's internet banking users number 500,000 and it aims for more than 10 per cent growth this year.

He said the bank is targeting net financing growth of eight per cent for the full year.

For the first half, Bank Islam's net financing grew 6.7 per cent to RM43.2 billion.

Customer deposits and investment accounts stood at RM40.8 billion, a year-on-year increase of 3.5 per cent, or RM1.7 billion.

The bank's current account savings account ratio increased to 32.8 per cent of total deposits from 31.6 per cent of total deposits in the same period last year.

Profit before zakat and tax rose nine per cent to RM400.7 million, compared with the correspond-

New Straits Times
28 Aug 2018

BIMB raih keuntungan tertinggi dalam sejarah

Sasar 50,000 kad

Bank Islam Malaysia Bhd (BIMB) has reported its highest profit in its history for the first half of 2018, with a profit before zakat and tax of RM400.7 million, up 9% from RM366.6 million in the same period last year.

The bank's current account savings account ratio increased to 32.8 per cent of total deposits from 31.6 per cent of total deposits in the same period last year.

Customer deposits and investment accounts stood at RM40.8 billion, a year-on-year increase of 3.5 per cent, or RM1.7 billion.

For the first half, Bank Islam's net financing grew 6.7 per cent to RM43.2 billion.

He said the bank is targeting net financing growth of eight per cent for the full year.

Muazzam said Bank Islam's internet banking users number 500,000 and it aims for more than 10 per cent growth this year.

He said the bank is targeting net financing growth of eight per cent for the full year.

For the first half, Bank Islam's net financing grew 6.7 per cent to RM43.2 billion.

Customer deposits and investment accounts stood at RM40.8 billion, a year-on-year increase of 3.5 per cent, or RM1.7 billion.

The bank's current account savings account ratio increased to 32.8 per cent of total deposits from 31.6 per cent of total deposits in the same period last year.

Profit before zakat and tax rose nine per cent to RM400.7 million, compared with the correspond-

Bank Islam santuni golongan memerlukan
Bank Islam sedia sumbang sistem penapis air

GIVING BACK IN THE DIGITAL AGE

Bank Islam's Sadaqa House serves as a crowdfunding platform for donors



Bank Islam sees steady growth despite tough times



Bank Islam bantu vendor Petronas

Bank Islam provides financial assistance to Petronas vendors

BANK ISLAM IKHTIRAF

Suruai dan musolla sekolah-sekolah KPM



Bank Islam peruntuk RM7.16 juta untuk program baik pulih rumah

Bank Islam allocates RM7.16 million for home renovation program



Five students receive Bank Islam scholarship

Bank Islam awards scholarships to five students



Bank Islam contributes RM300,000 to IJN Foundation

Bank Islam donates RM300,000 to IJN Foundation



Bank Islam perkenal aplikasi SnapNPay

Bank Islam introduces SnapNPay mobile payment app



Bank Islam contributes RM300,000 to IJN Foundation

Bank Islam donates RM300,000 to IJN Foundation



Inovasi Bank Islam terima pengiktirafan

Bank Islam's innovation receives recognition

Islamic Finance Awards

Bank Islam wins Islamic Finance Awards



Bank Islam bantu 600 murid asnaf

Bank Islam assists 600 disadvantaged students



Bank Islam tawar kereta Audi

Bank Islam offers Audi cars to donors



BIMB Invest sasar saiz dana RM100 juta

BIMB Invest targets RM100 million fund size



BIMB Invest launches big data, fintech fund with UK partner

BIMB Invest launches big data, fintech fund with UK partner



'AA3/stable', 'A1/stable' ratings for Bank Islam

Bank Islam receives 'AA3/stable' and 'A1/stable' ratings

Bank Islam lancar inisiatif AMAL Ihtimam Pendidikan — Jom Ke Sekolah



Bank Islam serah sumbangan RM300,000 ke IJN



Bank Islam, Petronas, SJPP meterai MoU



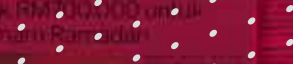
World's first ESG sukuk fund launched

World's first ESG sukuk fund launched



BIMB INVEST AIMS TO BOOST AUM TO RM30B

BIMB Invest aims to boost AUM to RM30 billion



CMC, Bank Islam raih anugerah 'Deal of the Year'

CMC, Bank Islam receive 'Deal of the Year' award



Bank Islam contributes RM300,000 to IJN Foundation

Bank Islam donates RM300,000 to IJN Foundation



BIMB Investment declares eight per cent from BIMB-Arabesque i Global Dividend Fund 1

BIMB Investment declares eight per cent from BIMB-Arabesque i Global Dividend Fund 1



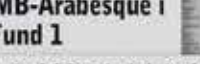
600 pelajar dari 38 sekolah terima manfaat

600 students from 38 schools benefit



520 petugas Bank Islam pecah telur

520 Bank Islam staff break fast



KUCHING: Management team of Bank Islam declared staff and US dollars

Kuching: Management team of Bank Islam declared staff and US dollars



PIMB Invest targets RM30 AUM this year

PIMB Invest targets RM30 AUM this year



Bank Islam peruntuk RM100,000 untuk program AMAL Ihtimam Ramadan

Bank Islam allocates RM100,000 for AMAL Ihtimam Ramadan program



Bank Islam expects higher than industry average growth again

Bank Islam expects higher than industry average growth again



A CHEER

A cheer at an event



debit

debit at an event



BIMB Invest launches big data, fintech fund with UK partner

BIMB Invest launches big data, fintech fund with UK partner



BIMB Invest sasar saiz dana RM100 juta

BIMB Invest targets RM100 million fund size



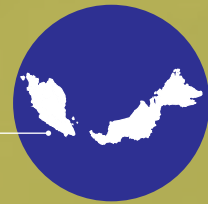
BIMB Invest launches big data, fintech fund with UK partner

BIMB Invest launches big data, fintech fund with UK partner



ABOUT US

In 1983, we took a bold step to become the first Islamic bank in Malaysia. Since then, we have been growing as a full-fledged Islamic banking institution with more than six million customers nationwide at present. In addition, we have been recognised as the source of Islamic banking reference and guidance, with the responsibility to grow the industry and bring further advancement to the Islamic financial system.



18

Right from the start, Bank Islam has lived up to its name by offering pure Shariah-compliant solutions. Through our continuous innovations, we offer a diversified range of solutions that meet our customers' financial needs. Our structured operations and capable people are dedicated to delivering exceptional banking experience to our customers and supporting them in the moments that matter most. We provide the widest network of dedicated Islamic banking channels with 149 branches and more than 1,000 self-service terminals nationwide.

Our effort to expand our market presence is intensified by our endeavour to build our digital banking capability. We develop strategies and platforms related to Financial Technology ("FinTech") that will enable us to better connect with our customers, ushering in a new era of banking

experience and service excellence. Our continuous digital innovations help us to promote the idea of inclusive growth as we aim at creating more economic opportunities within our business and the communities we operate in, supporting our ongoing efforts to develop the **real economy**.

Through our strict adherence to Shariah rules and principles, we have earned a reputation as an ethical and trustworthy banking institution. Our commitment to upholding strong corporate governance has ensured that we consistently make the right decisions in looking after the best interest of our stakeholders.

Being a fully Shariah-compliant organisation, our ingrained values and principles have instilled upon us a sense of responsibility in ensuring the well-being of the society and natural environment. Through our community

engagement programmes, we have been instrumental in uplifting the lives of needy communities as well as preserving our precious natural ecosystem.

Today, Bank Islam has taken another step forward as we assume our responsibility to strengthen the role and impact of Islamic finance. By adopting the principles of **Value-based Intermediation ("VBI")** as advocated by Bank Negara Malaysia, we commit ourselves to becoming a responsible financial institution that is dedicated to upholding the shared values of integrity, inclusivity and sustainability. As we embark on this journey, Bank Islam is building a sustainable future that promotes inclusive economic and social progress for our stakeholders, hence, providing solutions that deliver value.



VISION

THE BANK THAT ADVANCES
PROSPERITY FOR ALL



MISSION

TO PROVIDE SOLUTIONS
THAT DELIVER VALUE

OUR VALUES DEFINE WHO WE ARE
AS AN ORGANISATION AND WHAT
DISTINGUISH US FROM OTHER BANKS



OUR PURPOSE



We design our strategy to realise our VISION – TO ADVANCE PROSPERITY FOR ALL; in which our MISSION is TO PROVIDE SOLUTIONS THAT DELIVER VALUE. By this, we look to emulate the Triple Bottom Line principle where Bank Islam remains on course for growth in revenue and profit while bringing about positive economic, social and environmental outcomes for all our stakeholders.

Bank Islam’s sustainability as a corporate and business entity is determined by our interactions with the market environment and ability to effectively fulfil the needs of our stakeholders. This is encapsulated by our business model which enables us to translate our resources and relationships into outcomes that achieve our strategic goals, and create value over the short, medium and long term.

Our strategies are influenced by the material pillars of our holding Group, BIMB Holdings Berhad: **RESPONSIBLE FINANCE, INCLUSIVE GROWTH, TALENT ENRICHMENT** and **ETHICAL PRACTICE & REPORTING**, which are aligned to the ideals of the United Nation’s Sustainability Development Goals (“UNSDG”).



SUSTAINABLE DEVELOPMENT GOALS



OUR BUSINESS MODEL

CAPITAL

Our capitals encompass the wide range of resources and relationships we rely on to create value. We responsibly manage these capitals through an effort sustained by the trust and support of our stakeholders.

We stay attuned to the operating environment, including ever-changing trends as well as our stakeholders' expectations and needs.

OPERATING ENVIRONMENT



We are mindful of the appropriate levels of risk we can accept, and possess robust governance structure to execute our strategy with discipline.

OUR BUSINESS

22



FINANCIAL CAPITAL



INTELLECTUAL CAPITAL



INFRASTRUCTURAL CAPITAL



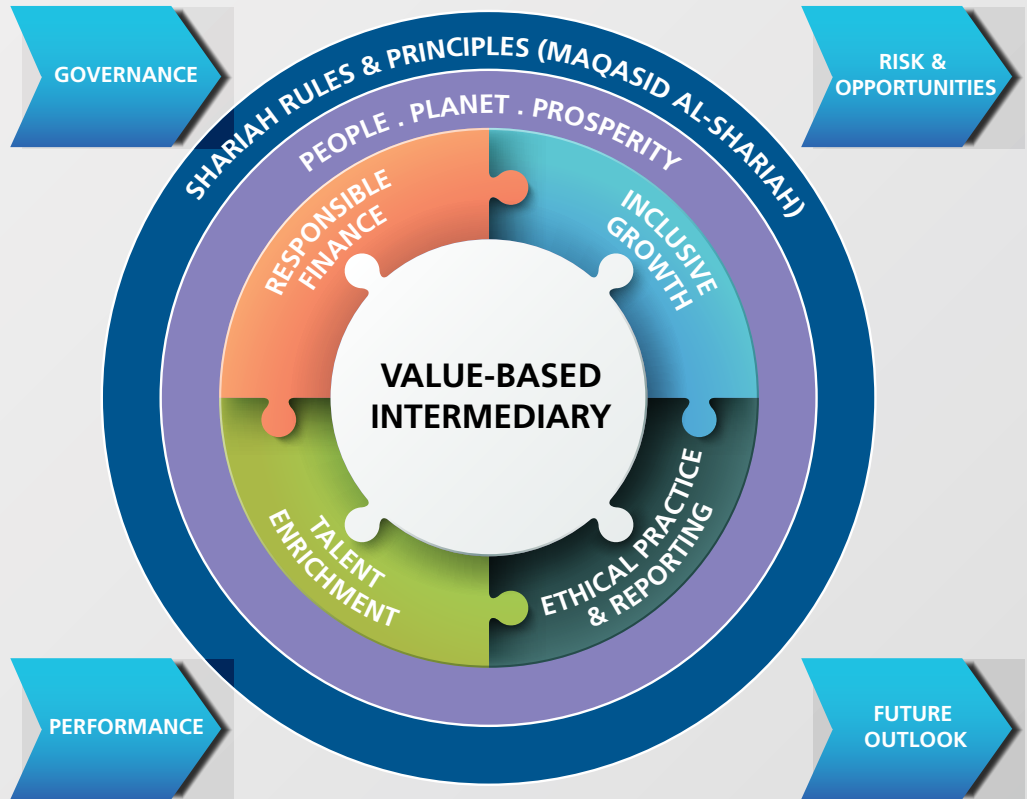
HUMAN CAPITAL



SOCIAL & RELATIONSHIP CAPITAL



NATURAL CAPITAL








PRODUCTS & SERVICES

By engaging in responsible financing and banking activities, we enable individuals to improve their quality of life and enhance the nation's financial stability. By providing financing to small and medium enterprises, and large corporations, we contribute to economic growth, job creation and innovation. And by improving financial literacy, promoting inclusivity and conserving nature, we contribute to a sustainable future.

STRATEGY

Our strategy allows considered thinking and integrated mindset to permeate throughout the whole organisation, ensuring the whole Bank is attuned to the same strategic goals and objectives.

OUTCOME SUMMARY

STAKEHOLDERS	VALUE DELIVERED
Customers 	<ul style="list-style-type: none"> • RM1.3 billion profits paid to depositors • RM0.1 billion profits paid to investment account holders • More than RM5 billion in new personal financing • More than RM2.8 billion in new house financing • Total of RM747.8 million financing under responsible financing • 606,865 TAP subscribers • 1.2 million registered online users for Internet Banking • 334,913 PTPTN student accounts • RM6.8 billion in transactions for LTH Service
Employees 	<ul style="list-style-type: none"> • More than RM547 million paid in remuneration to employees • 96.37% retention rate • More than 213,000 employees training hours • 254 employees promoted in 2018 • 86 employees obtained professional certificates in 2018
Government & Regulators 	<ul style="list-style-type: none"> • Continuous commitment to driving and realising Value-based Intermediation principles • Advance Malaysia as an Islamic financial hub, and key sectors within the industry, including Halal hub development • Contribute to the stability of the industry's financial system • Contribute to domestic economic growth • Development of local talents in the relevant industry
Local Communities 	<ul style="list-style-type: none"> • More than 49,000 beneficiaries from CR and zakat activities and programmes • RM47.5 million financing under the Green Tech Financing Scheme for the promotion of renewable energy usage
Investors 	<ul style="list-style-type: none"> • 15.83% return on equity • 1.33% return on asset • 17.77% total capital ratio • RM293.1 million of dividends paid to shareholders



RESPONSIBLE FINANCE

Bank Islam commits to upholding societal and environmental responsibilities by introducing to the market solutions that bring both economic and social benefits. We make conscious decisions in designing ethical products for our communities, and supporting ethical projects and ethical customers to layer on positive impacts in creating a multiplier effect.

INCLUSIVE GROWTH

We believe in empowering the community and providing equal opportunity for all. We are invested in making our financial services, products, and social initiatives, accessible to all segments of society. We look to enhance our relationships with the local communities and contribute to their socio-economic progress for the long term.

TALENT ENRICHMENT

Bank Islam is focused on developing our employees throughout their professional lives by implementing training and developmental programmes, as well as promoting values that engender a positive working culture and work-life balance. We ensure a continuous talent enrichment process by listening to staff needs, and valuing their skills and contributions with fair remuneration and meaningful succession-planning.

ETHICAL PRACTICE AND REPORTING

At Bank Islam, we are committed to doing the right thing and standing by our stakeholders. We serve their best interests through good business practices that uphold integrity, transparency and responsible conduct. We engage in best practices anchored on integrity and ethics, and continue to improve our reporting standards.



OUR VBI JOURNEY

Bank Islam was initially established to introduce Shariah-compliant banking products and services to the Muslim populace in Malaysia. Our adherence to Shariah rules and principles is embedded within all aspects of our business and operations. It is indicative of our purpose, and our commitment towards *Maqasid al-Shariah*, or the objectives of the Islamic law, which is to provide benefit to the society as a whole through our range of products and services. Today we are building on our fundamentals and evolving as a Value-based Intermediary (“VBI”) to positively empower our stakeholders and advance banking for the good of all.

24

VALUING OUR CAPITALS

In this value-driven journey, we are mindful that we depend on various resources and relationships. We have identified these as our six key capitals.



01 FINANCIAL CAPITAL



To stay resilient within the current banking landscape, strong financial capital is necessary. Our financial capital enables us to sustain business operations, create and manage shareholder value and give back to our nation and society.

How we create value: Bank Islam depends on robust equity and revenue to sustain and grow our business. We have in place prudent strategies to mitigate risks and meet industry liquidity requirements. We provide savings, investment and other forms of client specific products. We manage and execute all our client interactions with the highest degree of professionalism, ethics and transparency.

HIGHLIGHTS

RM5.2
billion

Common Equity Tier-1 Capital

RM1.7
billion

Tier-2 Capital

RM5.3
billion

Total Equity

RM49.9
billion

Total Deposits

RM5.2
billion

in investment accounts (“IA”)

02 INTELLECTUAL CAPITAL



Our intellectual capital enables us to advance industry value through the creation of new Islamic banking possibilities and sustain Malaysia's standing as an Islamic financial services hub.

How we create value: Our reputation as a pioneering leader in Islamic banking has been a product of Islamic knowledge expertise and continuous product innovations over the years coupled with effective risk management and strong governance framework. We have built a strong brand franchise as a result and lead as flagbearers of the industry. We provide technical assistance in the setting-up of Islamic financial institutions globally. We share market-leading knowledge on Islamic finance with the industry and public to ensure increased understanding.

- Strong brand franchise as a pure Islamic finance and banking institution, as well as source of reference within the Shariah-compliant financial industry
- Robust risk management and governance framework
- Innovations including the introduction of Sadaqa House and Waqf House Financing solidify Bank Islam's commitment towards the establishment of social finance initiatives
- Continuous growth of ESG-compliant fund offerings
- Growing strategic partnerships with a number of organisations and corporations, including PETRONAS, Arabesque, Amanah Ikhtiar Malaysia, universities, NGOs and others, which add value to the Bank's initiatives and business propositions

03 INFRASTRUCTURAL CAPITAL



Our infrastructural capital allows us to grow financial value through an expanded reach and uplift societal value by catalysing inclusivity of underserved communities.

How we create value: We provide several access points and methods of banking to facilitate options and to improve customer experience. We strive to introduce new channels of operation, adopting latest advances in technology.

HIGHLIGHTS

149 branches

6 Bureau de Change (currency exchange) outlets

9 Ar-Rahnu outlets

1,012 self-service terminals

More than
RM 100 million
investment in
IT infrastructure

RM 6.5 million
investment in mobile
banking

OUR VBI JOURNEY (cont'd)

04 HUMAN CAPITAL



Our success is determined by the quality of our human capital. Our human capital is vital in delivering financial value and enhancing social value by serving our community better.

How we create value: To attract and retain good management and employees, we have created an attractive Employee Value Proposition that enriches, develops and provides dynamic in-house career opportunities for our people. We invest in our people with training and development programmes to attract, cultivate and retain. We implement initiatives to grow internal talent for upward mobility.

HIGHLIGHTS

Attractive Employee Value Proposition

4,489
employees

More than

RM 13 million
invested in talent enrichment

Structured succession planning

Competitive employee benefits

WORKING WITH THOUGHT LEADERS OF ISLAMIC FINANCE



Working in Bank Islam means working with the best minds in the industry. We are the pioneer and acknowledged leader of Islamic finance which continue to meet the needs for Shariah-compliant financial solutions. It provides great opportunities for idea sharing and knowledge development.

MAXIMISING POTENTIAL



We bring out the best in our people through a lifelong and multi-faceted learning approach. We provide a platform which allows employees to explore, develop and fulfil their ambitions, both personally and professionally. We go beyond the norm to ensure the holistic development of our people.

BEYOND WORK AND LIFE



We believe in a balanced approach to work and life, allowing our employees to grow and benefit both professionally and spiritually. As we grow our businesses, we believe in giving back to society through various initiatives as this would enable the community to develop further. We also recognise the importance of contributing back to the ecosystem we operate in.

LIVING THE UNIVERSALLY ACCEPTED GOOD VALUES



At Bank Islam, we believe in living the universally accepted good values. You will discover a workplace that thrives on professionalism, integrity, mutual respect and care for each other. We also believe in being inclusive in propagating and practicing these good values.

05 SOCIAL & RELATIONSHIP CAPITAL



A social license to operate ensures smooth business operations and sustainability. Our social and relationship capital delivers value to our nation, people and marginalised communities.

How we create value: We are committed to build positive relationships with our network of partners, vendors, customers and the community at large through effective services, policies, zakat contributions and AMAL corporate responsibility ("CR") initiatives.

HIGHLIGHTS

More than

6 million
customers

More than

RM700,000
invested under
CR initiatives

RM13,315,840
paid out in zakat

RM114,300

has been contributed for
Sadaqa House projects

More than

47,000

man-hours spent for employees
volunteerism effort under
the Corporate Responsibility
("CR") initiatives

06 NATURAL CAPITAL



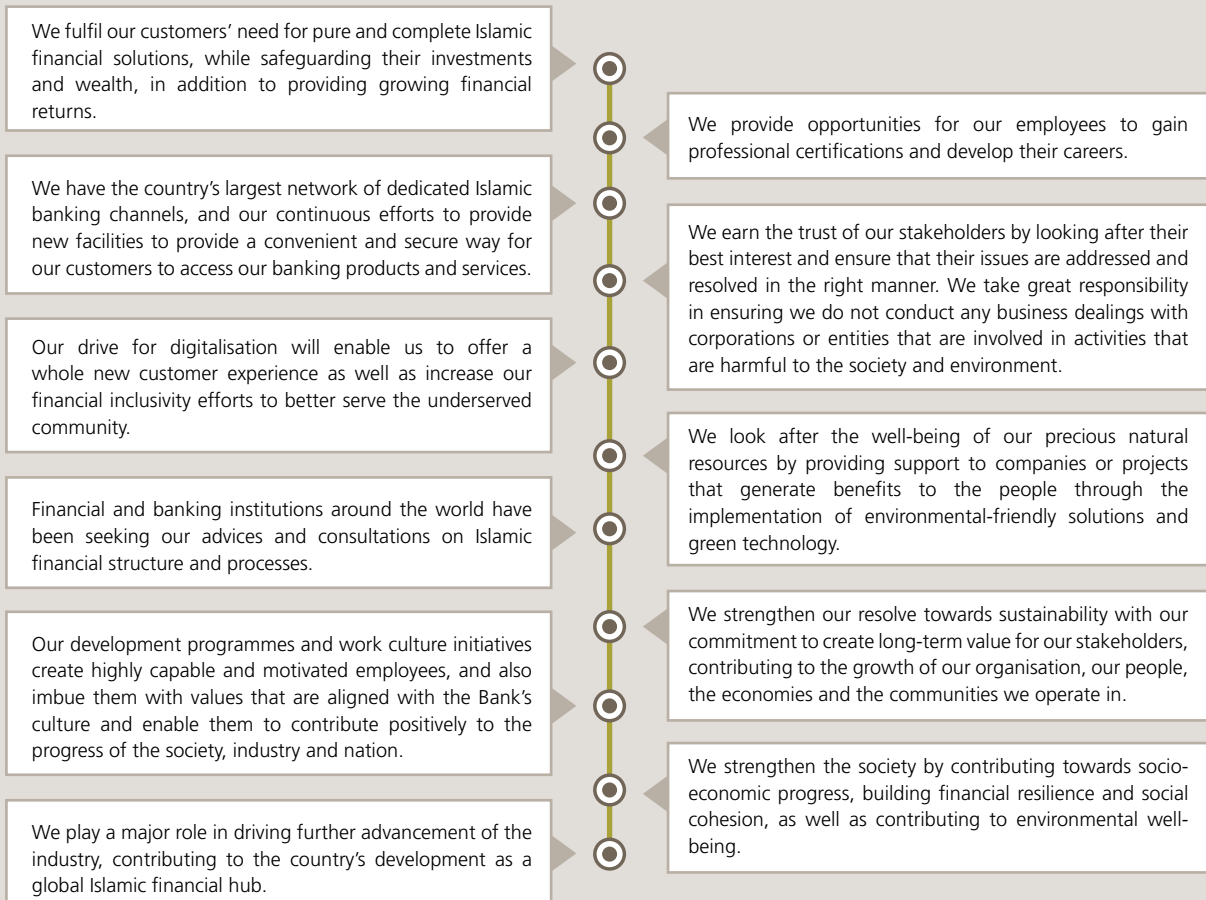
Our focus on Natural Capital impacts our operational costs as well as sustains business value and sustainability.

How we create value: As a financial institution, we can positively impact the sustainability of our environment through businesses that utilise product and service innovations. We champion ESG principles in our customer screening. We have an increasing green financing portfolio to ensure sufficient financial support to the renewable energy market. We also adopt sustainable practices as far as possible both internally and externally.

- Continuous commitment in driving Sustainability and VBI agenda
- Total ESG-compliant fund size of **RM1.74 billion** (Asset Under Management) as at 31 December 2018, making BIMB Invest (a subsidiary under Bank Islam) the largest ESG asset manager in Malaysia
- Electricity saving measure
- Reducing paper consumption
- Participation in environmental preservation programmes

VALUE CREATION

Through our six identified capitals, we are advancing on our VBI Journey:




ENGAGING OUR STAKEHOLDERS

Constant interaction with our stakeholders at all levels of our organisation is vital to Bank Islam’s decision-making processes, which are aimed at long term creation of value. We regularly invest in fostering relationships and creating mutual feedback activities that embraces all of our key stakeholders.

The following examples of stakeholder engagement help us understand how well we are fulfilling our responsibility as a valuable partner for the nation and the industry, a good employer for our people, a sound investment for shareholders, a good corporate citizen for the communities where we live and work, and much more.



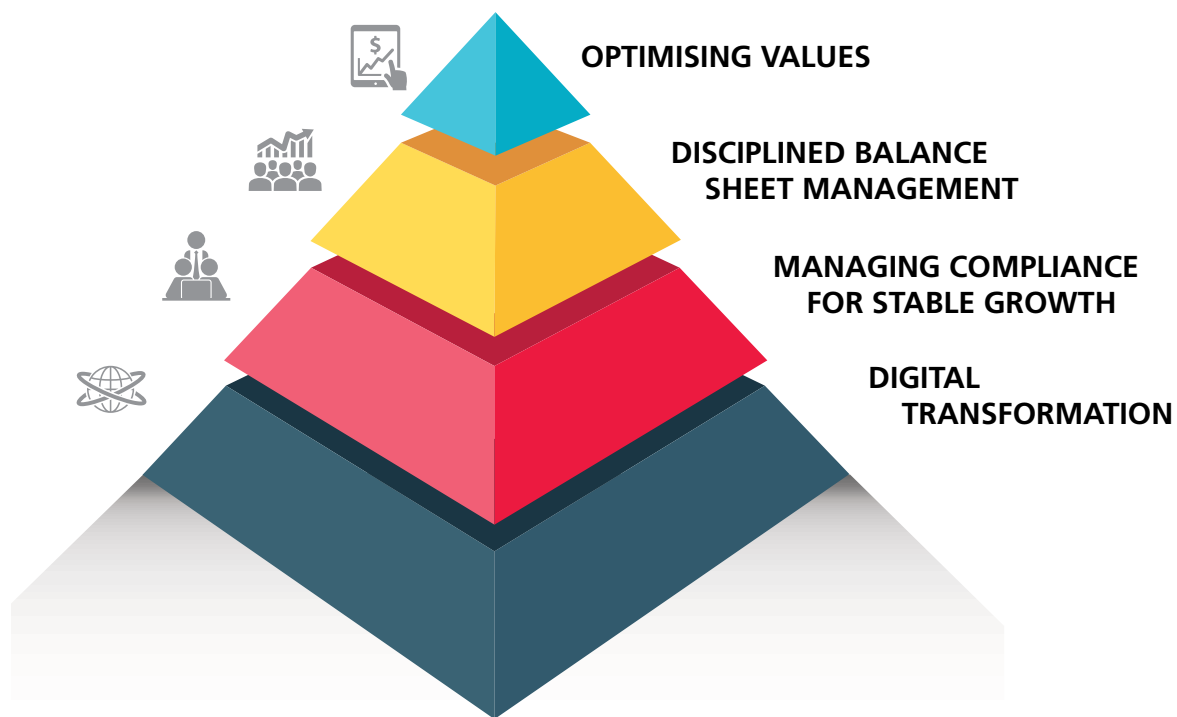
STAKEHOLDERS	RELEVANT TOPICS	ENGAGEMENT PLATFORMS
 CUSTOMERS	<ul style="list-style-type: none"> • Products and services viability and access • Effectiveness of solutions in addressing needs • Quality of service delivery 	<ul style="list-style-type: none"> • Customer service and feedback channels • Branch networks • Customer survey and focus group • Roadshows and exhibitions
 EMPLOYEES	<ul style="list-style-type: none"> • Career-planning and advancement • Employees' personal development for fulfilling life and spiritual needs • Essential knowledge on the organisation, including the Bank's policies and guidelines 	<ul style="list-style-type: none"> • Internal communication channels including Bank Islam's internal portal and e-mail • Internal activities including Bank Islam's sports carnival and knowledge-sharing sessions • Public engagement activities including Corporate Responsibility ("CR") related initiatives • Staff training and development programmes • Town Hall
 GOVERNMENT & REGULATORS	<ul style="list-style-type: none"> • Products and services rollout • Financial regulations update • Support for national agenda, especially on the propagation and advancement of the Islamic banking and finance industry 	<ul style="list-style-type: none"> • Ongoing industry meetings and interactions • Government-led initiatives and programmes participations • Conferences and dialogues
 LOCAL COMMUNITIES	<ul style="list-style-type: none"> • Financial education and knowledge • Economic concerns and social issues 	<ul style="list-style-type: none"> • Engagement with NGOs and charity organisations • Engagements with the underserved and underprivileged communities • CR-related events and initiatives
 INVESTORS	<ul style="list-style-type: none"> • Financial performance and corporate strategy • Governance and compliance • Corporate leadership 	<ul style="list-style-type: none"> • Investor Relations channels • Annual General Meetings • Ongoing meetings and interactions
 INDUSTRY PEERS	<ul style="list-style-type: none"> • Industry trends • Business collaborations 	<ul style="list-style-type: none"> • Ongoing industry discussions and interactions • Conferences, expositions and events • Strategic partnerships

OUR 2018 STRATEGIC PRIORITIES

Islamic Finance & Knowledge-Sharing is embedded in Bank Islam’s purpose and the Bank’s corporate direction is aligned to the other Group pillars of Responsible Financing, Inclusive Growth, Talent Enrichment and Ethical Practice & Reporting. These anchor the Bank’s dynamic short to mid-term strategies which are shaped according to the prevalent market environment and current stakeholder concerns.

In 2018, with the VBI agenda at our forefront, Bank Islam’s operations were executed according to four specific strategies that deliver on these pillars as well as elevate the Bank’s financial and social performance.

30



The strategy called for the Bank to reposition our balance sheet with greater exposure to real economy and places economic, society and environment considerations as the new thrust of asset acquisitions. It also drove internal transformation to grow responsibly and enhance corporate values.



OPTIMISING VALUES

- **Optimising Risk & Return** – Asset Yield/Funding Mix/Share of Wallet/Capital
- **Optimising Resource & Productivity** – Talent/Technology/Distribution/Business Process Reengineering
- **Optimising Franchise Value** – Driving SME Banking/Rollout Agent Banking/Reinforce Risk and Compliance Culture/Uphold Service Culture



DISCIPLINED BALANCE SHEET MANAGEMENT

Rightsizing the Balance Sheet towards enhancing Profitability and meeting MFRS9 Regulatory Compliance on maintaining:

- Liquidity Capital Ratio above 100%
- Increasing Net Stable Funding Ratio to 100%
- Preserving strong capital adequacy with Total Capital Required above 15%.



MANAGING COMPLIANCE FOR STABLE GROWTH

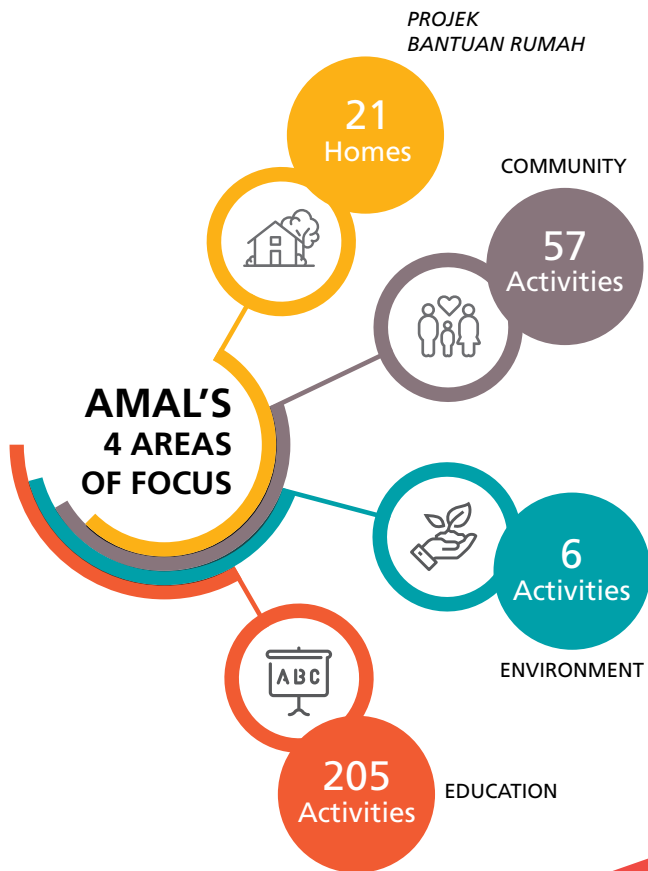
- Prudent underwriting for sustainable returns
- Strong Risk culture, and responsible growth beyond short term goals
- Focus on business that we understand and are well equipped to manage
- Active board and management oversight
- Clearly defined Risk Appetite Statements and identification of emerging risks
- Strengthened governance, with enhanced understanding through training and communication



DIGITAL TRANSFORMATION

- Drive a digital culture
- Reinvent customer experience
- Unlock values/Data monetisation
- Simplify the business
- Facilitate digital innovation
- Seek collaborations and smart partnerships

COMMUNITY INVESTMENT & UPLIFTMENT



286 houses in 9 states built/repared at a total cost of **RM8.25 million**

2018 Total Contribution

More than RM3.7 million (Wakalah Zakat Distribution)	More than RM700,000 (CR Fund)
More than RM4.4 million	

Appreciation of Your Supp



CEO'S REFLECTION ON 2018



MOHD MUAZZAM MOHAMED

Chief Executive Officer


“THE BANKING INDUSTRY IS INCREASINGLY CHALLENGED BY COMPLIANCE, RISK AND LEGAL IMPLICATIONS. THESE ARE COUPLED WITH CUSTOMERS’ EVOLVING EXPECTATIONS OF DIGITAL BANKING EXPERIENCE. AMIDST ALL THESE CHALLENGES, NEW OPPORTUNITIES ARE EMERGING FOR BANKS THAT ARE ATTUNED TO LOOK BEYOND THE OBVIOUS. IT IS A TIME OF CHANGE AND TRANSFORMATION, AND BANK ISLAM IS READY TO DELIVER AS A VALUE-BASED INTERMEDIARY.”

ADVANCING THE CONCEPT OF VALUE

FIRST AND FOREMOST, ALL PRAISES TO ALLAH FOR HIS MERCY AND REZEKI BESTOWED UPON US. OVER THE PAST 12 MONTHS, THROUGH CONTINUED CHALLENGES FOR THE BANKING INDUSTRY AT LARGE, AND EVEN WITH SEVERAL CHANGES IN KEY SENIOR MANAGEMENT, THE BANK HAS STAYED THE COURSE OF ITS STRATEGIC OBJECTIVES ANCHORED ON SHARIAH RULES AND PRINCIPLES AS WELL AS VALUE-BASED INTERMEDIATION (“VBI”) PRINCIPLES.

We are steadily evolving our perspective of banking as more than a financial service by cultivating win-win thinking in our strategies. We are expanding the notion of Value to encompass benefits delivered to society and the environment, as well as the economy. This generous rethinking of value delivery is opening up a new horizon of opportunities, revealing the truth of the Islamic adage, “One who gives a little, is given a lot”. Indeed, a sincere commitment towards a greater good leads to a strengthening of ties and bonds. In this current competitive and busy marketplace, stronger relationships lead to greater growth and resilience.

Embarking on this philosophy as part of our commitment to VBI, our 2018 performance was anchored by the four key strategic objectives of **Optimising Values, Disciplined Balance Sheet Management, Managing Risks and Compliance for Stable Growth** and **Digital Transformation**. These make up the heart of Bank Islam’s VBI commitment in 2018, and have been adapted as natural next-step progressions in our forward looking strategy for 2019.

THE BANK achieved
 **233** SME account approvals
 RM **954.2** million portfolio

ENHANCING VALUE THROUGH ACTIVE ENGAGEMENT

Connecting with stakeholders was a core priority for the Bank in 2018. The Bank continued to actively engage with the government and industry to advance the progress of VBI and support the Halal Industry Master Plan 2008/20. We worked with Bank Negara Malaysia (“BNM”) and Global Alliance for Banking on Values (“GABV”) on ‘next-steps’ development of VBI assessment and scorecards; and shared VBI insights to an international audience at the Global Islamic Finance Forum 2018.

Financing grew RM3.6 billion to reach RM45.7 billion as at 31 December 2018 as a result of Bank-wide sustained and concerted efforts towards greater engagements with targeted clientele groups, understanding their needs better, and enhancing our product and service offerings.

One notable example was the establishment of the SME Banking Division on 1 January 2018 to build stronger engagement and customised support in serving the nation’s growing base of small and medium enterprises (“SME”). Results have been encouraging. The Bank has since achieved 233 SME account approvals with a RM954.2 million portfolio, and has made several inroads in growing the Bank’s profile among potential SME customers.



More details on our achievements through engagement can be found in our Business Review on page 43.

ENHANCING VALUE THROUGH SOCIETAL UPLIFTMENT

Through VBI we are activating win-win synergies that benefit society and business growth. We have established several social finance initiatives that create a positive impact in uplifting lives and in so doing creates stability and sustainability within our market environment which benefits our business performance over the long-term.

The realisation of our Sadaqa House social impact platform on 19 January 2018 was one such initiative. It facilitates public contributions, through the Bank’s digital crowd funding collaboration with Ethis Ventures Sdn Bhd and GlobalSadaqah.com, towards social projects for underserved sectors such as healthcare, education and entrepreneurship. Expediting ease and accessibility, contributions can be made using Bank Islam’s existing channels such as Internet banking (“IB”), Transact-at-Palm (“TAP”) Mobile Banking-i and Bank Islam credit card. Additionally, for every public donation made, Bank Islam undertakes to match the amount ringgit for ringgit, to a maximum of RM500,000. As charity begins at home, the Bank’s staff are encouraged to contribute via salary deduction and a total amount of RM52,308 was contributed by the Bank’s staff during the year.

CEO'S REFLECTION ON 2018

(cont'd)

The establishment of the Abdullah Ummu Maktom reflexology therapy centre by the blind in collaboration with *Persatuan Orang-Orang Cacat Penglihatan Islam Malaysia* ("PERTIS"), was a more direct effort at encouraging socio-economic activities during the year. The centre, located at rent-free premises on the ground level of Menara Bank Islam, provides employment and contributes to a more sustainable future for blind Muslims. It has also become a value-added facility within our workplace, easily accessed by our staff - another vital stakeholder group whom the Bank focused on during the year.

ENHANCING VALUE AS AN EMPLOYER OF CHOICE

Internal transformation of the workplace, to enhance our employee value proposition, was initiated during the year by enhancement of remuneration policies; provision of clearer parameters on compliance issues; and development of a culture change proposal. We kick-started a more inclusive culture by ensuring we provided equal career opportunities to physically challenged individuals, and during the year we had employed our first physically challenged employee to man our Information Technology ("IT") Service Desk.

New staff initiatives were also launched, most notably the provision of *Taska* Bank Islam, the activation of the Staff *Ihtimam* Fund, and the introduction of the Bank's Hackathon programme.


Taska Bank Islam is a childcare centre that was opened in February 2018 on the 2nd floor of Menara Bank Islam, answering the government's call for employers to provide childcare facilities at the workplace. To date, 27 of our staff have benefitted from this scheme which received a RM103,680 subsidy from the Bank.


The Staff *Ihtimam* Fund is a welfare fund established for the families of deceased staff. It has disbursed over RM221,883 in financial aid and scholarships to 16 staff beneficiaries since its introduction. Guided by the Wakalah arrangement with *Pusat Pungutan Zakat - Majlis Agama Islam Wilayah Persekutuan* ("PPZ-MAIWP") this welfare fund is funded through a 12.5% refund from the total annual zakat contribution by employees to MAIWP via salary deduction, as well as donations and Bank allocations. This served to heighten staff interest in paying zakat to MAIWP via salary deduction to increase contributions to the fund, ensure the constancy of zakat contributions, and provide much needed aid to employees in need. A winning example of symbiotic impact.


Hackathon is an ongoing innovation programme aimed at collecting ideas pitched by staff themselves in improving staff engagement and productivity. In 2018, a total of 631 staff or 19% of total staff had participated in mini Hackathons held within their departments. Ideas collected during the sessions were screened for their viability and suitability to be implemented or commercialised. This programme provides the Bank more out-of-the box perspectives for business improvements while providing staff an empowering workplace where their perspectives and ideas are appreciated.

ENHANCING VALUE THROUGH DIGITAL TRANSFORMATION

The Bank remains resolute and steadfast on our Digital Transformation journey. Today, we are bringing technology onto our Shariah solutions, delivering a service that is more aligned with the current digital trend. Embracing technological change is key to delivering sustainable growth; and improving customer experience is the strategic priority.

TASKA BANK ISLAM 
27 of our staff have benefitted
RM 103,680 subsidy

STAFF IHTIMAM FUND
RM 221,883 
 financial aid and scholarships to **16** staff beneficiaries

HACKATHON 
631 staff or **19%** of total staff had participated



INTERNET BANKING



total users grew **25%**
 fee income grew **80%**
 financial transaction volume increased **133%**



In 2018, our Digital Banking Plan was formalised to drive Bank Islam's digital transformation by creating and unlocking unprecedented value.

The Bank's Internet Banking has been enhanced to include income tax payment, Sadaqa House contribution, and Tabung Haji services. As a result, its market share growth continued to outpace industry for the third year running as total users grew by 25%, with financial transaction volume increasing by 133% and fee income growing 80%.

Another digital highlight was the adoption of a new mobile application called SnapNPay, for users to contribute to Sadaqa House. This enables the public to make real time online payments using their current or savings account using the information or data listed by the customer in the mode of a Quick Response ("QR") code or barcode.

More digital initiatives are in the pipeline as Bank Islam is off to a dynamic start in combining the energy, continuous innovation and imagination of Financial Technology ("FinTech") start-ups with its solid balance sheet, trust, customer service and banking expertise.

Notable Achievements

Alhamdulillah, the Bank has remained strong and turned in a set of good results for FY2018, which, on a scale of 1 to 10, I would rate as a solid 7.

We have made our mark in the industry and continued to create milestones in 2018 with the following awards, recognition and achievements:

- Malaysia Deal of the Year 2017 by Islamic Finance News
- Ranked joint 2nd in RAM Overall League Table (by Programme Value) 2018
- Ranked 1st in RAM Sukuk League Table (by Programme Value) 2018
- Ranked joint 3rd in RAM Sukuk League Table (by Number of Issues) 2018
- Ranked 4th Top Sellside Firm in the Secondary Market for Government Bonds in The Asset Asian Local Currency and G3 Bond Awards 2018
- Ranked No. 1 under the Category of "Secondary Islamic Sukuk Market" for overall Trading Value in Malaysian Government Investment Issue ("MGI"); and ranked Number 5 in overall Trading Value in Corporate Sukuk in the BNM League Table 2018.
- Focused Recognition for the PETRONAS Vendor Financing Programme
- Best Sustainability award at the Islamic Business & Finance Southeast Asia Awards 2018
- Awarded the Best Islamic Asset & Fund Manager in Malaysia 2018 by Alpha Southeast Asia, a regional financial publication.
- Best CSR Initiative award (Projek #Buatbaik) by The Retail Banker International ("RBI") Asia Trailblazer Awards
- Best Employer Brand Awards 2018
- 2nd Runner Up in Most Popular Graduate Employer in Banking & Financial Services Sector at Malaysia's 100 Leading Graduate Employers Award 2018
- Top 10 Best Employer Brands category of Banking at Graduates' Choice Award 2018
- VBI Score Uplift by BNM & GABV
- RAM Rating's AA3/Stable/P1 assessment

GOALS FOR 2019 & BEYOND

Our VBI journey has allowed us to recognise how our actions and solutions can be translated into values that benefit the community, create positive impact on the natural environment, and bring prosperity for all. These are the overarching objectives of our VBI strategy that will enable us to leverage on our strengths to fully meet our stakeholders' expectations and fulfil their needs.

By subscribing into this strategy, we will be able to view our offerings holistically and drive our efforts into achieving common goals that are shared by everyone within the Bank. The strategy requires us to reshape our operations and businesses, and drive initiatives that will deliver a cohesive message to our stakeholders and reflect the Bank's integrated approach to them and the marketplace. This drives the creation of a new Vision and Mission and tagline which has been our focus in the first quarter of 2019.

CEO'S REFLECTION ON 2018 (cont'd)

As the Bank that Advances Prosperity for All (our inclusive Vision) by Providing Solutions that Deliver Value (our focused Mission), we will fortify on the strengths we have accumulated over the years and hone a reputation of "Assuring Trust. Delivering Value." (our tagline). This tagline carries our promise of good governance,

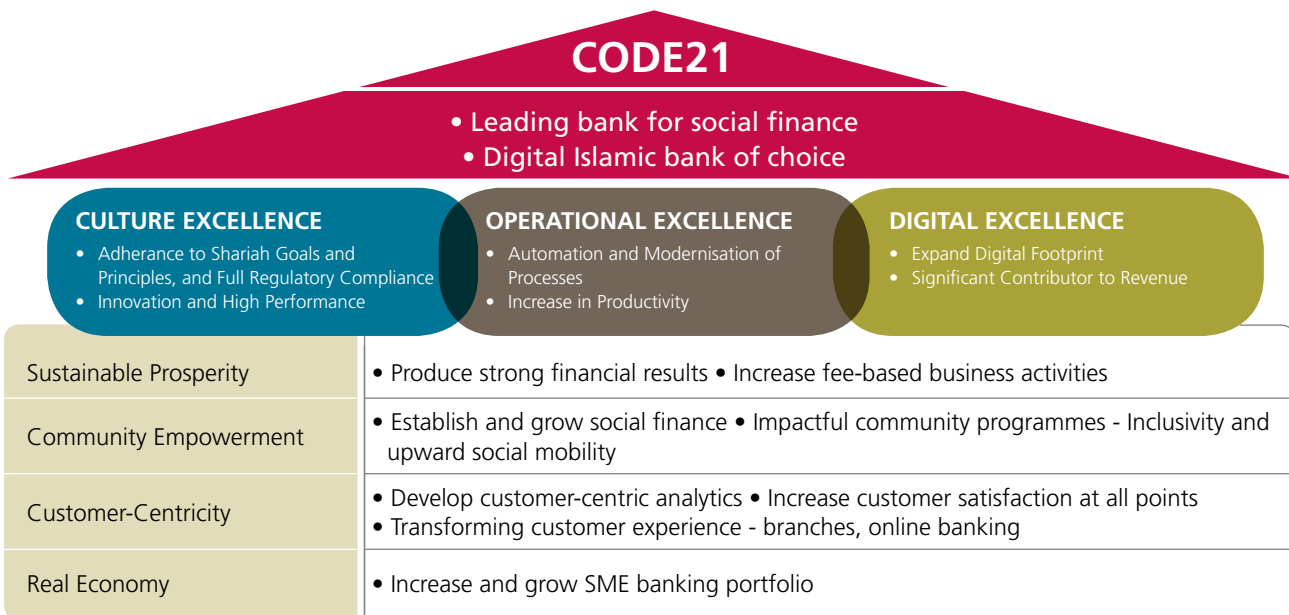
honest conduct and ethical decision-making. We aim for products, services and practices that will inspire trust in our stakeholders. Our promise of innovation and diligence ensure that all products and services will deliver the best possible value to our stakeholders.



38

This intensifies our efforts on meeting the objectives of the Six Strategic Pillars of our VBI strategy as shown in the chart above. These pillars embody the Bank's common goals, and delve into our short-term deliverables and long-term initiatives.

We have mobilised the strategic pillars under Bank Islam's three-year Transformation Programme codenamed CODE21 towards becoming a leading bank of social finance and digital Islamic bank of choice by 2021:



Towards **Sustainable Prosperity**, we intend to produce strong financial results for the bank; increase fee-based business activities to improve profitability metrics; balance growth with focus on capital accretive financing assets; grow our financing portfolio in Halal & Green Economy; include environment, social, governance ("ESG") considerations as part of the criteria for corporate financing; and enhance creation and delivery of investment fund products with focus on Shariah and ESG compliance.

With regards to building a **Values-based Culture**, we ensure adherence to Shariah goals and principles, and full regulatory compliance; develop human resource guidelines that reflect values-based approach; create holistic development programmes for all staff in line with the new mission and vision; and are developing a Key Performance Indicator ("KPI") Scorecard framework embedding shared values.

In growing **Community Empowerment**, we will establish and expand social finance solutions such as Sadaqa House and Waqf; increase strategic alignment and impact of our corporate responsibility ("CR") initiatives; participate in Waqf projects that have a positive impact to communities; participate in impactful community programmes focused on enhancing inclusivity and upward social mobility; and collaborate with, and support, social impact organisations.

Harnessing the power of **Customer-Centricity**, we aim to increase customer satisfaction at all points; develop customer-centric analytics; practice a proactive service culture; and transform customer experience.

Focused on making a positive difference to the **Real Economy**, we are expanding our real economy portfolio; increasing and growing our SME portfolio; and promoting Real Economy programmes as a responsible financial intermediary.

Finally, through continued investment in **Digitalisation**, we are launching more digitalisation enabling goals via a digital blueprint; focusing on process optimisation; enabling omni channel and data monetisation; establishing a strong platform for cybersecurity resilience strategy for the Bank; enhancing the existing infrastructure; and improving our services within the digital ecosystem.

IN CLOSING

We are today mindful that we are in the position to enable communities to increase control over their lives by opening up new markets, acquiring new customers and developing new products and services. Building and nurturing relationships with potential and existing customers will enable us to provide economically viable banking alternatives focused on the needs of society thereby creating a more diverse financial ecosystem. Prosperity is no longer about profit maximisation but profit optimisation with enlargement of "*rizq*" (sustenance) for all our stakeholders.

To execute our strategy effectively and with greater excellence, we need to transform how we plan, organise and work. Transformation allows us to be proactive, by better understanding the opportunities and threats on the horizon. The creation of a new and dedicated Transformation Office will be integral to our successful execution of Bank Islam's VBI strategy.

Some of the crucial aspects of the transformation effort will delve into the Culture Change Programme. Giving our employees an extra motivation and added impetus to giving it their all for the benefit of the Bank and its stakeholders is vital as every one of us at Bank Islam plays an important role in delivering our value-based aspiration.

Traits such as integrity, professionalism, accountability, reliability, quality-driven, detail-oriented and empathy are just some of the essential values we should have in living out the VBI principles. Unlocking the value of our employees by empowering them to contribute to the successful implementations of the initiatives and activities as embodied within the six strategic pillars is vital.

We need to stand together and deliver as one Bank, and not a collection of divisional or departmental strategies. As such, in this year's reporting, we are moving away from divisional-based business reviews and providing an overview of how well our strategies were executed as one Bank.

It requires enhanced unity and greater communication, but I am confident we can achieve this. Over the course of the Bank's history, the Board, management and staff at Bank Islam have proven we can all rally together towards delivering turnaround performance and transform challenges into opportunities as we advance with resilience through good and bad times. As we drive this transformation, there is an extraordinary opportunity ahead. We will emerge as a truly productive Bank Islam, with singular purpose and broader reach with the sustainable results to match.

I feel honoured to be helming the Bank today and thank Allah for the opportunity bestowed upon me to lead us all onwards in this fulfilling era of value-driven growth.

Mohd Muazzam Mohamed
Chief Executive Officer

MARKET LANDSCAPE

In 2018, the global slowdown in economic growth, unrelenting China-US trade tensions, as well as fluctuating currencies and commodity prices made for a challenging environment. In Malaysia, we ushered in a new ruling government against a domestic environment that charted a lower-than expected gross domestic product (“GDP”) growth at 4.7%, sustained by domestic demand as well as positive net exports.

Private consumption grew, encouraged by the interim tax-holiday when GST was zeroised, but mainly due to continuous improvement in income and employment growth. The labour market remained healthy and supportive, and private sector wages growth improved during the year from 5.7% year on year in the third quarter of 2018 to 5.9% in the fourth quarter, suggesting that households have the means to spend. Government initiatives and support to alleviate the cost of living also contributed to higher consumer spending during the final three months of 2018. However, private investment growth moderated owing to slower capital spending across major economic sectors. This reflects that businesses are now preserving cash by deferring capital expansion plans.

The overall banking sector in Malaysia performed well for 2018, recording a 5.6% year-on-year growth. Although business sentiment seem to be resilient, there is still caution due to expectations of slower global growth as well as heightened competition for deposits due to enhanced regulations in the financial sector.

Islamic banking in Malaysia continues to show promising growth, expanding at a much faster pace than conventional loans in 2018, coming in at 11.0% (2017: 10.3%), in contrast to the latter’s 3.3% growth. As at end-January 2019, Islamic financing comprised some 32% of the overall system’s loans, according to RAM Ratings’ annual publication, Islamic Banking Insight.

The Islamic banking system’s deposits also continued expanding at a healthy 12.4%, following its commendable 14.2% growth in 2017. The bulk of the expansion stemmed from fixed deposits as banks are bracing for the implementation of the NSFR requirement. Despite the deferred adoption of the NSFR, margin pressure is unlikely to ease amid the ongoing keen competition for retail and SME deposits, as banks keep building up their funding bases. However, the overall outlook on profitability remains stable as banks keep a tight rein on operating expenses.

Liquidity stayed healthy as at end-January 2019, with the industry’s liquidity coverage ratio standing at 143%. The Islamic banking system also remained well capitalised, with respective common equity tier-1 and total capital ratios of 13.3% and 17.6% as at the same date.

“ Islamic banking in Malaysia continues to show promising growth, expanding at a much faster pace than conventional loans in 2018, coming in at 11.0% (2017: 10.3%), in contrast to the latter’s 3.3% growth. ”

As a result, RAM maintains a stable outlook on the Malaysian Islamic banking sector with the following main expectations in 2019:

- Islamic financing growth will hover around the low teens.
- Asset-quality indicators should remain resilient.
- Strengthening funding profile in the lead-up to the implementation of the net stable funding ratio (“NSFR”) requirement.
- Stable outlook on profitability despite slight margin compression.
- Strong capitalisation.

The resilient growth and development of Islamic finance in the country is largely due to the strong foundation and regulatory infrastructure that have been instituted and strengthened over the years. With the Financial Sector Blueprint 2011-2020 underway in its implementation, we have seen Malaysia continuing to be the main driver for the sukuk market. In 2017, Malaysia partook a 51% share of the US\$396 billion of total global outstanding sukuk while continuing to lead in the Islamic wealth management industry with 36.5% of the global share.

In Oct 2018, BNM showed further support of the VBI initiative it introduced in July 2017 by publishing two VBI assessment tools in October 2018. These tools are meant to support important changes to the way financial institutions make decisions, and to the characteristics of banking and Takaful portfolios.

As at end-January 2019,
ISLAMIC FINANCING
COMPRISED SOME **32%**
of the overall system's loans



ISLAMIC BANKING
SYSTEM'S DEPOSITS
continued expanding
at a healthy **12.4%**

“ Bank Islam was proud to have achieved improved VBI scoring based on this scorecard, making its mark as a top VBI scorer during the year under review. ”

The assessment framework provides guidance on the assessment of financing and investment applications taking into consideration economic, social and environmental impacts, while the scorecard supports the implementation of performance measurement frameworks for Islamic financial institutions that drive positive value and impact on society and the environment.

Bank Islam was proud to have achieved improved VBI scoring based on this scorecard, making its mark as a top VBI scorer during the year under review.

These initiatives fortify Malaysia's leadership position by strengthening offerings and infrastructure in Islamic finance. But more significantly to the industry stakeholders, these generate positive, sustainable impact to the economy, environment and society.

The domestic Islamic banking industry is thus rightly positioned to capitalise on the increasing demands for Islamic banking facilities and are poised to continuously offer innovative solutions to meet requirements of a growing and increasingly diverse customer base.

Going forward, the economy is expected to grow at a slower pace in 2019, with a GDP forecast of 4.5%, envisioning continued uncertainties in the external sector due to the ongoing trade friction between the US and China, the UK Brexit deal, slowing China economy as well as volatility in the crude oil and financial markets. Additionally, the US Federal Reserve is seen to be maintaining their rates at 2.50% in 2019.

Inflation rate is expected to be contained and CPI forecast stands at 2.2% for 2019, with room to tweak lower in view of the prevailing crude oil prices. BNM is currently maintaining its Overnight Policy Rate (“OPR”) at 3.25% in 2019, with possible reductions should there be signs of further deterioration in the economic outlook. Lower surplus balance in the current account which stood at 2.3% of GDP in 2018 (2017: 3.0% of GDP) as well as volatility in the capital flows and exchange rates would be BNM's main considerations by BNM setting the OPR.

Bank Islam remains mindful on credit risk and the potential for higher impairment within the current operating environment. In view of weak sentiments among businesses and consumers, we can expect a cautious approach towards domestic spending. This would have an impact to financing products' demand along the way. Having said that, there are always opportunities to be made, through targeted strategies. At the current juncture, building resilient relationships with our clients is very critical as economies and markets move in cycles.



FINANCIAL PERFORMANCE

2018 Bank's Overall Financial KPI and Achievements

Key Performance Indicator(s)	Banking Industry Performance	Our Performance
Return on Equity (based on PBZT)	<ul style="list-style-type: none"> Islamic Banking Industry – 15.7% Banking System – 12.6% 	15.8%
Return on Assets (based on PBZT)	<ul style="list-style-type: none"> Islamic Banking Industry – 1.1% Banking System – 1.4% 	1.3%
YoY Growth in Asset: At least 11.0%	<ul style="list-style-type: none"> Islamic Banking Industry – 12.2% Banking System – 5.9% 	10.7%
YoY Growth in Net Financing: At least 11%	<ul style="list-style-type: none"> Islamic Banking Industry – 11.4% Banking System – 5.5% 	8.5%
YoY Growth in Deposits: >8% (with IA); >5% (without IA)	<ul style="list-style-type: none"> Islamic Banking Industry – 13.3% Banking System – 8.4% 	9.2% (with IA) 8.0% (without IA)
Financing Mix: Consumer: Business at 75:25	–	75:25

42

Our financial performance so far indicates we are on track as we continue to exceed our financial targets for the financial year ended 31 December 2018 ("FY2018").

Bank Islam's Profit Before Zakat and Tax ("PBZT") increased RM43.2 million or 5.6% to RM810.3 million for FY2018, over the previous financial year of RM767.1 million.

The growth was mainly due to higher income resulting from the strong financing growth of 8.5%, which is above the industry's average financing growth of 5.5% and which surpassed the Bank's internal target of 8%. Financing grew RM3.6 billion to reach RM45.7 billion as at 31 December 2018 with the asset quality remaining strong and resilient, despite the robust expansion and challenging economic environment.

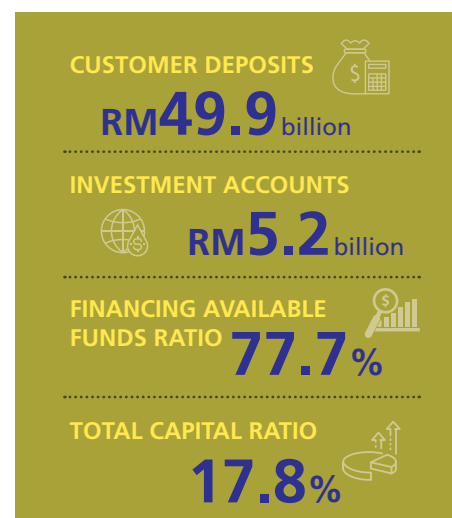
The strong asset quality is reflected in the low gross impaired financing ratio of 0.92%, lower than the 0.93% registered at the end of 2017. This compares positively against the 1.45% registered by the banking system as at end December 2018.

The Bank's financing loss coverage ratio stood at 187.8%, almost double the industry average of 97.9% as at end December 2018.

On the funding side, the Bank's customer deposits and investment accounts stood at RM49.9 billion and RM5.2 billion at 31 December 2018 with a year-on-year increase of RM3.7 billion and RM0.9 billion respectively. The Current and Savings ("CASA") and Investment Accounts ("IA") without maturity, low cost deposits/IA ratio stood at 32.1%.

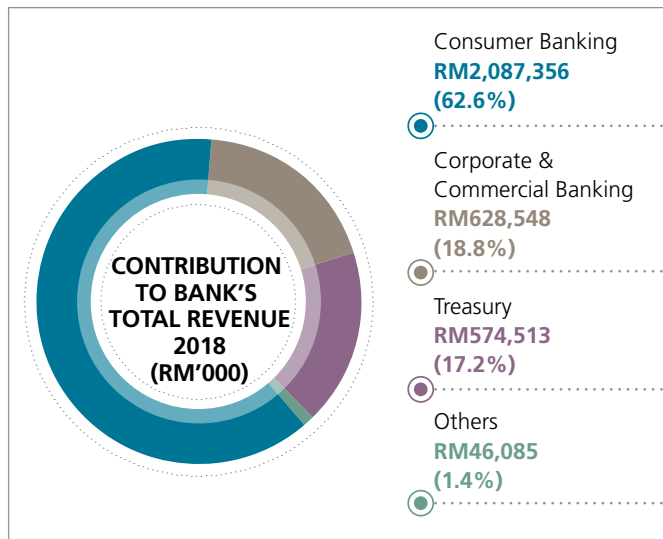
The Bank's funding position also remained healthy with the financing to available funds ratio of 77.7%.

The Bank's capital position continued to be healthy as reflected by its total Capital Ratio of 17.8%.



BUSINESS REVIEW

The Bank's 2018 business performance was anchored by the four key strategic objectives of Optimising Values, Disciplined Balance Sheet Management, Managing Risks and Compliance for Stable Growth and Digital Transformation. Driven by VBI aspirations, these together formed a broad all-encompassing focus on enhancing financial performance, synergies, sustainable balance, reach and efficiency through digitalisation, talent management and customer service.



OPTIMISING VALUES

"The Bank is optimistic that we are on the right trajectory to continue delivering earnings growth and fund-based income growth in 2019, but what can help us boost net profit further is growing our fee-based income. We've got opportunities there that we may not have exploited fully yet. So, in terms of our focus next year, it will be fee-based activities like bancatakaful, asset management and wealth management."

On the business front, Optimising Values encompasses optimising risk and return to increase our margins; optimising resources and productivity towards better cost containment and greater efficiencies; as well as optimising franchise value in growing the Bank Islam brand among current and new market segments.

More significantly, we are now also optimising value in committing ourselves to upholding our societal and environmental responsibilities by introducing to the market solutions that bring both economic and social benefits.

In 2018, our business divisions made conscious decisions in designing ethical products for our communities, and supporting ethical projects and ethical customers to multiply the positive impact we can make together.

During the year, VBI checklists and tagging which were introduced in 2017, continued to be actively deployed in assessing financing applications. The checklist gauged customer's credit risk as well as ethical intent.

Using the VBI checklist, the Bank's personal financing now prioritises applications where the purpose of financing is towards positive and meaningful causes. New Purpose Codes were introduced during the year to cover segments of green technology, education, holistic/spiritual, community, healthcare, business expansion and renovation. Investments in these segments are deemed to improve quality of life for individuals and benefit societal well-being over the long run.

For house financing, affordable homes costing below RM500,000 per unit continued to be our key focus in line with Government aspirations to promote home ownership for low income groups, civil servants and younger segment of first-time homeowners. As the Bank is a staunch champion of home ownership for all, we are highly motivated to sustain our close networking with national home ownership programmes such as *Skim Rumah Pertamaku* ("SRP"), *Skim Jaminan Kredit Perumahan* ("SJKP"), *Skim Perumahan Rakyat 1Malaysia* ("PR1MA"), *Perumahan Penjawat Awam Malaysia* ("PPAM"), *Rumah Mampu Milik Wilayah Persekutuan* ("RUMAWIP") and *Rumah Bina Negara* ("RBN") FELCRA.

In 2018, personal financing and house financing grew 11.2% and 11.4% respectively, bringing in a total of RM32.5 billion, as the biggest contributors to the Bank's 2018 revenue.

Debit card continuous joint campaigns are launched with Government agencies and universities with industry specific cards introduced to support development in education, sports, humanitarian assistance and waqaf contributions through collaborative functions featured via co-brand cards. Cardholders can now easily contribute funds from their card account or accumulated reward points for causes such as *Tabung Rohingya* and *Sadaqa House* as well as make charitable donations to mosques, non-governmental organisations and orphanage homes.

In optimising card growth and usage, the Bank's credit cards were bundled with other financing products, and leveraged on cash management solutions to extend features and benefits. These were supported with all year round credit card campaigns that offered merchant discounts, privileges, loyalty reward points; overseas spending promotions; targeted campaigns for inactive and low-spending accounts; and anti-attrition campaigns to encourage cardholders to continue enjoying Bank Islam card services. Eight new debit cards were launched during the year.

BUSINESS REVIEW

(cont'd)

New Credit Card issuances in 2018



- Bank Islam Visa Debit Card-i Terengganu FA (PBSNT) – 14/2/2018
- Bank Islam Visa Debit Card-i Badminton Association of Malaysia (BAM) – 29/3/2018
- Bank Islam Visa Visa Debit Card-i Universiti Teknikal Malaysia Melaka (UTeM) – 12/3/2018
- Bank Islam Visa Debit Co-Brand with Malaysia Rugby Union (MRU) – 16/4/2018
- Bank Islam Visa Debit Co-Brand Brand with Perak The Bos Gaurus (TBG) – 21/4/2018
- Bank Islam Visa Debit Co-Brand Brand with PTPTN – 5/10/2018
- Bank Islam Visa Debit Card-i Alumni Universiti Tun Hussain Onn Malaysia – 29/9/2018
- Bank Islam Visa Debit Card-i Koperasi Telekom Malaysia – 29/12/2018

44

Card total outstanding grew by 4.3% to contribute RM478 million during the year.

For the Bank's wealth management services, a new incentive structure for bancatakaful and will writing was introduced in March 2018. Motor takaful's reach was extended via the Bank's mobile and e-Channel to enable more convenient applications. Another value-add initiative was in offering takaful coverage as part of staff and student benefits for Corporate, SME and University clients that do not currently provide medical benefits.

Given the Government's aspiration of closing Malaysia's insurance coverage gap, strategic bancatakaful alliances are becoming an important delivery channel for Islamic-based insurance products in Malaysia as it empowers takaful products with enhanced reach in a cost effective manner.

Wealth Management Fee-Based Income increased to RM42.2 million during the year.

In our commercial and corporate business, priority is now placed on financing projects that provide benefits to people and the real economy while minimising impact on the natural environment. Portfolios were subsequently realigned to reflect this shift in focus resulting in over RM700 million in financing being directed towards the following identified sectors in 2018:



SMALL AND MEDIUM ENTERPRISES (SMEs)

Supporting SMEs is part of the national agenda to boost SME contribution as one of the drivers of national economic growth. With the SME sector being one of the main drivers for the country's domestic economic growth, we are committed to growing the SME business and its uptake among the local population, contributing to the growth of the country's Real Economy.

Efforts during the year include the establishment of an SME Banking division and expansion of the Bank's Vendor Financing Programme to vendors, contractors and suppliers of reputable government linked corporations such as PETRONAS and Tenaga Nasional Berhad ("TNB"). The PETRONAS Vendor Financing Programme developed with PETRONAS and Syarikat Jaminan Pembiayaan Perniagaan Berhad ("SJPP") provides a financial ecosystem for PETRONAS' supply chain customers, with a total limit of RM500 million financing for contracted SMEs' invoices and purchase orders. The programme has received a total of 77 applications from PETRONAS vendors worth of RM195.2 million by end December 2018, out of which, we have approved facilities totalling RM110.7 million for 27 customers. The TNB Vendor Financing programme caters similar support to TNB Bumiputra vendors, contractors and suppliers with allocated total financing of RM100 million to successful applicants. These have spurred financing growth by 4.4% from RM1.83 billion in 2017 to RM1.91 billion in 2018.



GREEN TECHNOLOGY & ENERGY

Green technology, renewable energy, and waste management projects that are aligned with the national agenda on addressing climate change issues are also a priority. During the year RM47.5 million was approved for deployment of two solar plants in Terengganu that cater to the East Coast region's electricity needs; while RM163 million has been approved under the waste management segment.



INFRASTRUCTURE

The Bank focused on financing community and public infrastructure that improve quality of life such as MRT, LRT, highway, railway, and public facilities such as schools and hospitals. During the year, a sum of RM10 million has been approved for projects under the healthcare and education sector.



PROPERTY

Our scope also includes property financing of affordable home projects such as PRIMA, PPAM, RUMAWIP to support the national agenda to provide home ownership options for low and middle income groups. In this segment, the Bank focuses on established developers with proven track record and good project location. A sum of RM100 million has been approved in 2018 to finance property under the affordable homes segment.

More than RM700 million in financing was directed towards SMEs, green financing, infrastructure and property sectors in 2018.

The Bank's Treasury too focused on being an active participant in the primary market for VBI-based sukuk. As part of a proactive rebalancing of the investment portfolio, we refocused on more VBI-based sukuk. During the year, RM20 million worth of existing holding of non-VBI-based sukuk were sold and replaced with VBI-based sukuk of the same value; while preserving the portfolio investment yield. Overall, the Bank's Treasury benefitted from improved portfolio investment yield due to timely trading of 'in-the-money' sukuk and replenishing our coffers with higher yielding sukuk.

The investment portfolio registered improved fund-based income by RM41.0 million or 9.2%.

BIMB Investment Management Berhad ("BIMB Invest"), a wholly owned subsidiary of Bank Islam and a full-fledge Islamic Fund management company, is the largest Shariah-ESG fund management company in Malaysia, managing more than RM1 billion of ESG assets under management. It uses more than 250 ESG metrics through data from 50,000 sources across 15 languages to screen each investing companies sustainability position in its Shariah-compliant investment portfolios.

Since 2015, BIMB Invest has launched five Shariah-ESG funds across asset classes, making it the fund manager with the widest range of ESG funds in Malaysia. In 2018, BIMB Invest launched the World's

First ESG Sukuk Fund. Its Global Shariah-ESG Equity Fund, is now the largest global equity shariah fund in Malaysia with a fund size of more than RM900 million and also World's third largest. The global equity Shariah-ESG fund is also the best performing global equity shariah fund for three years and one year performance as at 31 December 2018 by Lipper league table. BIMB Invest was awarded Best Islamic Fund and Asset Management company in 2018, by Alpha South East Asia, a regional financial publication.

BIMB Invest continues to pioneer new SRI with its recent introduction of the BIMB-Arabesque Asia-Pacific Shariah-ESG Equity Fund as well as BIMB ESG Sukuk Fund - the world's first ESG Sukuk Fund in 2018.

Through the ESG filtering process that utilises Artificial Intelligence ("AI") and Big Data analytic process, the investment portfolio will be catered to specific sustainability-related requirements, which include compliance with United Nations Global Compact ("UNGC"), Shariah principles as well as high ESG score and strong sustainability performance.

Today, BIMB Invest is the largest ESG asset manager in Malaysia, with total Asset Under Management ("AUM") of RM1.7 billion as at 31 December 2018.

OPTIMISING SYNERGIES

"All our divisions and support units were tasked towards Optimising Risk & Return with focus on asset yield, funding mix, share of wallet and capital management."

Collaboration was the key to success in optimising returns from our products and services in 2018. Internally, the Bank's divisions and support units focused on enhancing synergies towards harnessing greater share of wallet from current customers. External collaborations were forged with industry partners and selected key target sectors in strengthening brand positioning and profile in new market segments.

Consumer banking leveraged on existing relationships with universities, professional bodies and package employers (mostly government linked corporations) utilising the Bank's cash management solutions. This provides the Bank access to a solid base of well-salaried government servants like teachers and nurses and high-income professionals like doctors and accountants. Engagement with these groups during the year were conducted via corporate sponsorships and participation in their annual events such as Teachers Day and Nurses Day.

BUSINESS REVIEW

(cont'd)

Cross selling of house financing products to package employers reaped significant results. The package employers existing online portal provided a good platform for easy online applications for our financing products as the applicant's information could easily be supported by documents from the respective employer's human resource department.

RM8.3 billion or 45% of the House Financing total portfolio of RM18.7 billion came from this targeted segment in 2018.

At the same time, primary relationships were forged with developers in growing the Bank's house financing market. From being a panel bank for 909 developers and 903 more on an ad-hoc basis in 2017, Bank Islam now serves on the panel of 1,026 developers and 987 more on an ad-hoc basis. Closer engagement with administrators of Waqf Land is also being actively sought to help develop land for the good of Muslim communities nationwide.

46

To widen our footprint in the card business, Bank Islam leveraged on agent banking merchants through a strategic partnership with PETRONAS service stations to reach out to customers in rural areas. During the year, we deployed cash out terminals at selected PETRONAS service stations in Sabah, Sarawak, Kelantan, Terengganu and Pahang.

Another footprint expansion strategy was the opening of eight SME hubs in major towns namely Shah Alam, Johor Bahru, Butterworth, Alor Setar, Kota Bharu, Kuala Terengganu, Kuantan and Ayer Keroh in 2018. This was efficiently accomplished by using the premises of the Bank's Automobile Centres and branches.

In seeking to create a stronger presence within the SME market, the Bank's newly established SME Banking division engaged in industry collaborations to reach out to potential customers. This included leveraging on Credit Guarantee Corporation's imSME referral platform, as well as partnering with government, private agencies and business associations such as Dagang Halal, Malaysia International Halal Showcase ("MIHAS"), and *Persatuan Rakan Niaga Strategik Malaysia* ("PERNISMA"); for dialogues and engagement with their respective supply chain network.

To further help stimulate growth in SME segment in line with the National's SME Masterplan, the Bank's SME and Commercial Banking divisions launched SME Entrepreneur Development in collaboration with government agencies such as SME Corporation Malaysia ("SME Corp"), MTDC, *Teraju*, SJPP and CGC; and the SME Development

Programme was conducted for 40 Bank customers together with the Centre for University-Industry Collaboration ("CUIC"), Universiti Utara Malaysia ("UUM").

In line with Halal Industry Master Plan 2008/2020, a total of 185 companies were approved under the SME segment in 2018. Thus, the Bank participated in the 9th Halal Certification Bodies Convention by Dagang Halal and Malaysia Halal International Showcase to share its SME Islamic financing and deposit products.

Bank Islam's Corporate and Commercial Banking divisions also actively sought new clients within a slow market by sponsoring current clients' corporate events, corporate gifts and merchandise, and capitalising on publicity gained from successful transactions such as the signing of agreements of Bank Islam's Sukuk Murabahah Programme of RM10 billion on 7 August 2018. Traditional and new media were also cultivated as branding channels as commercial banking invested in digital brochures, leaflets and forms; above the line advertisement; below the line collaterals; exhibitions and expos. A nationwide roadshow was held in promotion of e-banker which helped garner 300 new accounts in 2018.

"Through tactics of Optimising Values, The Bank delivered strong profit growth for 2018, sustained by strong financing growth of 8.5%, which was significantly higher than the industry's average financing growth of 4.8% for the year. In optimising resources to enhance cost containment, expenses reduced from RM1.01 billion in 2017 to RM1.00 billion in 2018."

These strategies contributed to the Bank's achievement of an SME-based asset size of RM954.2 million during the year under review.



DISCIPLINED BALANCE SHEET MANAGEMENT

Disciplined Balance Sheet Management is about striking the right balance between profit margin, asset quality, impact of MFRS 9, funding mix, capital and growth. This strategy called for all divisions to adhere to the Bank's set financial targets. Efforts in customer service centricity during the year defended our market share as divisions provided competitive products, excellent service and close rapport with clients to build loyalty.

Working as one, our divisions together realised total assets growth of 10.7% in 2018 through rightsizing of balance sheet to RM63.9 billion. Our financing grew RM3.6 billion to reach RM45.7 billion as at 31 December 2018 with the asset quality remaining strong and resilient, despite the robust expansion and challenging economic environment. The Bank's financing loss coverage ratio stood at 187.8%, almost double the industry average of 97.9% for 2018. We were pleased to see the financing mix between consumer to business meet our set target of 75:25.

On the funding side, the Bank's customer deposits and investment accounts stood at RM49.9 billion and RM5.2 billion at 31 December 2018 with a year-on-year increase of RM3.7 billion and RM0.9 billion respectively. The increase was driven by new product propositions, aggressive campaigns and synergy in marketing between Consumer, Deposits & Cash Management and Treasury divisions.

Performance highlights in garnering CASA deposits included ten major promotion roadshows; attractive prize offerings for Al-Awfar such as over RM9 million in cash, four Audi A4 TFSI 2.0 Cars and 60 *Umrah* packages worth RM8,000 each; and 989 branch engagement events throughout the year. These led to the opening of 227,022 new CASA accounts and 111,903 new Al-Awfar accounts during the year.

In addition, new revenue lines – TDT Step Up @ TDT Go 7 and i-Gain were launched in February 2018 to attract targeted retail deposit growth of at least 4%, focusing on long-term tenure and a diversified client base. These met good response with the TDT Go 7 promotion attracting a total investment of RM95.6 million from the Chinese market. Enhanced business solutions for cash management such as SnapNPay, Voucher Encashment, Direct Debit and JomPay also contributed to the commendable take up of our deposit products.

Treasury division's Special Term Tawarruq-i which provided special preferred rates to loyal customers, attracted RM3.7 billion by working in collaboration with other divisions and with the Bank's branches. The Division also continued leveraging on its winning Money2Overseas foreign exchange ("FX") product in reaching out to potential new clients and successfully acquired 102 new FX customers from corporate, commercial and SME sectors. Through nimble strategies and tactics in improving portfolio, primarily by trading 'in-the-money' sukuk and replenishing the portfolio with higher yielding sukuk, fund-based income increased by RM41.0 million.

FINANCING MIX CONSUMER
TO BUSINESS **75:25**

CUSTOMER DEPOSITS
RM49.9 billion

INVESTMENT ACCOUNTS
RM5.2 billion

RETURN ON EQUITY
15.8%

NET INCOME MARGIN
2.61%

TOTAL CAPITAL RATIO
17.8%

As a result, the Bank's funding position remained healthy with the financing to available funds ratio of 77.7%. Return on Equity ("ROE") was 15.8% surpassing both our target of 15% and industry average of 13% while Return on Assets ("ROA") sustained at 1.3%. Additionally, the Bank's Net Income Margin was also commendable among industry players at 2.61%. The Bank's capital position continued to be healthy as reflected by its total Capital Ratio of 17.8%.

This commendable performance reflects prudent strategic growth and ensures the Bank's ability to sustain value delivery and contribute to the stability of the domestic industry even through the volatile and uncertain global market conditions that are forecasted for the near future.

TOTAL ASSETS GROWTH
10.7%

FINANCING GROWTH
8.5%

TOTAL FINANCING
RM45.7 billion

FINANCING LOSS
COVERAGE
RATIO **187.8%**

BUSINESS REVIEW (cont'd)

MANAGING RISKS AND COMPLIANCE FOR STABLE GROWTH

Risks and Compliance for Stable Growth is well embedded in our Risk Appetite Statement where the Bank has zero-tolerance with respect to regulatory non-compliance. As the reputation of the Bank is its most valuable asset, there is no tolerance to any act that may bring disrepute to the Bank by its staff, its outsourcing partners or vendors. The Bank shall only make business decisions based on strong ethical values and integrity to propagate a culture based on VBI.

The Bank remained vigilant of any potential increase in money laundering and fraudulent activities from customers. Towards this end, dedicated staff from corporate banking and compliance unit worked to verify compliance checklist requirement on Anti-Money Laundering Act and Counter Terrorism Financing (“AML/CFT”) raised by relationship managers for both on-boarding and existing customers. This was in addition to relevant credit checking by all divisions, as regulated by the Credit Reporting Agency Act.

To mitigate negligence in overlooking compliance to new guidelines, all the Bank’s staff were enrolled for relevant compliance courses which included an e-learning programme by Human Resources (“HR”) for AML/CFT; timely updates on BNM’s latest policies and regulations such as compliance to the Statistical Reporting Enforcement Framework (“SREF”); and inculcating a strong compliance culture among the staff through regular training and updating standard operational procedures.

“A key highlight was the establishment of an Embedded Risk Unit (“ERU”) within the Bank’s Risk Management Division during the year. A centralised ERU is a BNM requirement towards increased risk sensitivity as part of the Bank’s Basel IV journey. The ERU strengthens and enhances the governance, processes and culture for an effective risk and compliance oversight across the Bank.”

All financing for the year were underscored by prudent underwriting standards, and the stringent focus on secured asset saw asset quality improving despite the expansion in financing portfolio. The strong asset quality is reflected in the low gross impaired financing ratio

of 0.92%, lower than the 0.93% registered at the end of 2017. This compares positively against the 1.45% registered by the banking system for 2018. This is a result of the Bank’s continued vigilance in proactive account monitoring and prudent underwriting standards. The Bank also took a cautious stance by implementing measures in its approval processes as well as put in efforts towards effective recovery.

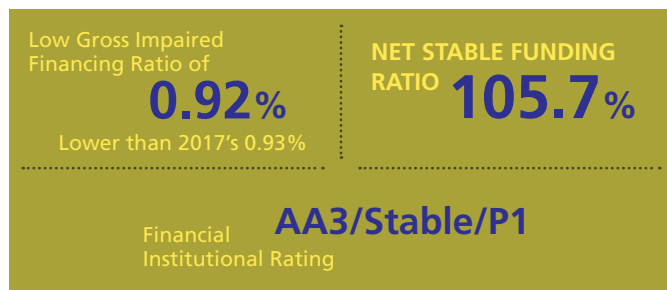
While financing-to-available-fund ratio tapered to 77.7%, the Bank saw a run up to Net Stable Funding Ratio (“NSFR”) readiness at 105.7%, well above the regulatory-required 100%.

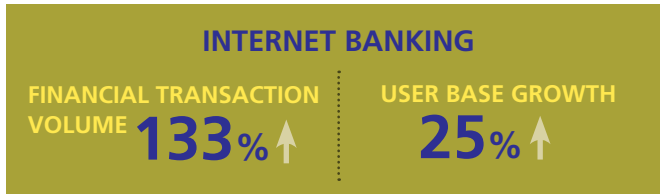
As shown in our Corporate Scorecard, our financial institutional rating was reaffirmed at AA3/Stable/P1, where AA3 rating indicates a strong capacity to meet financial obligations while the P1 rating reflects a strong capacity to meet short-term financial obligations.

DIGITAL TRANSFORMATION

Bank Islam’s digital transformation engaged into a higher gear during the year with a focus on advancing from digital projects into making digital a key element of our business. A Digital Strategy and Roadmap Development and Execution was finalised during the year and this is intended to elevate a Bank-wide digital culture by 2021 whereby Bank Islam will be a Digital Bank of choice through development of Halal digital community and solutions.

In 2018, three key elements defined our digital journey. One was increasing focus on digital delivery of our financial products and services, in line with customers’ increasing preference for online solutions. This included focus on mobile apps, digital financing applications and digital processing. Next was to grow reach and accessibility with greater cost efficiency, especially in reaching out to niche targets. And the third element was to ensure customer protection within the digital world with secure payment system and data protection.





Digital delivery of our financial products and services

Bank Islam’s customer service delivery in 2018 was enhanced with the provision of DuitNow P2P and m-Commerce payment platforms, including SnapNPay mobile app. The provision is aligned to the industry’s focus on technological advancement and serving the greater population who are increasingly using online platforms and mobile devices to perform financial transactions. The SnapNPay facility has also been made available for the public to make donations to Sadaqa House.

Easier and faster applications, processing and approvals were realised through the successful roll out of 300 iPads for mobile application submission; personal financing online applications via the Bank’s package employer’s staff portal; and partnership with digital vendors for online invoice submission and faster verification. An e-statement option was introduced for the Bank’s credit card to improve efficiency through fast and hassle free PIN management online or via SMS; and to promote cost savings by going paperless. BIMB Investment established a Robo-Advisory Investment Platform to target the below 40 internet savvy market segment, in making investment more accessible and affordable.

The significant user base growth of 25% and financial transaction volume of 133% from the Bank’s Internet Banking (“IB”) channel during the year reflect the increased acceptance of online solutions within our present marketplace.

Grow reach and accessibility through digital platforms

SME Banking Division completed the imSME online application with Credit Guarantee Corporation (“CGC”) and promoted Investment Account Platform (“IAP”) via digital banking and e-marketing. Enhanced marketing reach was achieved for the Bank’s personal and vehicle financing through the use of websites and social media channels such as WhatsApp, Telegram, Instagram, Facebook, Mudah. Com, RinggitPlus, iMoney, GoBear, YouTube and SMS.

Personal financing continued to enjoy good response via the EZXCESS interactive advertisement and promotional approach. Customers respond to the promotion through the “EZXCESS” hyperlink and are directly channeled to the product application on-line. This helped garner 20,015 direct leads compared to 18,939 in 2017.

Ensure secure payment system and data protection

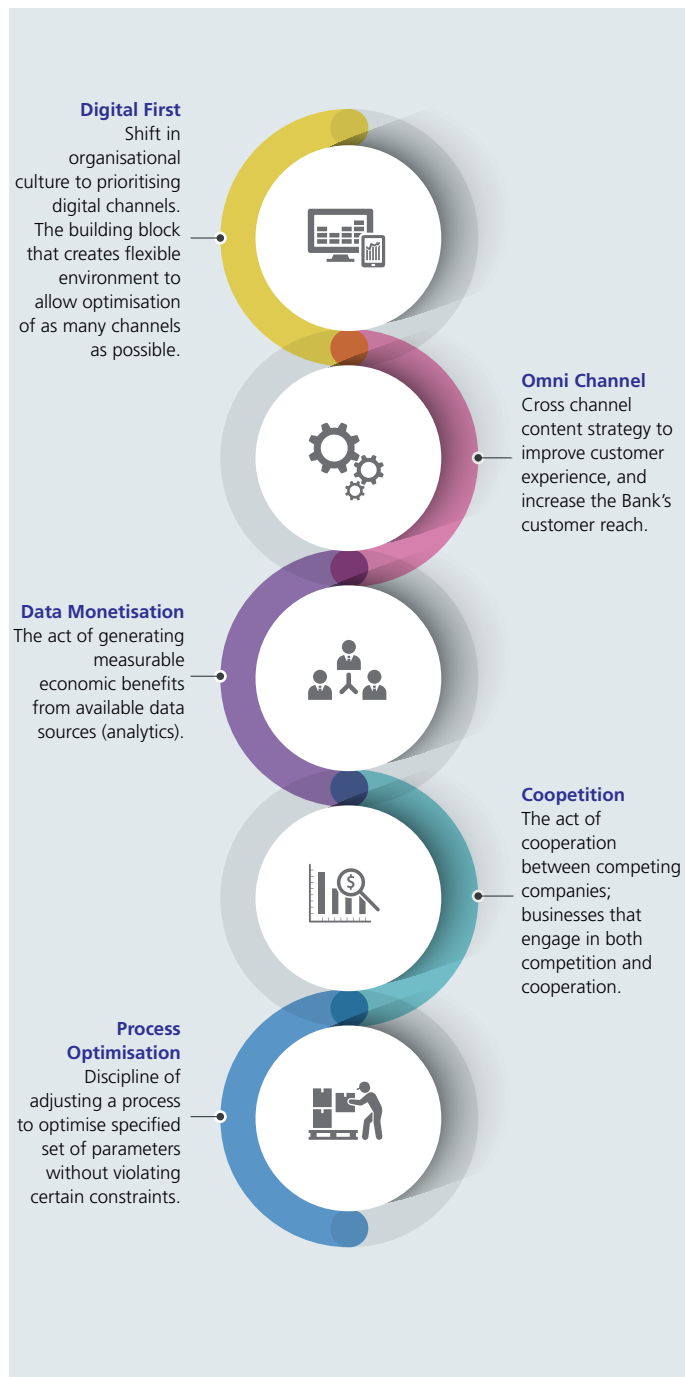
The Bank is mindful that IT is increasingly a key business enabler as well as a critical business risk. Hence ensuring cyber resiliency by implementing a proactive security programme and effectively managing technology risk is of utmost importance. Information security and governance is currently an oversight of the Bank’s Chief Information Security Officer (“CISO”) Office whose objective is to increase the Bank’s cyber resilience and strengthen IT risk posture and culture in tandem with digitalisation. Eight initiatives were rolled out by the CISO Office during the year, namely:

- Vulnerability Assessment programme to identify vulnerabilities and search for cyber security breaches in the Bank.
- Bank-wide internal social engineering programme to promote bank-wide awareness on safe cyber security practices.
- Deployment of industry standards for internal cyber security assurance and IT risk assessment programmes.
- Review and update cyber security incident response procedure to enhance preparedness against cyber security threats.
- Cyber security and IT risk awareness programmes.
- Building cyber threat intelligence capabilities.
- Enterprise Information Security Policy (“EISP”) compliance validation exercise to identify IT security gaps.
- Independent review exercise and validation programme to ensure the Bank is in compliance with all IT related regulatory requirements.

BUSINESS REVIEW (cont'd)

Bank Islam Digital Initiative 2019 Plan

Through our forthcoming 3-year Strategic Plan, digitalisation continues to be a key pillar as we intend to become a Digital Bank of Choice through development of Halal digital community and solutions. The current Digital Strategy and Roadmap Development and Execution will continue to be used to accelerate digital transformation through the following identified tactics for 2019 (some of which are ongoing):



DIGITAL FIRST

- **Implementation of Digital Initiatives Ideation Framework for Digital Initiatives Proposal.**
IMPACT: Design and develop innovative products which are customer centric.
- **Implementation of Digital Initiatives Process Flow and Prioritisation Framework.**
IMPACT: Accelerate and prioritise high impact digital initiatives.
- **Implementation of Digital Marketing SOSTAC Framework.**
IMPACT: Improve visibility and reach in the digital space. Reduce printed materials for marketing collaterals.

OMNI CHANNEL

- **Launch Mobile Banking App.**
IMPACT: Introduce new cost effective channel to serve Bank Islam's customers. Increase reach and channels towards elevating the Customer Experience. Reduce carbon footprint due to reduction of travelling to branches for transactions.
- **Bank Islam Corporate Website Revamp.**
IMPACT: Refresh Bank Islam's digital look.

DATA MONETISATION

- **Build and Implement Data Science and Insight Driven Organisation Capability.**
IMPACT: To improve decision making based on historical data. Ability to leverage on Big Data for insights.

COOPETITION

- **Develop and Implement a partnership framework for FinTech and Digital providers.**
IMPACT: To best benefit both partners in creating new markets and create opportunities for product cross sell. Promote cost reductions, resources complementarity and technological transfer, as well as the development of an Islamic FinTech ecosystem to provide Shariah-Compliant FinTech services.

PROCESS OPTIMISATION

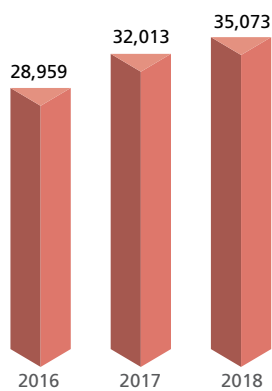
- **Introduce Robotic Process Automation.**
IMPACT: Increase efficiency on back end processes. Eliminate human intervention and error, and reduce dependency on maker checker process.

AT A GLANCE

“Based on the economic outlook, our financing growth next year will once again come more from the consumer banking segment than business banking. As for our commercial and SME business, we think we can do better in terms of trade finance. Currently, our customers are mainly import-based, so we have plans to tackle the export-based ones to grow our trade finance business.”

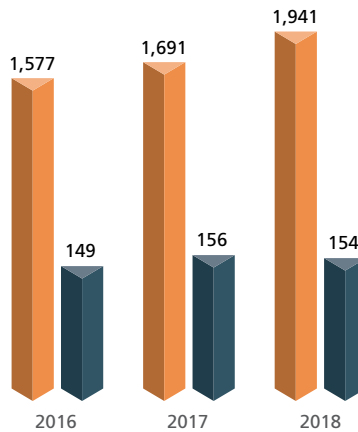
Consumer Banking

ASSET GROWTH (RM million)



.....12 months

INCOME GROWTH (RM million)



.....12 months

■ Fund-Based ■ Non Fund-Based

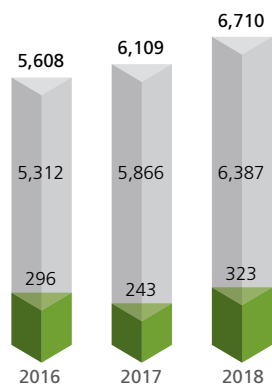
ASSET GROWTH **9.6%**

INCOME GROWTH **13.4%**

TOTAL DEPOSIT GROWTH **6.3%**

Commercial Banking

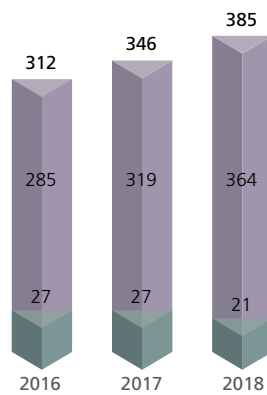
ASSET GROWTH (RM million)



.....12 months

■ Term ■ Trade

INCOME GROWTH (RM million)



.....12 months

■ Fund-Based ■ Non Fund-Based

ASSET GROWTH **9.8%**

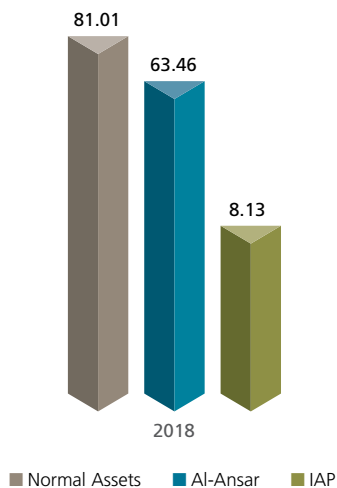
INCOME GROWTH **11.3%**

BUSINESS REVIEW (cont'd)

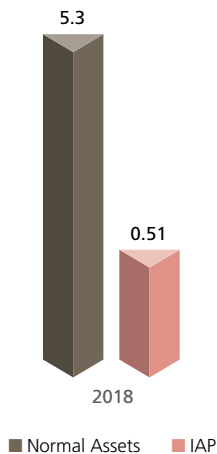
52

SME Banking

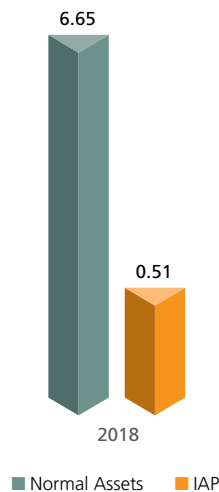
ASSET GROWTH (RM million)



FUND-BASED INCOME (RM million)



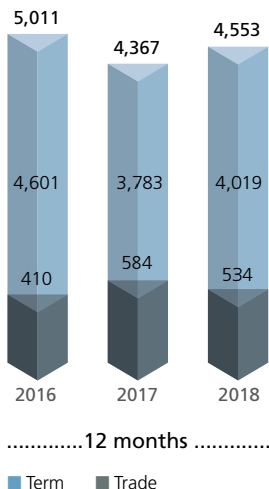
FEE-BASED INCOME (RM million)



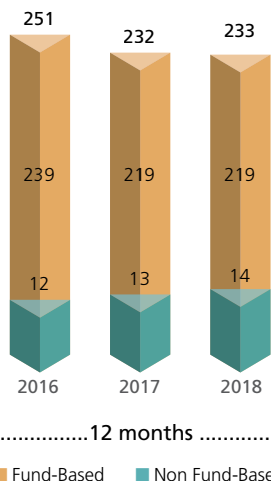
63 NEW SME APPROVALS WORTH **RM45.2** million

Corporate Banking

ASSET GROWTH (RM million)



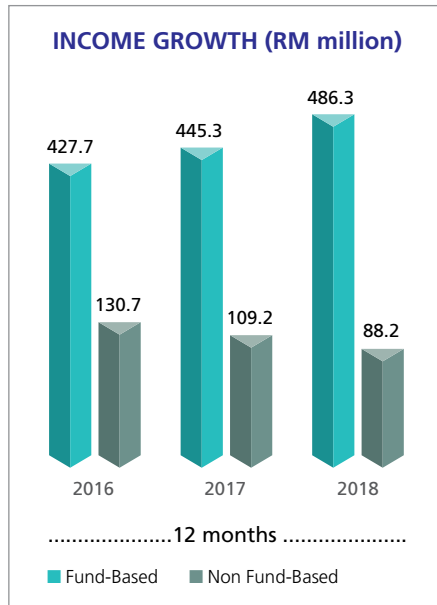
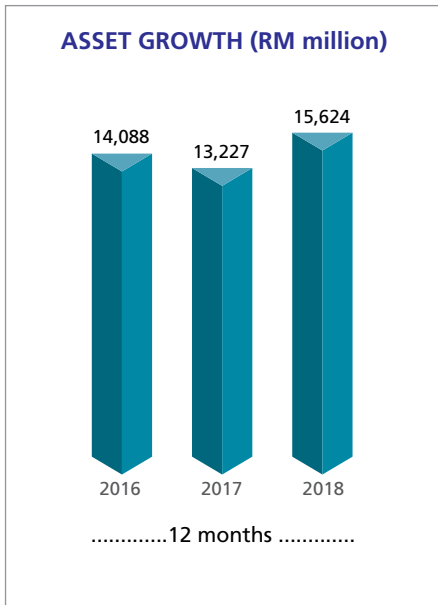
INCOME GROWTH (RM million)



ASSET GROWTH **4.3%**

INCOME GROWTH **0.4%**

Treasury

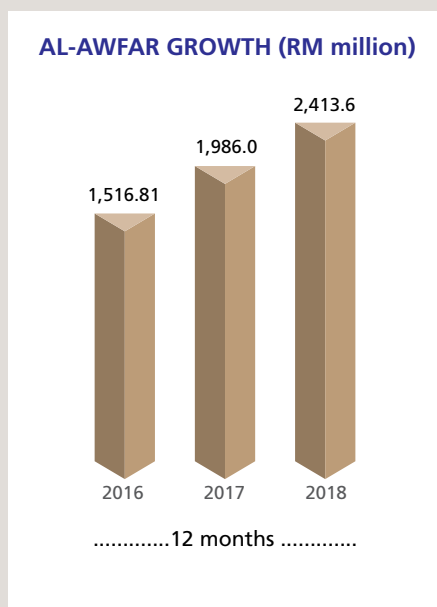
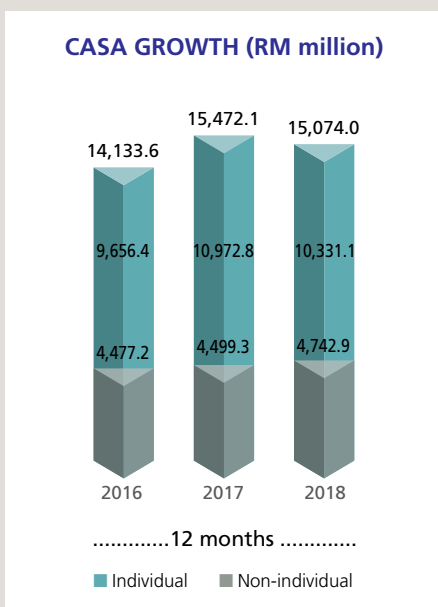


ASSET GROWTH 18.1%

INCOME GROWTH 3.6%

CONTRIBUTION TO BANK FUNDING 50.51%

Deposits & Cash Management



AL-AWFAR GROWTH 21.5%

CURRENT ACCOUNT -6.5%

KPI REVIEW

Delivering value has always been Bank Islam’s core purpose; and today, delivering value to all our stakeholders has become our goal as we advance on our VBI journey. Along with our banking solutions and services, we aim to serve positive impacts to our Shareholders, the Industry, our Customers, Employees, the Environment and the Community. Key performance indicators (“KPIs”) have been set on our value delivery with targets that are updated yearly according to current strategy.

SHAREHOLDER KPIs

	Target	Outcome
Grow profitability	Deliver consistent year-on-year (YoY) revenue growth and sustain net income margin (“NIM”) at 2.5% to 2.6% levels.	<ul style="list-style-type: none"> Revenue grew YoY 10.9% to RM3.3 billion PBZT increased YoY 5.6% to RM810.3 million PAZT increased YoY 4.9% to RM593.9 million Bank Islam’s 2018 NIM was 2.61%
Manage expenses	Be cost efficient while investing for growth, keeping cost-to-income ratio below 55%.	<ul style="list-style-type: none"> By managing overhead expenses through cost containment initiatives and increasing fee-based income, cost-to-income ratio reduced to 53.0% from 57.3%
Manage portfolio risks	Grow exposures prudently, aligned to risk appetite, with financing and asset growth targeted at 11%, gross impaired financing below 1.5%, and net impaired financing sustained below 0%.	<ul style="list-style-type: none"> Financing growth was 8.5% which surpassed banking system average of 5.5% Total assets grew by 10.7% through right-sizing of balance sheet Asset quality remained resilient with gross impaired financing ratio of 0.92% and net impaired financing of -0.8%
Improve asset composition	Achieve composition of 75:25 for financing mix, 20:80 for Fixed vs Float rates, and grow secured financing by over 12%.	<ul style="list-style-type: none"> The Bank achieved the 75:25 financing mix in 2018 It recorded 10% fixed to 90% float 11.1% growth in secured financing attributable to increase in House Financing portfolio by about RM2 billion

	Target	Outcome
Improve returns and earnings per share	Sustain returns to shareholder with return on equity of over 14%.	<ul style="list-style-type: none"> Shareholder equity was RM5,276 million in 2018 Return on equity was 15.8% surpassing banking system average of 13% As a result, earnings per share for the year was 24 sen, up from 23 sen the previous year
Assure strong industry brand standing and repute	Maintain existing achievements in Brand Audit Rating & Accreditations.	<ul style="list-style-type: none"> Re-affirmed at AA3/Stable/P1 by RAM Ratings Net Stable Funding Ratio ("NSFR") readiness at 105.7%, well above the regulatory-required 100% Composite Risk Rating ("CRR") sustained at Moderate
Ensure compliance	Spearheading towards Basel IV requirements.	<ul style="list-style-type: none"> All Risk Controllers attended a full day session on fraud awareness Completed regional BNM ORION classroom training to ensure understanding of reporting requirements Establishment of Embedded Risk Unit to strengthen and enhance governance, processes and culture for an effective risk and compliance oversight Launched Cash Reserve Ratio ("CRR") defensive strategies Developed a standardised Compliance Risk Assessment ("CRA") to be undertaken throughout the Bank
Enhance business sustainability and strength	Redefine a culture of integrity and Zero-Tolerance towards corruption.	<ul style="list-style-type: none"> Key enhancements were made to the Bank's AML/FATCA System Completed the Compliance VBI Challenge and Compliance Innovation Programme to redefine our culture and brand As part of a newly introduced Ethics & Integrity Programme to drive "Zero-Tolerance" mindsets, the Bank's staff undertook a Corruption Free Pledge Bank-wide in January 2018 A Whistle Blowing framework and policy was issued in August 2018, and a Vendor Code of Ethics Guideline was established in November 2018

KPI REVIEW (cont'd)



INDUSTRY KPIs

	Target	Outcome
Advance industry strength and sustainability	Play an active role in the national strategic agenda for the Islamic finance industry.	<ul style="list-style-type: none"> • In 2018, the Group actively engaged with the government and industry to advance the progress of VBI. We worked with BNM and GABV on developing the VBI scorecard and assessment framework • Supported the Halal Industry Master Plan 2008/20 by engaging with relevant governmental agencies • Provided leadership to industry-led schemes such as AIBIM's myWaqaf initiative
Organise Knowledge-sharing initiatives	Take a lead as an industry leader in Islamic finance and enhance the Bank's positioning as an industry expert.	<ul style="list-style-type: none"> • Organised SME Development Programme in collaboration with Centre For University-Industry Collaboration ("CUIC"), Universiti Utara Malaysia ("UUM") which attracted 40 participants • Provided guidance on Shariah compliance for AKPK's Debt Management programme • Organised Ilmu Sharing Series, <i>Seminar Perbankan Islam</i> and <i>Kembara Muamalah</i> in collaboration with universities and state religious authorities <ul style="list-style-type: none"> - 2 <i>Seminar Perbankan</i> was held during the year in Melaka and Kedah - 14 Ilmu Sessions were conducted with participation by 1,700 students and lecturers - <i>Kembara Muamalah</i> was held over 200 venues across Malaysia
Participate in industry events	Continue participating and contributing in industry events, seminars and panel discussions to build relationships among peer organisations and create presence of brand and philosophy in the marketplace.	<ul style="list-style-type: none"> • Our CEO participated as a panelist at the Global Islamic Finance Forum 2018, themed "Value-Based Intermediation – Beyond Profit" to share Bank Islam's VBI insights with thought leaders and delegates from all over the world • Collaborated with government agencies supporting halal industry e.g. Halal Development Corp & Dagang Halal in line with Halal Industry Master Plan 2008/20 • Participating in the 9th Halal Certification Bodies Convention and Malaysia Halal International Showcase to promote a vibrant ecosystem for the 'halal' industry



CUSTOMER KPIs

	Target	Outcome
Increase Reach and Penetration of e-channels	Enhance and expand Internet Banking ("IB") capabilities and other online platforms.	<ul style="list-style-type: none"> Our IB market share continues to grow faster than industry with encouraging growth since 2016. In 2018, Waqf, Tabung Haji services, Person to Person ("P2P") payment, and m-Commerce Payment were enabled on the Bank's IB platform. YoY results show that for the year, IB generated 80% more fee income driven by transaction volume growth of 133% and 25% growth in total subscribers
Enhance customer satisfaction	Prudent complaint management to eradicate the most common complaints. Introduction of service excellence programmes to drive customer loyalty. Improvements in customers' attrition through process improvement and centralisation.	<ul style="list-style-type: none"> A reduction of 51% in complaints received Implementation of BSE Programme at branches Establishment of Bank Islam Customer Service Charter Participated in CSI Survey as per industry-wide initiative
Improve service turnaround time	Optimise SSTs functionality. Automated Teller Machines ("ATM") and Cash Deposit Machines ("CDM") uptime of 98% and 95% respectively.	<ul style="list-style-type: none"> Card replacement/deletion functionality introduced Consumer financing turnaround time met target of five days ATM uptime was 97.90% while CDM's was 96.35%
Continuous product and service innovations	Deliver superior banking experience through enhancement of IB platform. Formalise a digital banking plan.	<ul style="list-style-type: none"> Introduced Tabung Haji Services, income tax services and waqf for Sadaqa House and P2P payment on the IB platform
Increase cyber resiliency and strengthen IT Risk posture in tandem with growing digitalisation	Robust branch risk and compliance regime to combat fraud and avoid losses to customers.	<ul style="list-style-type: none"> Introduced an automation and enhancement project to strengthen the CIF creation and account opening for better customer risk profiling and defaulted high risk code On April 2018, customer awareness brochures on Internet Banking security and the proliferation of scams was published as Static banners on website, Internet Banking site, SST screens and videos on social media Conducted Vulnerability Assessment programmes to identify potential vulnerabilities and search for past and current cyber security breaches. Cybersecurity detection was further improved with incident response capabilities Conducted Enterprise Information Security Policy ("EISP") compliance validation exercise Administered bank-wide internal social engineering programme and promoted awareness on safe cybersecurity practices and IT risk awareness programmes

KPI REVIEW

(cont'd)

	Target	Outcome
(cont'd)		<ul style="list-style-type: none"> Adopted and deployed internationally known standards for internal cyber security assurance and IT risk assessment programmes Conducted cyber attack scenario analysis that simulate the cyber security incident response plan Auto reminders on receivable charges such as stale Banker cheques, AFT insufficient balance and CA negative balance achieved RM268,000 in cost savings and freed staff time Automation of closing of account due to Bankruptcy was implemented in May 2018 Migration to SSTs reduced over the counter transactions by 9% as at December 2018

EMPLOYEE KPIs

	Target	Outcome
Sustain high performing employee retention through the Bank's employee value proposition ("EVP")	Maintain staff attrition rate below 5% and sustain Employer of Choice ranking. Provide our people with opportunities for internal mobility to enhance professional and personal growth.	<ul style="list-style-type: none"> The Bank's high performing staff attrition rate was stable at 1.5% The Bank continued to recognised as an Employer of Choice: <ul style="list-style-type: none"> 18th among Top 20 companies at the Malaysia's 100 Leading Graduate Employers Awards 2018 2nd Runner Up in Banking & Financial Services Sector Top 10 Winner in Banking Sector at the Graduates' Choice Awards 2018 Conferred Asia's Best Employer Brand at the Best Employer Brand Awards 2018 Enhanced its two-year Young Leaders Programme whereby four trainees were recruited Partnered with MyPAC to provide scholarships to five students to pursue ACCA professional qualification

	Target	Outcome
Enhance staff welfare	Provide more value-added benefits to staff.	<ul style="list-style-type: none"> Established <i>Taska</i> Bank Islam at Menara Bank Islam with an annual subsidy of RM103,680. 27 staff benefitting to date Established Staff <i>Ihtimam</i> Fund to assist employees or dependents of deceased employees who are facing financial difficulties. 16 staff benefitted to date and received RM221,883.75 Revision of HR policies: <ul style="list-style-type: none"> - Paid maternity leave extended to 90 days - Paternity leave extended to seven days - Early release for expecting mothers (minimum five months)
Enhancing knowledge and skills	Promote e-learning via Webinar and reduce travelling to lessen jet fuel burn.	<ul style="list-style-type: none"> During the year, HR has started looking at this option 9 of 9 directors completed training for more than 2 programmes. 9% of staff are certified with a professional qualification
Develop in-house talent pool with knowledge sharing on Shariah	Knowledge-sharing through Shariah awareness initiatives by the Bank's Shariah Division.	<ul style="list-style-type: none"> Enrolled all five Shariah Supervisory Council members in the Certified Shariah Advisors certification programme by the Association of Shariah Advisors Malaysia In April 2018, launched Module 1 of Shariah e-learning for Shariah compliance awareness among staff. Module 2 was to be launched in 2019
Increase productivity via IT Digital Transformation	Process automation and centralisation in support of Digitalisation and better service delivery.	<ul style="list-style-type: none"> Bank-wide migration towards process automation for Western Union, virtual account opening, automated account and services inquiry, digitalised forms, online deposit slips and signature verification system are freeing up branch staff time and enhancing productivity
Support government agenda	Continued to support Skim Latihan 1Malaysia ("SL1M").	<ul style="list-style-type: none"> Provided attachment for 235 SL1M trainees as at 2018, with 22 trainees absorbed

KPI REVIEW (cont'd)

ENVIRONMENT KPIs

	Target	Outcome
Impacting the development of a greener future through strategic business support	Ongoing collaboration with Green Tech Malaysia to focus on Green Tech Financing Scheme in line with national agenda to promote green tech and renewable energy.	<ul style="list-style-type: none"> 2 customers with facility totalling RM47.5m has been approved under Green Tech segment (solar energy). The Bank is financing 2 solar plants at: <ol style="list-style-type: none"> <i>Kawasan Perindustrian Sg Bari, Setiu, Terengganu</i> <i>Kawasan Perindustrian Batu Rakit, Terengganu</i> Both solar plants are generating power energy supply to TNB which cater to the East Coast region especially Terengganu
Reducing paper, energy and wastage in our operations	Utilise more energy savings equipment, promote energy and water conservation, reduce the use of paper and print volume.	<ul style="list-style-type: none"> Deployment of signature verification system towards increased paperless operations Most of the non-IT office equipment is equipped with energy saving mode. Centralised air-conditioning is set to optimum temperature to minimise energy usage. Redirecting of printing through multi functional printers (“MFP”) instead of standalone printers to reduce print volume. To date, we have installed more than 200 units of MFPs nationwide thus reducing the cost, paper and energy Usage of LED lights in signages of all our branches which minimises power consumption from 415 volts per fluorescent bulb to 240 volts per LED bulb

COMMUNITY KPIs

	Target	Outcome
Uplifting society through strategic business support.	Creation of Sadaqa House platform and myWaqf initiatives.	<ul style="list-style-type: none"> On 19 January, the Bank launched Sadaqa House, its latest agenda for social finance initiatives which allows contribution from the public to be made through this digital crowdfunding collaboration with Ethis Ventures Sdn Bhd and GlobalSadaqah.com. Contributions are channelled towards realising social finance projects for underserved sectors such as healthcare, education and entrepreneurship. The Bank matches every ringgit contribution into the Sadaqa House fund account, at the rate of 1:1 to a maximum of RM500,000 myWaqf is a collaborative effort by six AIBIM member banks to help State Islamic Religious Councils in spearheading waqf projects at their states. Bank Islam has been appointed Lead Bank in Perlis, Wilayah Persekutuan and Sabah. On 6 June 2018, the Bank established a Joint Management Committee with Majlis Agama Islam Perlis for a Haemodialysis Centre Building in Tuanku Fauziah Hospital compound

	Target	Outcome
<p>Strengthening stakeholder relationships through value-added solutions</p>	<p>Support and engage with the societies and associations who are also our customers such as Teachers, Nurses, Malaysia Institute of Accountants ("MIA"), Malaysia Medical Association ("MMA"), Board of Engineers Malaysia ("BEM"), SMEs, Universities Alumni, staff and students of Universities.</p>	<ul style="list-style-type: none"> • Bank Islam participated in ongoing initiatives as the main sponsor for "Anugerah Tokoh Guru". We have been actively involved in Teachers and Nurses Day celebrations nationwide for three consecutive years • In Wealth Management, we offer Takaful coverage as part of benefits for Corporates, SMEs, and University partners that do not provide medical benefits • The Bank has also consistently helped customers affected by floods by waiving the charges imposed on applications for replacement of debit card or passbook; a moratorium of six months for financing products for customers affected by flood and waiver of compensation fee imposed on customer's account during the moratorium period • Distributed RM1.27 million to asnaf students from 56 higher learning institutions

Total 2018 Investment in community and corporate responsibility projects (including Zakat Wakalah):

More than **RM4.4**million

ZAKAT FY2017 PAID IN 2018 **RM13.3**million



**CORPORATE
RESPONSIBILITY**

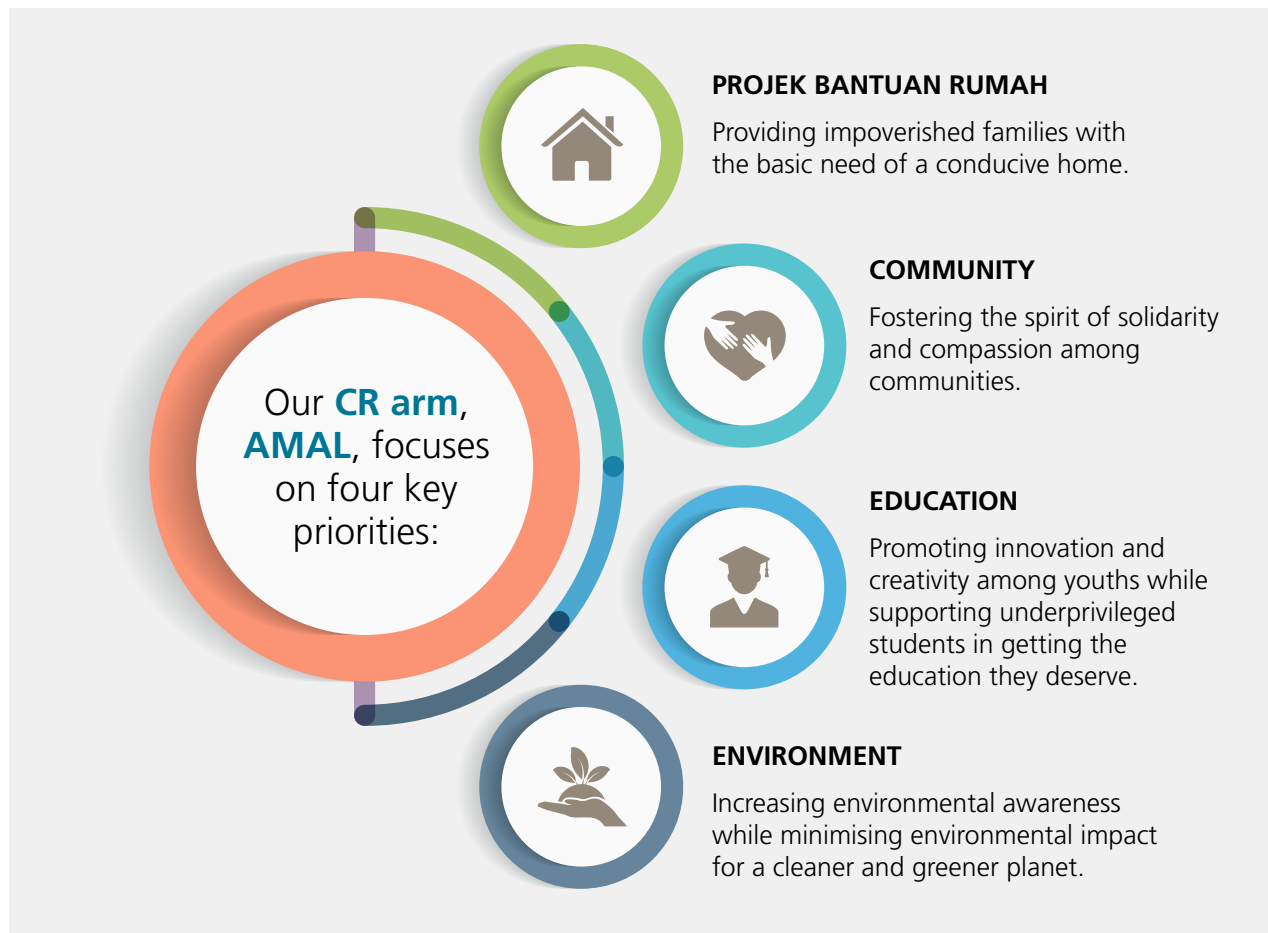
SHARING FOR THE GREATER GOOD



MAKING A POSITIVE DIFFERENCE THROUGH CORPORATE RESPONSIBILITY

For Bank Islam, corporate responsibility (“CR”) is our channel to make a significant and positive contribution to people, businesses and communities who have supported and partnered with us in the last 35 years. As a Shariah-guided Malaysian Bank, our CR commitment, branded as ‘AMAL’, is a vital aspect of our operations as it reflects our VBI role to contribute to the health and wealth of communities across the country; and our patriotic duty to shape a better future for our fellow citizens.

Our efforts to support communities nationwide allow us to deliver value towards People, Planet and Prosperity. Our engagements with diverse communities has mutually benefitted the Bank, our beneficiaries as well as all other individuals and organisations involved. The CR projects we launch are enhanced by the understanding of the needs of these beneficiaries, by our priorities as an Islamic bank, and as far as possible are tuned to helping build sustainable futures for all.




CORPORATE RESPONSIBILITY

(cont'd)

PROJEK BANTUAN RUMAH (HOUSING AID PROJECT)



The plight of the homeless, those who live in decrepit conditions and families whose homes are destroyed are close to our heart. Bank Islam strives to ensure poor and underserved Malaysians have at least a basic standard of living by providing them a conducive home and a sustainable living environment. Our *Projek Bantuan Rumah* proved to be even more pertinent today given the rising cost of homes especially in recent years. Initiated in 2008, the flagship project involves channelling contributions to construct and rehabilitate houses for underprivileged families. Since its inception, more than RM8.35 million has been allocated to *Projek Bantuan Rumah*, allowing 283 marginalised families across the country to own and live in comfortable homes. In 2018, 14 families in Sabah and 4 more families in Kedah were selected as beneficiaries of this programme.

283 houses 
in several states built/
repaired at a total
cost of **RM8.35** million

64

AMAL IHTIMAM (FOSTERING EMPATHY DURING RAMADAN, SYAWAL & ZULHIJAH)



Our AMAL *Ihtimam* programme eases the burden of underprivileged communities during festive months and foster a bond of support and care by breaking fast with them, enjoying a Syawal get-together or holding a korban celebration. Financial contributions in the form of Duit Raya are also extended to ease the finances of these marginalised communities during this period.

Bank Islam management and staff across Malaysia organise and participate in these functions, taking the time to personally meet and engage with recipients of the programme in order to understand their needs further. Held during the months of Ramadan, Syawal and Zulhijjah, we reached out to over 1,300 individuals in 2018. These comprised orphans, underprivileged students, single mothers, the disabled, senior citizens, the homeless, orang asli, asnaf and muallaf.

As with every Ramadan month for the last three years, our nationwide AMAL *Ihtimam* Ramadan programme continued with efforts to support uniformed personnel who have to be on duty at the time of breaking fast. In 2018, we distributed packed meals to 230 fire fighters on duty in Kuala Lumpur and 300 *kuih* boxes to nurses and patients in the paediatric ward of Hospital Besar Sultanah Aminah, Johor Bahru.

A total of **RM342,950** 
was contributed
to this programme in **2018**

VISIT AND DONATIONS TO PUSAT JAGAAN WARGA EMAS MAIMUNAH & MADRASAH AD-DINIAH, BATU PAHAT, JOHOR

As part of the Bank's AMAL initiatives to care for the underprivileged, a total of 25 volunteers from Bank Islam spent half a day on 6 October 2018, visiting with 150 senior citizens of the home. The team provided hi-tea treats and entertainment with clown shows as well as contributions in kind that included, bolsters, towels and daily food supplies. A day later, in conjunction with BHB's Media Community Drive 2018, 200 representatives from the media and the Bank visited the 12 residents of Madrasah Ad-Diniah and contributed groceries and cash.



INSTALLATION OF SOLAR POWERED ULTRA FILTERING SYSTEM AT SEKOLAH MENENGAH UGAMA (A) AL-TAQWA

Bank Islam pledges to ensure the health and wealth of the society and environment, without sacrificing its commitment towards business growth. On 30 September, the Bank collaborated with University Malaya ("UM") Centre of Innovation and Commercialisation ("UMCIC") to provide a Solar Powered Ultra Filtering System that would supply clean drinkable water for up to 300 to 400 persons a day at the hostel and school premises of SMU (A) Al-Taqwa, Felda Chiku 2, Gua Musang, Kelantan.

Total contribution **RM 100,000** 

SUPPORTING SURAU IMARAH SEKOLAH-SEKOLAH PROGRAMME AT SELECTED NATIONAL SCHOOLS

Bank Islam once again sponsored the Ministry of Education's national *Anugerah Surau Imarah Sekolah-Sekolah* ("ASISS") in March 2018 with RM231,500 of zakat funds. This programme encourages Muslim students to invigorate prayer spaces in their schools by providing awards for the best primary and secondary school *surau* and *musolla* in the country. Over the years, the competition has inspired its participants to improve the management of their school *surau*s and *musollas* by elevating them into educational centres that also carry out *da'wah* or missionary activities. Winning schools were announced at the awards presentation event held at the Ministry of Education auditorium in Putrajaya on 13 March 2018.



CORPORATE RESPONSIBILITY (cont'd)

SPONSORSHIP OF QURAN RECITATION COMPETITION

Bank Islam sponsored two units of Perodua AXIA cars amounting to RM80,000 for the male and female *Hafazan Al-Quran* champions of the national level *Majlis Tilawah & Menghafaz Al-Quran Tahun 1439H/2018*. The event, held at Kompleks Islam Putrajaya, reinforced Bank Islam's standing as the nation's leading Islamic bank committed to nurturing love for the values and messages within the Quran.



HARI AMAL – CELEBRATING MALAYSIA DAY WITH NATIONWIDE CR ACTIVITIES

On 20 October, Bank Islam once again put in motion 14 CR activities in all 14 states of Malaysia as part of our Hari AMAL programme. This signature annual CR programme aims to foster the spirit of solidarity and camaraderie among fellow Malaysians, with the Bank's staff fully involved in lending a hand to communities and individuals in need. Hari AMAL is the avenue for our employees to be fully involved in the organisation and execution of CR initiatives, and work together with our clients and various stakeholders in contributing to the well-being of the communities.

On that auspicious day, more than 500 volunteers comprising Bank Islam staff, non-governmental organisations ("NGOs") university students, school children and underprivileged groups got involved in gotong-royong activities such as conducting *agama* classes, cleaning, refurbishing, and repairation of homes, schools, mosques and other buildings.

In Negeri Sembilan, a commitment to environmental sustainability was made with the planting of over 200 mangrove trees in Port Dickson by 60 staff.

About RM180,000 of zakat fund and AMAL contribution was distributed to beneficiaries by participating branch managers of every state. Among the zakat recipients were individuals (31), schools (6), a mosque, a skill development centre and a centre for special needs children.

Environmental Sustainability



200 mangrove trees
in Port Dickson by
60 staff

AMAL MUSA'ADAH – EMPOWERING SMALL BUSINESS OWNERS

Our AMAL *Musa'adah* programme aims to nurture the sustainability of small business owners by growing potential through education and training, and providing financial support to start up or upgrade their businesses. Carried out in collaboration with *Amanah Ikhtiar Malaysia* ("AIM"), the programme's main aim is to help these businesses sustain independently in the long term. A total of RM70,000 was contributed to 56 small business owners in Kedah. Among the contributions made towards the programme were basic necessities, business capital, kiosks, machineries and equipment.



SCIENCE FESTIVAL EDUCATION PROGRAMME

The Science Festival Education programme was held at Petrosains as part of the Petrosains Playsmart & Science Engagement session. Bank Islam sponsored the participation of 40 selected students from six schools in Sentul, Kuala Lumpur in order to spark a greater love for science. The students were provided the opportunity to discover science besides showcased activities and have a fun time while learning.



PINTAR PROGRAMME – MOTIVATIONAL CAMP

The PINTAR Programme is particularly dear to our heart as its mission is aligned with ours as well: To make a meaningful or positive difference in the lives of Malaysian students from the underserved communities. Bank Islam has been actively involved with PINTAR Foundation since 2008, and thus far, has adopted a total of 20 PINTAR schools nationwide with the exception of Perlis. The chosen schools are located in the vicinity of our branches and are in dire need of financial assistance as a high portion of students are from low income and underprivileged families. We are committed to help level the playing field for them and in improving the quality of their education in helping them to develop as potential future leaders. We have brought about a number of benefits for our PINTAR schools, creating positive impact and touching the lives of approximately 21,000 students; contributing RM1.9 million to the initiative, besides giving our employees an opportunity to volunteer at implemented programmes.

For 2018, the main event was a motivational camp at Janda Baik, Bentong, Pahang which provided additional coaching for Maths and English SPM and PMR papers coupled with outdoor challenges and team building training by the International Islamic University Malaysia ("IIUM") for over 78 asnaf students.



CORPORATE RESPONSIBILITY (cont'd)

INNOVATION, INVENTION & DESIGN EXPOSITION (“IIDEX”) – PROMOTING TECHNOLOGY & CREATIVITY

Bank Islam has been the proud main sponsor of the Innovation, Invention and Design Exposition (“IIDEX”) since 2003. The focus of Universiti Teknologi MARA’s (“UiTM”) annual international exhibition and competition of IIDEX2017 is aligned with the third thrust of the National Higher Education Strategic Plan which is to enhance research and innovation and encourage collaboration between the academia and industries. The one-week event held in UiTM, Shah Alam attracted participants from schools, colleges and universities. The annual event has become a highly regarded platform for researchers, industries, academics, students as well as practitioners to unleash brilliant new ideas as well as to showcase their inventions and explore opportunities for commercialisation.



JOM KE SEKOLAH – ENCOURAGING SCHOOL ATTENDANCE FOR UNDERPRIVILEGED YOUTHS

Bank Islam understands the financial constraints faced by parents, especially the less fortunate, in providing schooling needs for their children. To address this predicament, we continued to contribute schooling necessities (full sets of uniform, tracksuits, bags, stationeries and cash) to needy students as part of our *Jom Ke Sekolah* programme which was held at all national regions, including East Malaysia. Besides easing the burden of underprivileged parents, the programme also acts as a motivation factor for children to attend school. The programme which was conducted in November 2018, saw the involvement of more than 150 Bank Islam volunteers, with over RM133,000 of zakat fund allocated and approximately RM50,000 AMAL fund was distributed.

DELIVERING FURTHER VALUE THROUGH CR

The Bank's AMAL programme has grown from strength to strength as a way for us to implement our social and environmental responsibility policy. With VBI in the works within our Shariah-based framework, we are geared to advance towards a more sustainable economic development model. Through CR, we have an unlimited opportunity to help uplift society for the better as we explore innovative ways to help communities thrive and contribute towards a sustainable future. Innovation and creativity drive our business operations, and we leverage on these same strengths in order to plan effective programmes that create sustainable impact. We challenge ourselves daily to look beyond Bank Islam's own interests for greater opportunities to do what's right and create a positive and lasting impact on the lives of our customers, shareholder, communities and surrounding environment. This is manifested in our pledge to promote VBI which subscribes to the Triple Bottom Line principle as a measure of performance. We are continuously seeking to adopt new innovative approaches and collaborations to deliver inclusive growth and advancement for the good of all.





CAPITALISING ON PEOPLE & SERVICE EXCELLENCE

Named
TOP VBI SCORER

by Bank Negara Malaysia

**BEST EMPLOYER
BRAND AWARDS 2018**

at the 9th edition of the Best Employer
Brand Award

**SECOND RUNNER-UP
MOST POPULAR GRADUATE
EMPLOYER IN BANKING AND
FINANCIAL SERVICES SECTOR**

at Malaysia's 100 Leading Graduate
Employers Award 2018

**TOP 10 BEST EMPLOYER
BRANDS WINNER
IN BANKING CATEGORY**

at Graduates' Choice Award 2018

**RANKED 4TH FOR
MALAYSIA TOP BANKS
IN GOVERNMENT BONDS**

at The Asset Asia Bond Awards 2018





ISLAMIC BUSINESS & FINANCE
SOUTHEAST ASIA AWARDS 2018
Best Sustainability Bank Award



ASIA BUSINESS AWARDS 2018

BEST SUSTAINABILITY

at Islamic Business & Finance Southeast Asia Awards 2018

BEST CSR INITIATIVE (PROJEK #BUATBAIK) 2018

by Malaysia's 100 Leading Graduate Employers Awards 2018

MALAYSIA DEAL OF THE YEAR 2017

by Islamic Finance News

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

DATUK ZAMANI ABDUL GHANI

Members

PROFESSOR EMERITUS TAN SRI DATO' DR ABDUL SHUKOR HUSIN

DATUK ZAITON MOHD HASSAN

(resigned w.e.f. 18 February 2019)

DATO' SRI KHAZALI AHMAD

ZAHARI @ MOHD ZIN IDRIS

AUDIT AND EXAMINATION COMMITTEE

Chairman

Noraini Che Dan

Members

Datuk Zamani Abdul Ghani

Datuk Zaiton Mohd Hassan

(resigned w.e.f. 18 February 2019)

Dato' Sri Khazali Ahmad

Zahari @ Mohd Zin Idris

Mohamed Ridza Mohamed Abdulla

Nik Mohd Hasyudeen Yusoff

NOMINATION AND REMUNERATION COMMITTEE

Chairman

Noraini Che Dan

Members

Datuk Zamani Abdul Ghani

Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin

Datuk Zaiton Mohd Hassan

(resigned w.e.f. 18 February 2019)

Zahari @ Mohd Zin Idris

Nik Mohd Hasyudeen Yusoff

BOARD RISK COMMITTEE

Chairman

Nik Mohd Hasyudeen Yusoff

Members

Datuk Zamani Abdul Ghani

Datuk Zaiton Mohd Hassan

(resigned w.e.f. 18 February 2019)

Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin

Zahari @ Mohd Zin Idris

Noraini Che Dan

Azizan Ahmad

BOARD FINANCING REVIEW COMMITTEE

Chairman

Zahari @ Mohd Zin Idris

Members

Datuk Zamani Abdul Ghani

Datuk Zaiton Mohd Hassan

(resigned w.e.f. 18 February 2019)

Nik Mohd Hasyudeen Yusoff

Azizan Ahmad

MOHAMED RIDZA MOHAMED ABDULLA
NIK MOHD HASYUDEEN YUSOFF

NORAINI CHE DAN
AZIZAN AHMAD

BOARD STRATEGIC REVIEW COMMITTEE (Established on 25 January 2018)

Chairman

Nik Mohd Hasyudeen Yusoff

Members

Datuk Zaiton Mohd Hassan
(resigned w.e.f. 18 February 2019)

Mohamed Ridza Mohamed Abdulla

Noraini Che Dan

Azizan Ahmad
(appointed w.e.f. 1 January 2019)

BOARD INFORMATION TECHNOLOGY COMMITTEE (Established on 27 April 2018)

Chairman

Mohamed Ridza Mohamed Abdulla

Members

Dato' Sri Khazali Ahmad

Azizan Ahmad

SHARIAH SUPERVISORY COUNCIL

Chairman

Professor Dato' Dr Ahmad Hidayat Buang

Members

Ustaz Dr Ahmad Shahbari @ Sobri Salamon

Assistant Professor Dr Uzaimah Ibrahim

Associate Professor Dr Yasmin Hanani Mohd Safian

Sahibus Samahah Dato' Dr Haji Anhar Haji Opir

CHIEF EXECUTIVE OFFICER

Mohd Muazzam Mohamed
(appointed w.e.f. 5 December 2018)

Khairul Kamarudin
(resigned w.e.f. 20 July 2018)

COMPANY SECRETARIES

Maria Mat Said (LS0009400)

Norhidayati Mohamat Salim (MIA 27364)

REGISTERED ADDRESS

Bank Islam Malaysia Berhad (98127-X)
32nd Floor, Menara Bank Islam
No 22, Jalan Perak, 50450 Kuala Lumpur
Tel : (6) 03 2088 8000
Fax : (6) 03 2088 8033
Web : www.bankislam.com.my

AUDITORS

KPMG Desa Megat PLT (LLP0010082-LCA & AF 0759)
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

SHAREHOLDING STRUCTURE

74



SHAREHOLDER'S INFORMATION

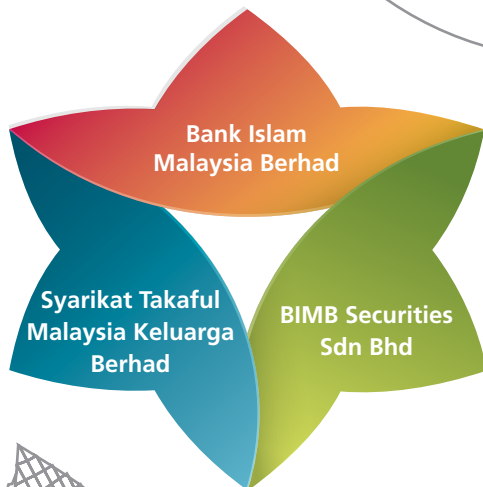
BIMB HOLDINGS BERHAD



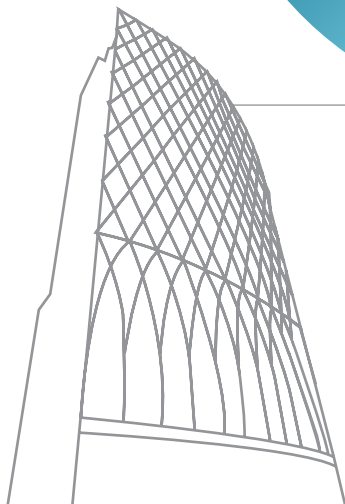
Established on 20 March 1997, BIMB Holdings Berhad ("BHB") was listed on the Main Market of Bursa Malaysia on 16 September 1997. BHB is the first Islamic Financial Holding company approved by Bank Negara Malaysia under the Islamic Financial Services Act 2013.



The leading
Shariah-compliant
financial services
provider with an
issued and paid-up
capital of
RM 4.1 billion



The core subsidiaries of the BHB Group are pioneers in various Islamic financial services including banking, takaful, stockbroking, and other related services, namely Bank Islam Malaysia Berhad, Syarikat Takaful Malaysia Keluarga Berhad and BIMB Securities Sdn Bhd.



BHB is well-positioned to contribute to the nation's aspiration in establishing Malaysia as a vibrant International Islamic Financial Centre.



ISLAMIC FINANCIAL SERVICES

The company has gained in strength and stature over the years via its stable strategic investments in various pioneering Islamic institutions.

SUBSIDIARIES' INFORMATION

BIMB INVESTMENT MANAGEMENT BERHAD ("BIMB INVEST")

The leading Shariah Environmental, Social & Governance ("ESG") investment management company in Malaysia, offering the next generation of investment management.

BIMB Invest today is the largest ESG asset manager in Malaysia, providing comprehensive Shariah-ESG investment solutions across multiple asset classes to both individual and corporate investors in the region.

BIMB Invest has managed total of over RM1.74 billion asset under management ("AUM") as at 31 December 2018.

BEST ISLAMIC ASSET AND FUND MANAGER IN MALAYSIA 2018

Second consecutive win from **Alpha Southeast Asia**, a regional finance and investment publication



BIMB Invest has formed a strong strategic partnership with **Arabesque Asset Management Limited**, the **World's First ESG-Quant specialist**, based in United Kingdom.



This alliance has enabled BIMB Invest to pioneer **Shariah-ESG** integration, through **Artificial Intelligence, Big Data** technology and Deep Machine learning in its investment process, offering a **sustainable and innovative** investment solutions.

2018 KEY HIGHLIGHTS

Malaysia's **largest Shariah-ESG Fund Manager** with about **RM1 billion** ESG asset under management.

Widest ESG Funds Offering across asset classes in Malaysia covering Global equities, Asia Pacific equities, Malaysia equities and Global Sukuk.

BIMB-Arabesque iGlobal Dividend Fund 1 ("BiGDF1")

- **Largest global equity** Shariah fund in Malaysia
- **World's fourth largest** global equity Shariah fund
- **Ranks #1 for 3 years and 1 year returns** against peers for the Global Shariah Equity Fund category by Lipper, as at 31 December 2018.



Launched the **World's First ESG Sukuk Fund** the BIMB ESG Sukuk Fund in August 2018.



Launched **Malaysia's First Shariah Sustainable and Responsible Investment ("SRI") Equity Fund** under the SRI Guidelines by Securities Commission Malaysia, the BIMB-Arabesque Valuecap Malaysia Shariah-ESG Equity Fund.

BIMB Invest is a wholly-owned subsidiary of Bank Islam and a licensed Islamic fund management company registered with Securities Commission Malaysia with over 24 years of experience in the fund management industry.

BANK ISLAM TRUST COMPANY (LABUAN) LTD ("BTL")

Incorporated on



This wholly-owned subsidiary of Bank Islam Malaysia Berhad began its full operations in 2003.

SHARIAH-COMPLIANT PRODUCTS AND SERVICES



BTL is a registered Trust Company in Labuan which offers Shariah-compliant products and services such as incorporation of Labuan Company including facilitating the international business licences as well as promoting the wealth management products such as Labuan Islamic Foundation and Labuan Islamic Trust.

SERVICES



WEALTH
MANAGEMENT
LABUAN
TRUST
LABUAN
FOUNDATION

LABUAN
COMPANY
INCORPORATION
SECRETARIAL & ADMINISTRATION

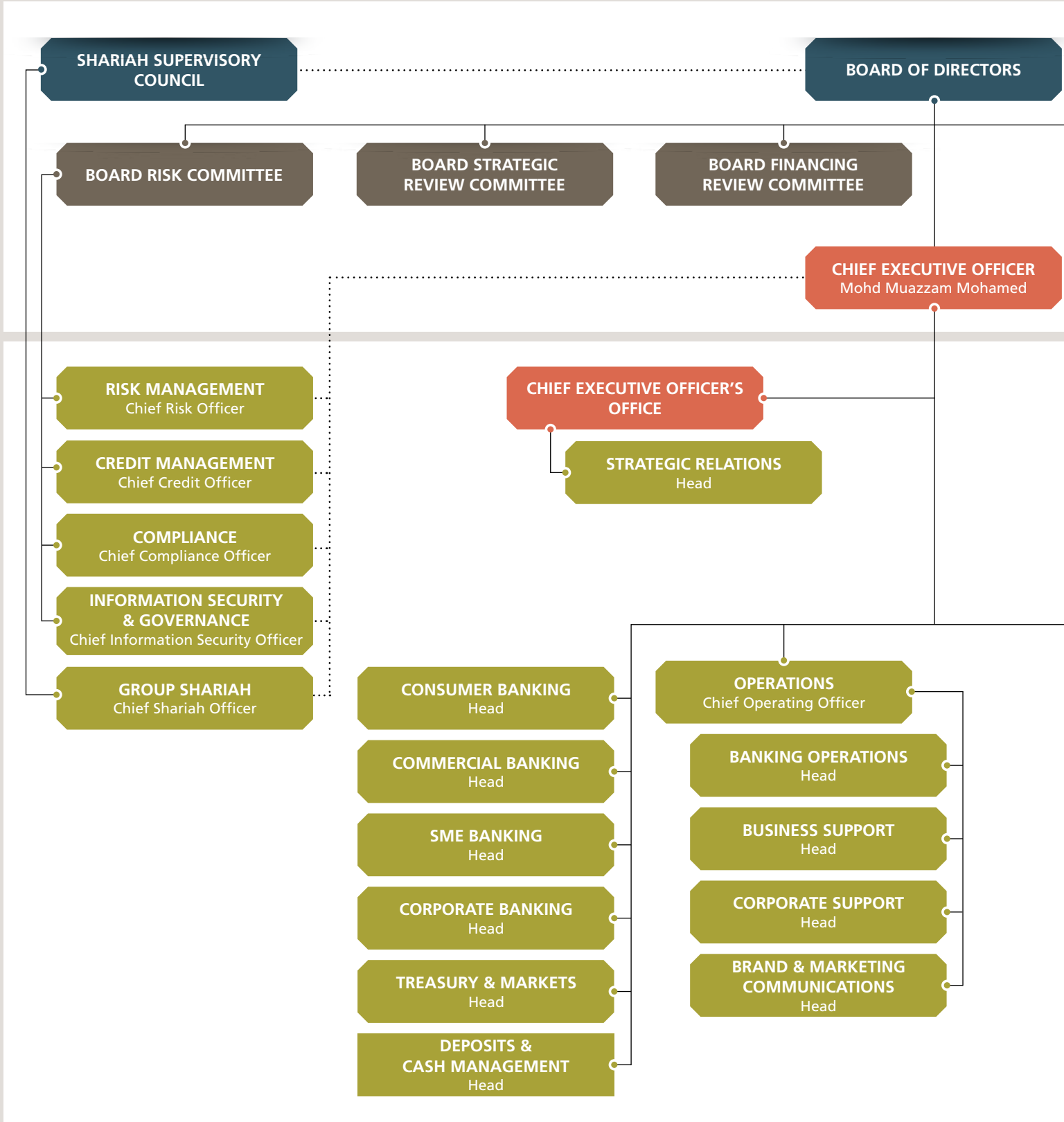


Application of



WORK
PERMIT or
DEPENDENT
PASSES

OUR ORGANISATION CHART



**BOARD INFORMATION
TECHNOLOGY COMMITTEE**

**NOMINATION &
REMUNERATION COMMITTEE**

**AUDIT & EXAMINATION
COMMITTEE**

GROUP INTERNAL AUDIT
Chief Internal Auditor

FINANCE
Chief Financial Officer

TECHNOLOGY
Chief Technology Officer

STRATEGIC MANAGEMENT
Chief Strategy Officer

RECOVERY & REHABILITATION
Head

PRODUCT MANAGEMENT
Head

GROUP LEGAL & SECRETARIAL
Head

GROUP HUMAN RESOURCES
Head

**GROUP CORPORATE
COMMUNICATIONS**
Head



BOARD OF DIRECTORS



1

**Datuk Zamani
Abdul Ghani**
Chairman/Independent
Non-Executive Director

2

**Datuk Zaiton
Mohd Hassan**
Non-Independent
Non-Executive Director
*(resigned with effect from
18 February 2019)*

3

**Nik Mohd
Hasyudeen Yusoff**
Independent
Non-Executive Director

4

Noraini Che Dan
Independent
Non-Executive Director



5

**Zahari @ Mohd
Zin Idris**

Non-Independent
Non-Executive Director

6

**Professor Emeritus
Tan Sri Dato' Dr Abdul
Shukor Hj Husin**

Non-Independent
Non-Executive Director

7

**Mohamed Ridza
Mohamed Abdulla**

Independent
Non-Executive Director

8

**Dato' Sri
Khazali Ahmad**

Independent
Non-Executive Director

9

Azizan Ahmad

Independent
Non-Executive Director

PROFILE OF BOARD OF DIRECTORS



82

DATUK ZAMANI ABDUL GHANI

Chairman/Independent Non-Executive Director
71 years old - Malaysian

Date of Appointment: 1 March 2011

- Master of Management, Asian Institute of Management, Manila, the Philippines
- Bachelor of Economics (Analytical), University of Malaya, Kuala Lumpur
- Fellow Member, Malaysia Institute of Bankers

Banking and Finance

Present:

- Chairman, Bank Islam Malaysia Berhad
- Chairman, Raeed Holdings Sdn Bhd
- Chairman, IAP Integrated Sdn Bhd

Previous:

- Deputy President, Kelab Alumni Kakitangan Bank Negara Malaysia
- Deputy Governor/Special Advisor, Bank Negara Malaysia
- Executive Director, International Monetary Fund
- Asia Chair, Egmont Group of international official Financial Intelligence Units ("FIUs")
- Director, Bank Regulation Department, Bank Negara Malaysia
- Director General, Labuan Offshore Financial Services Authority ("LOFSA")
- Chairman, Financial Park Labuan
- Assistant Governor, Bank Negara Malaysia
- Member, Governing Council and Executive Committee, International Centre for Education in Islamic Finance ("INCEIF")
- Head, Bank Negara Malaysia's Representative Offices in New York and London
- Director, Insurance Regulation & Supervision Department, Bank Negara Malaysia
- Special Advisor, Attorney General's Chambers of Malaysia
- Member, Operations Evaluation Panel, Malaysian Anti-Corruption Commission ("MACC")
- Chairman, Credit Guarantee Corporation
- Chairman, Danamodal Nasional Berhad
- Commissioner, Securities Commission of Malaysia
- Member, Board of Directors, Lembaga Tabung Haji

None

- Member, Audit and Examination Committee
- Member, Board Risk Committee
- Member, Nomination and Remuneration Committee
- Member, Board Financing Review Committee

11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018

He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam

Academic and Professional Qualifications

Areas of Expertise

Work Experience & Positions

Directorship in Other Public Companies

Membership of Board Committees in Bank Islam

Meeting Attendance

Declaration of Interest

Academic and Professional Qualifications	<ul style="list-style-type: none"> • Fellow, Association of Chartered Certified Accountants ("ACCA"), United Kingdom • Member of the Malaysian Institute of Accountants ("MIA") • Member of the Malaysian Institute of Certified Public Accountants ("MICPA")
Areas of Expertise	Banking, Accounting and Finance
Work Experience & Positions	<p>Present:</p> <ul style="list-style-type: none"> • Chief Executive Officer, Malaysia Professional Accountancy Centre ("MyPAC") • Chairman, Private Pension Administrator Malaysia • Member, Board of Directors of Lembaga Tabung Haji <p>Previous:</p> <ul style="list-style-type: none"> • President/Executive Director, Malaysian Rating Corporation Berhad ("MARC") • Served 12 years with Maybank in various senior positions in Treasury Operations, International Banking, Asset & Liability Management, Branch Operations and General Manager, Group Strategic Planning • Audit Trainee, PricewaterhouseCoopers ("PwC")
Directorship in Other Public Companies	<ul style="list-style-type: none"> • Sime Darby Plantation Berhad
Membership of Board Committees in Bank Islam	<ul style="list-style-type: none"> • Member, Audit and Examination Committee • Member, Board Risk Committee • Member, Nomination and Remuneration Committee • Member, Board Financing Review Committee • Member, Board Strategic Review Committee
Meeting Attendance	11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018
Declaration of Interest	She has no conviction for offences within the past five years. She has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam except by virtue of her directorship in Lembaga Tabung Haji.



DATUK ZAITON MOHD HASSAN

Non-Independent Non-Executive Director
63 years old - Malaysian

Date of resignation: 18 February 2019

PROFILE OF BOARD OF DIRECTORS (cont'd)

84



NIK MOHD HASYUDEEN YUSOFF

Independent Non-Executive Director

54 years old - Malaysian

Date of Appointment: 1 October 2016

- Member, Malaysian Institute of Accountants (“MIA”)
- Fellow, CPA Australia
- Advanced Business Management Program, IMD International, Switzerland
- Bachelor of Business, Curtin University of Technology, Australia

Accounting

Present:

- Director, Inovastra Capital Sdn Bhd

Previous:

- Executive Director, Market and Corporate Supervision, Securities Commission Malaysia
- Executive Chairman, Audit Oversight Board, Securities Commission Malaysia
- Chairman, Khairuddin, Hasyudeen & Razi, Chartered Accountants

- BIMB Holdings Berhad
- BIMB Investment Management Berhad
- Cagamas Holdings Berhad
- TH Plantations Berhad
- Malaysia Professional Accountancy Center (“MyPAC”)
- Federation of Investment Managers Malaysia (“FIMM”)
- Al Hijrah Media Corporation

- Chairman, Board Risk Committee
- Chairman, Board Strategic Review Committee
- Member, Audit and Examination Committee
- Member, Nomination and Remuneration Committee
- Member, Board Financing Review Committee

10 of 11 Board Meetings held in the Financial Year Ended 31 December 2018

He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

Academic and Professional Qualifications

Areas of Expertise

Work Experience & Positions

Directorship in Other Public Companies

Membership of Board Committees in Bank Islam

Meeting Attendance

Declaration of Interest

Academic and Professional Qualifications	<ul style="list-style-type: none"> • Member of the Malaysian Institute of Accountants (“MIA”) • Member of the Malaysian Institute of Certified Public Accountants (“MICPA”) • Bachelor of Econs (Hons), University of Manchester, United Kingdom
Areas of Expertise	Accounting and Finance
Work Experience & Positions	<p>Present:</p> <ul style="list-style-type: none"> • Company Director <p>Previous:</p> <ul style="list-style-type: none"> • Vice President, Finance, MISC Berhad • Served 15 years with Perbadanan Nasional Berhad (“PERNAS”) in various senior positions including that of Group General Manager, Finance • Audit Senior at Hanafiah, Raslan & Mohamed
Directorship in Other Public Companies	<ul style="list-style-type: none"> • SP Setia Berhad • Tenaga Nasional Berhad • BIMB Holdings Berhad
Membership of Board Committees in Bank Islam	<ul style="list-style-type: none"> • Chairman, Audit and Examination Committee • Chairman, Nomination and Remuneration Committee • Member, Board Risk Committee • Member, Board Strategic Review Committee
Meeting Attendance	11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018
Declaration of Interest	She has no conviction for offences within the past five years. She has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.



NORAINI CHE DAN

Independent Non-Executive Director
63 years old - Malaysian

Date of Appointment: 1 October 2016

PROFILE OF BOARD OF DIRECTORS (cont'd)

86



ZAHARI @ MOHD ZIN IDRIS

Non-Independent Non-Executive Director
76 years old - Malaysian

Date of Appointment: 20 September 2002

- Senior Cambridge Certificate

	Academic and Professional Qualifications
Banking and Finance	Areas of Expertise
<p>Present:</p> <ul style="list-style-type: none"> • Chairman, Bank Islam Trust Company (Labuan) Ltd • Chairman, BIMB Offshore Company Management Services Sdn Bhd • Chairman, BIMB Securities (Holdings) Sdn Bhd • Chairman, BIMB Securities Sdn Bhd <p>Previous:</p> <ul style="list-style-type: none"> • Executive Director/Chief Executive Officer, Inter-City MPC (M) Sdn Bhd • General Manager, Commercial Banking, Malayan Banking Berhad • Assistant General Manager, Malayan Banking Berhad • Deputy Zone Head, Head Office, Malayan Banking Berhad • Area Manager, Malayan Banking Berhad • Branch Manager, Malayan Banking Berhad • Assistant Branch Manager, Malayan Banking Berhad • Trainee Officer, Malayan Banking Berhad 	Work Experience & Positions
None	Directorship in Other Public Companies
<ul style="list-style-type: none"> • Chairman, Board Financing Review Committee • Member, Audit and Examination Committee • Member, Board Risk Committee • Member, Nomination and Remuneration Committee 	Membership of Board Committees in Bank Islam
11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018	Meeting Attendance
He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.	Declaration of Interest

Academic and Professional Qualifications	<ul style="list-style-type: none"> • Doctor of Aqidah and Philosophy of Islam, University of Al-Azhar, Egypt • Master of Aqidah and Philosophy of Islam, University of Al-Azhar, Egypt • Bachelor of Arts (Honours) Usuluddin, University of Al-Azhar, Egypt • Diploma in Education, University of Ain Shams, Egypt
Areas of Expertise	Aqidah and Philosophy of Islam
Work Experience & Positions	<p>Present:</p> <ul style="list-style-type: none"> • Distinguished Fellow, Faculty of Leadership and Management, Universiti Sains Islam Malaysia ("USIM") • Chairman, Zakat Distribution Committee, State of Pahang • Member, Board of Directors of TH Properties Sdn Bhd • Member, Council of Islamic Religion and Malay Customs, State of Pahang ("MUIP") • Member, Islamic Education Advisory Committee, State of Pahang • Member, Syarak Legal Advisory Committee, Mufti Department, State of Pahang • Member, International Islamic Fiqh Academy • Member, Muslim World League, Makkah Al-Mukarramah <p>Previous:</p> <ul style="list-style-type: none"> • Chairman, Shariah Advisory Committee of Lembaga Tabung Haji • Member, Board of Directors of Lembaga Tabung Haji • Member of Special Cabinet, Shariah Governance Index Malaysia • Chairman, Board of Directors, USIM • Chairman, Fatwa Committee of the National Council for Islamic Affairs Malaysia • Member, National Council for Islamic Affairs ("MKI"), Prime Minister Department • Vice Chancellor and Senior Professor, USIM • Director and Fellow, World Fatwa Management and Research Institute ("INFAD") • Director, Shariah Governance Index ("JAKIM") • Dean, Faculty of Islamic Studies, UKM • Head of Usuluddin and Philosophy Department, UKM • Visiting Professor, various universities • Member, Board of Wakaf Syar'ie, State of Pahang • Chairman, Shariah Advisory Council for Silver Bird Group Berhad • Member, Board of International Shariah Research for Islamic Finance ("ISRA"), Bank Negara Malaysia
Directorship in Other Public Companies	None
Membership of Board Committees in Bank Islam	<ul style="list-style-type: none"> • Member, Board Risk Committee • Member, Nomination and Remuneration Committee
Meeting Attendance	10 of 11 Board Meetings held in the Financial Year Ended 31 December 2018
Declaration of Interest	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam except by virtue of being a nominee director of BIMB Holdings Berhad.



PROFESSOR EMERITUS TAN SRI DATO' DR ABDUL SHUKOR HJ HUSIN

Non-Independent Non-Executive Director
77 years old - Malaysian

Date of Appointment: 2 May 2014

PROFILE OF BOARD OF DIRECTORS (cont'd)

88



MOHAMED RIDZA MOHAMED ABDULLA

Independent Non-Executive Director
50 years old - Malaysian

Date of Appointment: 1 December 2010

- LLB (First Class Honours), International Islamic University Malaysia
- Institute of Chartered Secretaries and Administrators (London) ("ICSA")
- Fellow, Institute of Chartered Secretaries and Administrators ("FCIS")
- Fellow, Malaysian Society of Adjudicators
- Associate Member, Chartered Institute of Arbitrators ("ACI Arb")

Legal

Present:

- Managing Partner, Mohamed Ridza & Co

Previous:

- Partner, Zaid Ibrahim & Co
- General Legal Counsel, Technip Asia Pacific
- Group Legal Advisor, Arab Malaysian Corporation Berhad
- Advocate and Solicitor, Corporate Department, Messrs. Rashid & Lee
- Trainer, Securities Industry Development Corporation ("SIDC") and Financial Sector Talent Enrichment Programme ("FSTEP")
- Member, Arbitration Panel, KL Arbitration Centre for Islamic Banking & Finance

- Theta Edge Berhad

- Chairman, Board Information Technology Committee
- Member, Audit and Examination Committee
- Member, Board Strategic Review Committee

10 of 11 Board Meetings held in the Financial Year Ended 31 December 2018

He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

Academic and Professional Qualifications

Areas of Expertise

Work Experience & Positions

Directorship in Other Public Companies

Membership of Board Committees in Bank Islam

Meeting Attendance

Declaration of Interest

Academic and Professional Qualifications	<ul style="list-style-type: none"> • Master Degree (Econs), University of Central of Oklahoma, USA • Bachelor of Economy (Hons) (Agricultural Economy), Universiti Kebangsaan Malaysia • Diploma in Public Administration, National Institute of Public Administration (“INTAN”)
Areas of Expertise	Economy, Finance and Tax Management
Work Experience & Positions	<p>Present:</p> <ul style="list-style-type: none"> • Company Director <p>Previous:</p> <ul style="list-style-type: none"> • Director General of Customs, Royal Malaysia Customs • Sabah Federal Secretary, Prime Minister’s Department • Deputy Director General of Customs (Management), Royal Malaysia Customs • Special Functions Officer to Chief Secretary to the Government of Malaysia, Prime Minister’s Department • Section Chief, Tax Analysis Division, Ministry of Finance • Principal Assistant Director, Tax Analysis Division, Ministry of Finance • Malaysia Trade Commissioner to Beijing, Ministry of International Trade and Industry • Principal Assistant Director, International Trade Division, Ministry of International Trade and Industry • Assistant Director, International Trade Division, Ministry of International Trade and Industry • Principal Assistant Secretary, Ministry of Health • Education Attache, Malaysia Student Department, High Commission of Malaysia, London • Assistant Director, Public Service Department
Directorship in Other Public Companies	<ul style="list-style-type: none"> • Malaysia Venture Capital Management Berhad • Shangri-La Hotels (Malaysia) Berhad • Favelle Favco Berhad • Muhibbah Engineering (M) Berhad • Cuscapi Berhad (Alternate Director)
Membership of Board Committees in Bank Islam	<ul style="list-style-type: none"> • Member, Audit and Examination Committee • Member, Board Information Technology Committee
Meeting Attendance	11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018
Declaration of Interest	He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.



DATO' SRI KHAZALI AHMAD

Independent Non-Executive Director
64 years old - Malaysian

Date of Appointment: 2 January 2018

PROFILE OF BOARD OF DIRECTORS (cont'd)

90



AZIZAN AHMAD

Independent Non-Executive Director
64 years old - Malaysian

Date of Appointment: 2 January 2018

- Diploma in Agriculture, Universiti Putra Malaysia

Banking and Credit Management

Present:

- Company Director

Previous:

- Principal Consultant for School of Credit, Agrobank
- Executive Vice President, President/CEO Office, Agrobank
- Chief Credit Officer, Agrobank
- Chief Commercial Officer, Agrobank
- Executive Vice President, Credit Management Division, Bank Muamalat (M) Berhad
- General Manager, Human Resource Division, Maybank Berhad
- General Manager, Credit Control Division, Maybank Berhad
- Regional Manager, Maybank Berhad
- Credit Manager/Senior Credit Manager, Maybank Berhad
- Credit Officer/Senior Credit Officer, Maybank Berhad

None

- Member, Board Financing Review Committee
- Member, Board Risk Committee
- Member, Board Information Technology Committee

11 of 11 Board Meetings held in the Financial Year Ended 31 December 2018

He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.

Academic and Professional Qualifications

Areas of Expertise

Work Experience & Positions

Directorship in Other Public Companies

Membership of Board Committees in Bank Islam

Meeting Attendance

Declaration of Interest

PROFILE OF SHARIAH SUPERVISORY COUNCIL

01 Professor Dato' Dr Ahmad Hidayat Buang
Chairman



The Shariah Supervisory Council ("SSC") plays a critical role in ensuring sound, prudent and comprehensive compliance with Shariah rules and principles at all times and in all aspects of the Bank's business operations and activities.

02 Ustaz Dr Ahmad Shahbari @ Sobri Salamon
Member



03 Assistant Professor Dr Uzaimah Ibrahim
Member



PROFILE OF SHARIAH SUPERVISORY COUNCIL (cont'd)

**04 Associate Professor
Dr Yasmin Hanani Mohd
Safian**
Member



**05 Sahibus Samahah Dato'
Dr Haji Anhar Haji Opir**
Member



06 Ustaz Saiful Anuar Hambali
Secretary



01 PROFESSOR DATO' DR AHMAD HIDAYAT BUANG

Chairman

Professor Dato' Dr Ahmad Hidayat Buang was appointed as Chairman of the Shariah Supervisory Council of Bank Islam on 1 April 2015. He has been with the Council since 2011.

He is currently a Professor at Department of Shariah and Law, Academy of Islamic Studies, University of Malaya and also a Senate Member of the University. He served as the Academy's Director from October 2006 to January 2011. He also served as Deputy Director (Research and Development) of the academy in 2006 as well as Head of Department of Shariah and Law from 1997 to 1999 and from 2015 to 2018.

Professor Dato' Dr Ahmad Hidayat is currently holding a post as Chairman of Group Shariah Committee for MNRB Holdings Berhad and Member of Shariah Committee for Amanah Raya Berhad ("ARB"). Prior to that, he served as a Shariah Advisor for several financial institutions, which includes CIMB Bank Berhad, OCBC Bank, Commerce Tijari Bank,

- Professor, Department of Shariah and Law, Academy of Islamic Studies, University of Malaya
- Doctor of Philosophy, School of Oriental and African Studies, University of London
- Master of Law, School of Oriental and African Studies, University of London
- Bachelor of Shariah, University of Malaya

Amanah Raya Unit Trust Management Sdn Bhd, ASM MARA Unit Trust Management Berhad, I-Free Capital Pte Ltd (Singapore), Bumiputra Commerce Trustee Sdn Bhd and Perbadanan Usahawan Nasional Berhad. He was also formerly a member of the Shariah Working Committee of Islamic Banking and Takaful for Bank Negara Malaysia and a member of the Islamic Education Coordination Advisory Council for the Council of Rulers Malaysia.

Professor Dato' Dr Ahmad Hidayat has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

02 USTAZ DR AHMAD SHAHBARI @ SOBRI SALAMON

Member

Ustaz Dr Ahmad Shahbari @ Sobri Salamon was first appointed as a member of the Shariah Supervisory Council in 1984 and previously the Chairman of the Shariah Supervisory Council of Bank Islam until 31 March 2015.

He is also the Chairman of the Shariah Committee of BMB Investment Management Bhd and a member of Shariah Advisory Body of Syarikat Takaful Malaysia Berhad. Ustaz Dr Ahmad Shahbari started his career in 1978 as a lecturer at Universiti Kebangsaan Malaysia ("UKM") for its Shariah Department, Faculty of Islamic Studies and was appointed as an Associate Professor in the Shariah Department in 1984. He had two stints as a lecturer at International Islamic University of Malaysia; the first was on secondment at the university's Kulliyah of Economics from 1983 to 1984, and for the second stint, he lectured for Ahmad Ibrahim Kulliyah of Law from 1986 to 1996. Later, he was appointed as the Executive Director of Pusat Rawatan Islam from 1996 to 1999 and afterward was appointed as the Executive Chairman of the company until 2015.

- Doctor of Philosophy (Modern Middle Eastern History), New York University (USA)
- Master of Economic, Fairleigh Dickinson University (USA)
- Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Ustaz Dr Ahmad Shahbari previously served as Shariah Advisor to Abrar Group, Arab Malaysia Merchant Bank, Arab Malaysian Finance, PT Takaful Indonesia, Asean ReTakaful International Ltd, Labuan Offshore Financial Services Authority and a member of Board of Directors Yayasan Pembangunan Ekonomi Islam Malaysia ("YAPIEM") (1985 to 1995). He had served as a member of Majlis Agama Islam Selangor ("MAIS") for 21 years since 1985 and as a member of the Islamic Consultative Council in the Prime Minister's Office. Ustaz Dr Ahmad Shahbari is an approved Individual Shariah Advisor by the Securities Commissions of Malaysia.

Ustaz Dr Ahmad Shahbari was awarded 'Tokoh Ulama' Bestari Negeri Selangor' in 2000 and received the 'Tokoh Ma'al Hijrah Negeri Selangor' in 2001. He has produced writings in educational history, economy, Islamic banking and Islamic law, for television and publication purposes. His body of work includes 14 books and translations of eight volumes of books on Islamic Jurisprudence by Professor Dr Sheikh Wahbah Mustafa al-Zuhayli.

Ustaz Dr Ahmad Shahbari has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

PROFILE OF SHARIAH SUPERVISORY COUNCIL

(cont'd)

03 ASSISTANT PROFESSOR DR UZAIMAH IBRAHIM

Member

Assistant Professor Dr Uzaimah Ibrahim was first appointed as a member of the Shariah Supervisory Council in 2009.

She is currently an Assistant Professor at Department of Islamic Law, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University of Malaysia ("IIUM"). Assistant Professor Dr Uzaimah is also a member of Shariah Committee of Hong Leong MSIG Takaful Berhad, a post she has held since 2006. Prior to joining Bank Islam, she was a Shariah Committee member for Hong Leong Islamic Bank Berhad. In 2005, Assistant Professor Dr Uzaimah became the Deputy Director of the Islamic Banking and Finance Institute, IIUM, an international centre for education and research in Islamic finance.

- Assistant Professor, Ahmad Ibrahim Kuliyyah of Laws, International Islamic University of Malaysia
- Doctor of Philosophy, University of Wales, United Kingdom
- Master in Comparative Law, International Islamic University of Malaysia
- LLB (Shariah), International Islamic University of Malaysia
- LLB, International Islamic University of Malaysia

Assistant Professor Dr Uzaimah was accredited as a Syarie lawyer in 1995 and has conducted various researches on Islamic commercial law, Islamic jurisprudence, Islamic banking law, derivatives and securitisation as well as takaful and corporate social responsibility. She has also given numerous presentations in seminars and workshops, and contributed a chapter to Halsbury's Laws of Malaysia published by Malaysian Law Journal.

Assistant Professor Dr Uzaimah has no family relationship with any director and/or major shareholder of Bank Islam. She has no conflict of interest with Bank Islam and neither has she been charged with any offences.

94

04 ASSOCIATE PROFESSOR DR YASMIN HANANI MOHD SAFIAN

Member

Associate Professor Dr Yasmin Hanani Mohd Safian was appointed as a member of Shariah Supervisory Council in April 2015.

She is currently an Associate Professor at Faculty of Shariah and Law, Universiti Sains Islam Malaysia ("USIM"). She also serves as a member of Selangor Islamic Religious Council ("MAIS"), Islamic Consultative Committee of Majlis Agama Islam Wilayah Persekutuan ("MAIWP") and Malaysian Halal Certification Advisory Committee. Associate Professor Dr Yasmin is a Certified Halal Trainer as well as Islamic Banking and Finance Trainer.

Prior to joining Bank Islam, Associate Professor Dr Yasmin was a Shariah Committee member for Affin Islamic Bank Berhad since 2011 until 2015. She also served as the Dean of Faculty of Shariah Law, Deputy Dean of Postgraduate Centre USIM and was a senate member of USIM.

- Associate Professor, Faculty of Shariah and Law, Universiti Sains Islam Malaysia
- Doctor of Philosophy in Islamic Studies, University of Exeter, United Kingdom
- Master in Islamic Studies, University of Birmingham, United Kingdom
- Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Associate Professor Dr Yasmin has conducted various research and written numerous articles on Islamic commercial law, Islamic jurisprudence, Islamic banking and takaful. She is actively involved in conference presentation, training locally and internationally in the related area for both Muslim and non-Muslim participants.

Associate Professor Dr Yasmin has no family relationship with any director and/or major shareholder of Bank Islam. She has no conflict of interest with Bank Islam and neither has she been charged with any offences.

05 SAHIBUS SAMAHAH DATO' DR HAJI ANHAR HAJI OPIR

Member

Sahibus Samahah Dato' Dr Haji Anhar Haji Opir was appointed as a member of Shariah Supervisory Council in April 2017.

He is currently the Deputy Mufti for the State of Selangor. He is also a Shariah Committee member for Etiqa Takaful Berhad, Perbadanan Usahawan Nasional Berhad ("PUNB"), and SIRIM Berhad. Besides that, he is also member of Selangor Fatwa Committee, Selangor Falak Committee, and Curricular Assesment committee for Jabatan Agama Islam Selangor ("JAIS"). He is also member of Hisbah (audit) Committee for Skim Infaq Lil Waqaf Angkatan Koperasi Kebangsaan Malaysia Berhad ("ANGKASA") and member of Advisory Committee for Pembangunan Asnaf Lembaga Zakat Selangor ("MAIS").

- Deputy Mufti, State of Selangor Darul Ehsan
- Doctor of Philosophy (Fiqh and Usul Fiqh), The World Islamic Sciences And Education University ("WISE"), Jordan
- Master of Islamic Philosophy, Cairo University, Egypt
- Bachelor of Shariah Islamiyyah, Al-Azhar University, Egypt

Prior to joining Bank Islam, Sahibus Samahah Dato' Dr Haji Anhar was a part time lecturer at Pusat Pemikiran dan Kefahaman Islam ("CTU") in UiTM Pahang and UiTM Melaka respectively. He also has served as Senior Lecturer at Islamic Education Department, Universiti Pendidikan Sultan Idris ("UPSI") since August 2007.

Sahibus Samahah Dato' Dr Haji Anhar has no family relationship with any director and/or major shareholder of Bank Islam. He has no conflict of interest with Bank Islam and neither has he been charged with any offences.

06 USTAZ SAIFUL ANUAR HAMBALI

Secretary

Ustaz Saiful Anuar Hambali has been in the banking industry for 21 years and is currently the Deputy Chief Shariah Officer of Bank Islam Malaysia Berhad. He is the Secretary of Shariah Supervisory Council of Bank Islam and sits in several internal committees of the Bank including Financing Committee A & B, Underwriting & Investment Committee, Asset Liability Committee, Product Management Committee, Management Risk Control Committee, Operational Risk Control Committee, Compliance & Governance Working Group and Zakat & Charity Committee.

- Deputy Chief Shariah Officer, Bank Islam Malaysia Berhad
- Master of Business Administration (MBA) in Islamic Banking & Finance from International Islamic University Malaysia ("IIUM")
- Bachelor of Shariah from University of Malaya ("UM")
- Certificate (Distinction) in Internal Auditing for Financial Institutions ("CIAFIN")
- Certified Qualification in Islamic Finance ("CQIF")

Prior to joining Bank Islam, he was the Head of Shariah Supervisory Department, Affin Islamic Bank Berhad. He was also working with other several Islamic financial institutions such as RHB Islamic Bank Berhad, OCBC Bank (M) Berhad, Bank Muamalat Malaysia Berhad and Bank Bumiputera Malaysia Berhad in different business areas including Shariah advisory & compliance, product & business development, consumer banking and project management office.

PROFILE OF CEO

Academic and Professional Qualifications

- Member of the Malaysian Institute of Accountants (“MIA”)
- Member of the Malaysian Institute of Certified Public Accountants (“MICPA”)
- Member of the Certified Information System Auditor (“ISACA”)
- Member of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)
- Bachelor of Accounting, International Islamic University Malaysia

Areas of Expertise

Finance, Audit and Consulting

Work Experience & Positions

Present:

- Chief Executive Officer, Bank Islam Malaysia Berhad
- Chief Executive Officer, BIMB Holdings Berhad

Previous:

- Chief Financial Officer, Bank Islam Malaysia Berhad
- Non-Executive Director, BIMB Securities Sdn Bhd
- Director, BIMB Securities (Holdings) Sdn Bhd
- Alternate Director, Amana Bank PLC (Sri Lanka)
- Director, Al-Wakalah Nominees (Tempatan) Sdn Bhd
- Partner, KPMG Malaysia
- Executive Director, KPMG Management Consulting

Directorship in Other Public Companies

None

Membership of Board Committees in Bank Islam

None

Meeting Attendance

4 of 4 Board Meetings held in the Financial Year Ended 31 December 2018 after his appointment as Acting Chief Executive Officer on 20 July 2018

Declaration of Interest

He has no conviction for offences within the past five years. He has no family relationship with any director and/or major shareholder of Bank Islam and no conflict of interest in Bank Islam.



MOHD MUAZZAM MOHAMED

Chief Executive Officer

45 years old - Malaysian

Date of Appointment: 5 December 2018

MANAGEMENT COMMITTEE



01 ZAHARIN MOHD ALI
Head, Corporate Banking

02 ADI ASRI BAHAROM
Head, Treasury

03 ZAMREE MOHAMED
Head, Consumer Banking

04 AHMAD HALIMAN ABDUL HALIM
Head, Commercial Banking

05 HAMID MOHD NOOR
Head, SME Banking

06 ZURY RAHIMEE ZAINAL ABIDEN
Head, Deposits and Cash Management



BUSINESS UNITS

The Bank's business units drive products and services strategies targeted at key market segments.

MANAGEMENT COMMITTEE
(cont'd)

CORPORATE & OPERATIONS SUPPORT UNITS



- 01 **MOHAMED IRAN MORIFF MOHD SHARIFF**
Chief Operating Officer
- 02 **MARIA MAT SAID**
Head, Legal and Secretarial
- 03 **RAZMAN ISMAIL**
Head, Human Resources
- 04 **ZAINAL AZLAN ZAINUDIN**
Chief Technology Officer
- 05 **MIZAN MASRAM**
Head, Recovery and Rehabilitation
- 06 **AZLAN ABDUL SAMAD**
Head, Product Management
- 07 **NOOR FARILLA ABDULLAH**
Chief Strategy Officer



Corporate and operations support units ensure synergy towards macro goals while creating efficient infrastructure and systems for the business units to leverage on.

INDEPENDENT UNITS



01 USTAZ MOHD NAZRI CHIK
Chief Shariah Officer

02 KHAIRUL MUZAMEL PERERA
Chief Credit Officer

03 ALINA SYLVIA APPOO
Chief Risk Officer

04 NIK AZMIR NIK ANIS
Chief Compliance Officer

05 ZALFITRI ABD MUTALIP
Chief Internal Auditor



These units provide oversight and governance to ensure all activities are aligned to core principles and frameworks.

PROFILE OF MANAGEMENT COMMITTEE

BUSINESS UNITS

ZAHARIN MOHD ALI

Head, Corporate Banking

Encik Zaharin Mohd Ali has 23 years of experience in the banking industry. Since starting his career in 1995 as an executive

trainee with a foreign bank, he has served in various departments primarily in sales and services related functions. Encik Zaharin joined Bank Islam in 2010 as Head of Business in Commercial Banking, where he was entrusted to drive the performance-based sales culture within the division. Since promoted as Head of Corporate Banking in January 2015, he has been responsible in overseeing Bank Islam's Corporate Banking portfolio. Encik Zaharin holds a Bachelor of Accountancy from University of Central England, UK.

ADI ASRI BAHAROM

Head, Treasury

Encik Adi Asri Baharom has more than 30 years of experience in commercial/investment banking and corporate advisory

encompassing Treasury and Debt Capital Markets, Risk Management, Investments, Corporate Finance, Project Finance and Strategic Planning. Prior to joining Bank Islam in January 2018, Encik Adi was Executive Vice President, Treasury and Capital Markets at Bank Muamalat Malaysia Berhad. His past work experience include various senior management positions at Malaysian Rating Corporation Berhad ("MARC"), PT Bank Bumiputera Indonesia Tbk, PT Danareksa ("Persero"), and Perwira Affin Bank Berhad. He started his career at Amanah Merchant Bank Berhad in 1987. Encik Adi holds a Master of Business Administration (Finance) from San Francisco State University, USA.

ZAMREE MOHAMED

Head, Consumer Banking

Encik Zamree Mohamed has 25 years of experience in the banking industry. He joined Bank Islam in 2004 and served in

various positions at branch & regional office level, primarily in Consumer Sales & Marketing. Encik Zamree was appointed as AGM of Consumer Sales Management in 2016 and was recently promoted to his current position as the Head of the Bank's Consumer Banking division where he oversees the Bank's fund-based and fee-based income position as well as promotes all the consumer products. Encik Zamree holds a Master in Business Administration (MBA) from Universiti Teknologi Mara (UiTM).

AHMAD HALIMAN ABDUL HALIM

Head, Commercial Banking

Encik Ahmad Haliman Abdul Halim has 22 years of experience in the banking industry. He joined Bank Islam in 2014 as the Head of Business

in Commercial Banking, where he has been driving the commercial banking business. In July 2018, he was entrusted to be the Acting Head of Commercial Banking. He was appointed to his current post in March 2019 with the role of overseeing Bank Islam's Commercial Banking portfolio. Encik Ahmad Haliman holds a Master in Business Administration from Winthrop University, South Carolina, USA and a Bachelor's Degree in Finance from University of North Carolina, Charlotte USA.

HAMID MOHD NOOR

Head, SME Banking

Encik Hamid Mohd Noor has 37 years experience in credit related field in the banking industry and asset management

company. He joined Bank Islam as Assistant General Manager, Commercial Banking Division in 2013 from Prokhas Sdn Bhd ("MoF Inc") and was responsible in managing the Working Capital Guarantee Scheme and Industry Restructuring Financing Guarantee Scheme under Syarikat Jaminan Pembiayaan Perniagaan Berhad ("SJPP"). Encik Hamid holds a Diploma in Accountancy from Universiti Teknologi MARA.

ZURY RAHIMEE ZAINAL ABIDEN

Head, Deposits and Cash Management

Encik Zury Rahimee Zainal Abiden joined Bank Islam in 2004 and has served in various positions at Branch

and Regional Office levels, primarily in retail sales. He was appointed as Assistant General Manager, Sales Management under Consumer Banking in 2013 where he was responsible for the growth of Consumer Banking's financing portfolio. Encik Zury Rahimee currently holds the portfolio of Head, Deposits and Cash Management since 2016 where he oversees the Bank's liquidity position, promotes deposits and investment products and expands the business of e-payment solutions. Encik Zury holds a Bachelor's Degree with Honours in Marketing from Universiti Teknologi MARA.

CORPORATE & OPERATIONS SUPPORT UNITS

MOHAMED IRAN MORIFF MOHD SHARIFF

Chief Operating Officer

An accountant by trade, Encik Mohamed Iran Moriff Mohd Shariff began his career at Messrs Price

Waterhouse, specialising in the audit of Banks and Financial Institutions before furthering his studies and subsequently working in the United Kingdom for 10 years. Encik Iran joined the Consumer Banking Division of Bank Islam in October 2009. Encik Iran later moved to the Internal Audit Division in June 2012, initially as the Deputy Chief Internal Auditor and was later appointed Bank Islam's Chief Internal Auditor in May 2014. Encik Iran was appointed Bank Islam's Chief Operating Officer on 1 June 2017, and most recently completed the Chartered Bankers programme. A Certified Public Accountant ("CPA") and a fellow member of the Association of Chartered Certified Accountants ("ACCA"), Encik Iran holds a Masters in Business Administration from Strathclyde Business School, Glasgow and Bachelors in Accountancy from University of East Anglia, Norwich, UK.

MARIA MAT SAID

Head, Legal and Secretarial

Puan Maria Mat Said has about 27 years of experience in the banking industry, performing legal and company secretary functions.

She has been with Bank Islam since 2005 and was appointed as Bank Islam's Company Secretary in early 2009. Her areas of responsibility include provision of legal and corporate secretarial services for the Bank. As the Company Secretary, Puan Maria ensures proper governance within the Bank. Later in 2009, Puan Maria was appointed as the Group Company Secretary where she also acts as the Company Secretary for BIMB Holdings Berhad. Puan Maria holds a Bachelor of Law from University of Malaya.

RAZMAN ISMAIL

Head, Human Resources

Encik Razman Ismail has been in the field of Human Resources for over 23 years. He started his foundation years in the consulting industry where he served

mainly clients from the banking and financial industry and was involved in many merger and integration exercises. He left the consulting industry to be a HR practitioner in the banking industry.

Encik Razman joined Bank Islam in July 2014 as the Head of Group Human Resources with an initial focus on strengthening the Bank's employer branding and developing its talent development blueprint. His focus is now on the initiatives to reshape the Bank's culture and help the Bank in its transformation agenda to achieve its three-year strategic plan. Encik Razman holds a Bachelor's Degree in Management with a major in Human Resource and a minor in Communication from Universiti Sains Malaysia.

ZAINAL AZLAN ZAINUDIN

Chief Technology Officer

Encik Zainal Azlan Zainudin has over 20 years of experience in the banking industry. He rejoined Bank Islam as Chief Technology Officer in August 2016.

Prior to this, he has served with other leading financial institutions in Malaysia including Maybank, CIMB Bank, Phileo Allied Bank, and also Bank Islam where he held various leadership positions in IT Strategy and Operations. Encik Zainal holds a Bachelor's Degree in Computer Science (Hons.) from Universiti Kebangsaan Malaysia.

MIZAN MASRAM

Head, Recovery and
Rehabilitation

Encik Mizan Masram has 21 years of experience in related fields and has held various positions with several foreign banks. He currently heads the

Recovery and Rehabilitation division where he is responsible for the Bank's crucial credit recovery and collection operations. Encik Mizan holds a Diploma in Business Studies majoring in Business from the Association of Business Executives, UK.

AZLAN ABDUL SAMAD

Head, Product Management

Encik Azlan Abdul Samad has over 20 years of experience in the industry particularly in the Islamic banking

sector and had served Bumiputra Commerce Bank ("BCB"), CIMB Islamic & Standard Chartered Bank prior to joining Bank Islam in 2007. He was appointed as Bank Islam's Head of Product Management in 2013 mainly to oversee the development and implementation of the Bank's products. Encik Azlan holds a Bachelor's Degree (Finance) and Executive MBA (Business Administration) from Universiti Teknologi MARA ("UiTM").

NOOR FARILLA ABDULLAH

Chief Strategy Officer

Puan Noor Farilla Abdullah has spent most of her professional career in business transformation, programme management and complex project implementation.

She started her career in Accenture where she consulted with agencies and organisations involved in driving the Multimedia Super Corridor implementation. Puan Noor Farilla joined Bank Islam as the new Chief Strategy Officer in January 2019. Prior to that, she served as the Chief Operating Officer at Touch 'n Go, responsible for the transformation of the business and for continuous improvement of the company's processes and operations. Puan Noor Farilla's exposure in banking, payment system and business transformation would be ideal to help the Bank realise its transformation agenda. She graduated from the University of Warwick with a Bachelor's Degree in Economics.

PROFILE OF MANAGEMENT COMMITTEE (cont'd)

INDEPENDENT UNITS

USTAZ MOHD NAZRI CHIK

Chief Shariah Officer

Ustaz Mohd Nazri Chik, a Certified Shariah Adviser and Auditor (“CSAA-AAOIFI”), has over 15 years of experience in Shariah management of an Islamic bank. He joined

Bank Islam in June 2004 before leaving in 2009 to take up another position at an investment arm of Dubai government. He rejoined Bank Islam in January 2011 and is responsible to strengthen the Bank’s Shariah governance practices and facilitate offering of Shariah-compliant products and services. An Accreditation Panel of Finance Accreditation Agency, an Executive Committee member of Association of Shariah Advisors Malaysia, a Distinguished Trainer of Islamic Banking and Finance Institute Malaysia, a director of Terengganu Incorporated Sdn Bhd, a member of Baitulmal and Investment Committees of Selangor State Islamic Religious Council and a member of Waqf and Rahn Committees of Terengganu State Islamic Religious Council and academic adviser to several public and private universities, Ustaz Mohd Nazri is also the Group Chief Shariah Officer of BIMB Holdings Berhad and Deputy Chairman of the Shariah Supervisory Council of Amana Bank Limited (Sri Lanka). He also completed the Certificate in Internal Auditing for Financial Institutions (“CIAFIN”) examinations with distinction. Ustaz Mohd Nazri holds a Master’s degree and a Bachelor’s Degree in Shariah (Islamic Jurisprudence) from University of Malaya where he continued on as an academician.

KHAIRUL MUZAMEL PERERA

Chief Credit Officer

Encik Khairul Muzamel Perera has over 30 years of banking related experience including stints at a debt rating agency and a national

asset management institution. He is currently the Chief Credit Officer overseeing the Credit Management Division which covers Credit Analysis, Credit Analytics, Valuation and the Central Financing Processing function in Bank Islam. Encik Khairul joined the Risk Management Division of the Bank in April 2009, heading the Credit Risk Management unit. He was recently appointed as a Non independent Director to the Board of Amana Bank Ltd (Sri Lanka). He also serves as the Chairman of the Underwriting and Investment Committee at the Bank and the Investment Committee at BIMB Investment Management Berhad. A Chartered Company Secretary by profession, Encik Khairul is an Associate Member of the Institute of Chartered Secretaries & Administrators, London.

ALINA SYLVIA APPOO

Chief Risk Officer

Ms Alina Sylvia Appoo has over 20 years of banking experience focusing predominantly on Market Risk in Malaysia and

the Asian region. She joined Bank Islam in 2012 as Head of Market & Operational Risk, and was appointed as Chief Risk Officer in August 2017. She oversees the risk management functions of the Bank covering Credit Risk Portfolio Reporting, Market & Liquidity risk, Operational risk, Capital Adequacy and Stress Testing. Prior to joining the Bank, Ms Alina held key leadership and management positions in related fields at various local banks. She has been instrumental in change management initiatives within Market Risk including driving required changes arising from Basel II & III together with systems enhancements for Treasury and Risk. Ms Alina has a Bachelor’s Degree in Mathematics (Hons.) from Universiti Sains Malaysia.

NIK AZMIR NIK ANIS

Chief Compliance Officer

Encik Nik Azmir Nik Anis has over 23 years of banking experience having served various local and foreign financial institutions

focusing predominantly in the areas of Compliance, Operational Risk Management, Anti-Money Laundering and Operations. He joined Bank Islam in 2013 and his primary roles and responsibilities include managing the Bank’s overall compliance and regulatory risk. He also acts as key liaison officer to the regulators and is the Bank’s Money Laundering Reporting Officer (“MLRO”). Encik Nik Azmir holds a Bachelor of Arts in Economics from University of Pittsburgh, USA and a Master in Business Administration from Nottingham Trent University, UK. He has also been accorded as a Certified Professional in Anti-Money Laundering/Counter Financing of Terrorism by the International Compliance Association UK. He also completed the Advance Compliance Academy Certification Programme offered by University of California at Berkeley, United States.

ZALFITRI ABD MUTALIP

Chief Internal Auditor

Encik Zalfitri Abd Mutalip has over 23 years of audit experience in the banking industry. He began his career

in 1994 where he gained extensive audit experience in the field of management, operations and credit involving the branches, regional offices, automobile financing centres and head office departments/divisions including investigation audit. He joined Bank Islam in October 2007 and has served as the Head of Branch Audit, Head of Head Office Audit and Head of Credit Audit prior to being appointed as the Acting Head of Internal Audit Division in June 2017. He is currently the Chief Internal Auditor of Bank Islam since January 2019. He completed the Certificate in Internal Auditing for Financial Institutions (“CIAFIN”) examination with distinction. Encik Zalfitri holds a Bachelor of Science in Business Administration (Finance) from Denver University, USA.

PROFILE OF REGIONAL MANAGERS

AHMAD FAUZI MOHD AKHIR

HEAD OF REGIONAL OFFICE

Encik Ahmad Fauzi Mohd Akhir has more than 27 years of experience in branch operation and financing department, and has been with Bank Islam since 1991. He now heads the Regional Office of the Northern Region overseeing 28 Bank branches in Perak, Kedah, Pulau Pinang and Perlis. Encik Ahmad Fauzi holds a Bachelor of Science in Accounting from Fairleigh Dickinson University, USA.

📍 NORTHERN REGION
28 BRANCHES



ZAINAL PATTATE

HEAD OF REGIONAL OFFICE

Encik Zainal Pattate has more than 18 years of experience in the banking industry and has been with Bank Islam since 2000. He is currently the Head of Regional Office of Central Region in which he oversees a total of 50 branches comprising of 19 branches in Wilayah Persekutuan Kuala Lumpur, 29 branches in the state of Selangor and 2 branches in Wilayah Persekutuan Putrajaya. He started his career in Bank Islam as the Head of Recovery (East Malaysia Region) and has more than 8 years of experience in the Consumer & Commercial Recovery before he was transferred to Consumer Banking Division as Regional Consumer Business Manager in 2008. He was appointed as Head of Regional Office in March 2018 and previously headed the Southern Region. Encik Zainal Pattate holds a Bachelor's Degree in Accountancy from Universiti Teknologi MARA.

📍 CENTRAL REGION
50 BRANCHES



ABDULLAH IBRAHIM

HEAD OF REGIONAL OFFICE

Encik Abdullah Ibrahim has more than 30 years working experience with Bank Islam. He joined Bank Islam in 1987 as a Junior Officer and is well-exposed in Operation, Credit and Commercial Department. With his vast experience, he was appointed as a Branch Manager and had served Batu Pahat, Pasir Gudang, Johor Bahru and Shah Alam branch. In 2011, he was appointed as a Regional Consumer Business Manager for the Central Region. Recently, Encik Abdullah was promoted to be the Regional Manager of Southern Region, overseeing 28 branches in 3 states, Johor, Melaka & Negeri Sembilan. He holds a Master in Business Administration (MBA) from Universiti Utara Malaysia.

📍 SOUTHERN REGION
28 BRANCHES



PROFILE OF REGIONAL MANAGERS

(cont'd)

WAN ROSITA WAN MOHAMED

HEAD OF REGIONAL OFFICE

Puan Wan Rosita Wan Mohamed has over 33 years of experience in the banking industry, and has been with Bank Islam since January 2005. She now heads the Regional Office of the Eastern Region, comprising 29 branches in the states of Terengganu, Kelantan and Pahang. Puan Wan Rosita holds a Bachelor of Science Degree in Finance from Indiana State University, USA.

ABDUL MALEK ABDULLAH

HEAD OF REGIONAL OFFICE

Encik Abdul Malek Abdullah has more than 30 years of experience in the banking industry. He joined Bank Islam in 2006 and he now holds the role of Head of Regional Office in East Malaysia Region where he oversees 13 branches in the state of Sabah and Sarawak. Encik Abdul Malek holds a Diploma in Banking Studies from Universiti Teknologi MARA.

 EASTERN REGION
29 BRANCHES



 EAST MALAYSIA REGION
13 BRANCHES



PROFILE OF HEADS OF SUBSIDIARIES

NAJMUDDIN MOHD LUTFI

BIMB INVESTMENT MANAGEMENT BERHAD

Encik Najmuddin Mohd Lutfi is the Chief Executive Officer and Non-Independent Director of BIMB Investment Management Berhad ("BIMB Investment") since 2015. BIMB Investment was incorporated in 1993 and is a wholly-owned subsidiary of Bank Islam Malaysia Berhad.

He has over 18 years of experience in the financial services industry and was formerly with a central bank and local and foreign asset management companies.

Encik Najmuddin graduated with an MBA and Bachelor of Science in Business Administration from the University of Missouri – St. Louis, USA, alumni of the Judge Business School Advanced Leadership program of the University of Cambridge, UK, registered with the Federation of Investment Managers Malaysia ("FIMM") and holds the Securities Commission's Capital Markets Services Representative's License.

CHIEF EXECUTIVE OFFICER



MASDAYANA MD SETAMAM

BANK ISLAM TRUST COMPANY (LABUAN) LTD

Puan Masdayana Md Setamam started her career with Bank Islam Trust Company (Labuan) Ltd ("BTL") back in 2005 as the Assistant Manager which undertakes the task of all financial & fiscal management aspects of BTL's operations. She was appointed as the Chief Executive Officer and Principal Officer of BTL on 13 October 2017. She is also a qualified Trust Officer, a license certified by the Labuan Financial Services Authority.

She has over 14 years of experience in Offshore Trust industries and held various positions including Compliance Manager, Business Continuity Management Division Coordinator as well as Business Risk Officer. She was also appointed by the Board of Director of BTL to be the Manager and authorised officer of BIMB Offshore Company Management Services which was the subsidiary company of BTL.

Puan Masdayana possesses a Bachelor's Degree in International Business from University Malaysia Sabah.

CHIEF EXECUTIVE OFFICER/
PRINCIPAL OFFICER



PROMOTING EXEMPLARY ETHICS, TRANSPARENCY & GOVERNANCE

“Our tagline ‘Assuring Trust. Delivering Value.’ carries our promise of good governance, honest conduct and ethical decision making. These traits steer Bank Islam in accordance with its commitment to living out the VBI principles.”

Mohd Muazzam Mohamed
Chief Executive Officer





“Moving ahead, we are focused on driving workplace behavioural change with the establishment of our Transformation programmes. Our Bank-wide culture change emphasises adherence to Shariah goals and principles, and full regulatory compliance.”

Datuk Zamani Abdul Ghani
Chairman

ETHICS, INTEGRITY & TRUST

IN ADVANCING THROUGH THE CHALLENGING AND COMPETITIVE BUSINESS ENVIRONMENT, THE BANK LEVERAGES ON A FOUNDATION BUILT ON THE GREATNESS OF ISLAMIC CONDUCT THAT VALUES PRINCIPLES OF INTEGRITY, HONESTY AND RESPONSIBILITY. WE MEET CUSTOMERS' NEEDS AND REALISE THEIR EXPECTATIONS THROUGH THESE PRINCIPLES WHICH CREATE TRUST AND CONFIDENCE.

108

THE EMPLOYEES OF BANK ISLAM ARE BOUND TO THE CODE OF ETHICS FOR THE FINANCIAL SERVICES INDUSTRY AND THE BANK'S INTERNAL CODE OF CONDUCT ("THE CODES").

The Codes, policies and procedures issued to all employees represent the essential assurance in building a culture of trust and integrity. Amongst such policies and procedures are the Recruitment & Selection Policy, Whistle-Blowing Policy, Social Media Policy, Guideline on Personal Data Protection and the Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") Policy. Bank Islam has also established an Integrity Hotline for reporting staff behaviours in contravention to the Bank's Code of Ethics and Conduct. Investigations on issues pertaining to ethics and integrity are performed by the Bank's Investigation & Enforcement Unit under the Ethics & Integrity Department. The reports are presented to the Audit & Examination Committee of the Bank's Board.

RECRUITMENT & SELECTION POLICY

As part of Bank Islam's efforts to uphold a workforce and culture of trust and integrity, the Bank under its Recruitment & Selection Policy stresses the importance for potential candidates to undergo a thorough screening and shortlisting process based on certain criteria. The selected candidates are subject to a due diligence process as required under the AML/CFT requirements which, amongst others, require candidates' name to be screened, a reference check

with candidates' employers or other referees deemed appropriate, as well as a check on candidates' financial history, credits history and directorships held. Apart from this, candidates who are selected for employment are required to make declarations which include:

- Declaration and undertaking not to disclose any confidential information and materials;
- Declaration that they have read and understood the content of the Code of Ethics, Code of Conduct and its implication, if there is any breach; and
- Declaration that they understand their roles and responsibilities in handling and safeguarding the Bank's IT and information assets.

WHISTLE-BLOWING POLICY

The Whistle-Blowing Policy is established to provide an avenue for immediate reporting and/or disclosing of any wrongdoings, malpractices or irregularities, committed by employees and/or external parties against the Bank's interest, which include the following:

- Breach of policies and procedures;
- Fraud, embezzlement, corruption or dishonesty;
- Actions which could cause physical danger to another person or give rise to a risk of damage to properties/assets;
- Forgery or alteration of any documents belonging to the Bank, customers, another financial institution, or agents of the Bank;
- Profiteering as a result of insider knowledge;
- Misuse of position;
- Breach of Code of Ethics for the Financial Services Industry and Code of Conduct;
- Any other similar or related irregularities; and
- Any other wrongdoings as may be determined by the Board to be included in the scope of this policy, from time to time.

Datuk Zamani Abdul Ghani, Chairman of Bank Islam, has been appointed as the designated non-executive director to be responsible for the effective implementation of the Policy.

ANTI-MONEY LAUNDERING POLICY

Bank Islam has always conducted its business in conformity with high ethical standards, with full adherence to all Shariah laws and regulations applicable to Islamic financial institutions. While it is accepted that the Bank may not always be able to determine whether a transaction originates from, or is part of, any unlawful activities, the Bank will conduct its business in compliance with the following laws, regulations and policies governing AML/CFT.

These include the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA) and ongoing AML/CFT Policy Documents issued out by Bank Negara Malaysia (“BNM”).

In ensuring compliance to the above, Bank Islam undertakes the following:-

- Develop Bank Islam’s AML/CFT Policy, Operational Procedures and Annual AML/CFT Programme managed by the AML/CFT Department to ensure each staff is aware of his obligation towards combating Money Laundering/Terrorist Financing;
- Appoint a Business Compliance Officer (“BCO”) or a Designated Compliance Officers (“DCO”) who is responsible to implement AML/CFT initiatives and measures in each working unit;
- Establish customer due diligence for all customers including implementation of Know-Your-Customer Policy and enhanced due diligence for customers and transactions presenting higher risk;
- Establish and maintain appropriate procedures to monitor customer accounts and activities to detect suspicious transactions that may be indicative of money laundering activities;
- Maintain a system that monitors all transactions and is able to raise alert should there be elements of suspicion as pre-determined by the AML/CFT Department;
- Roll out the AML/CFT Awareness e-learning course which has been made compulsory for the staff to complete every year;
- Retain identification and transactional documentation as defined in the relevant laws and legislation;

- Report to the relevant authorities in a timely and comprehensive manner on all identified suspicious transactions where there are reasonable grounds to suspect that a money laundering offence has been or is being committed; and
- Co-operate fully with the relevant law enforcement agencies and regulatory authorities on AML/CFT issues.

CORRUPTION-FREE PLEDGE

Bank Islam became the industry leader as the first Islamic bank to sign the Malaysian Anti-Corruption Commission’s Corporate Integrity Pledge on 20 March 2012. The Senior Management of Bank Islam together with all staff in Menara Bank Islam renewed their commitment towards combatting corruption by taking oath in the Corruption-Free Pledge (“CFP”) on 11 December 2017. The pledge signals the Bank’s commitment to uphold the Anti-Corruption Principles for Corporations in Malaysia in the conduct of its business and in its interactions with its business partners and the Government. This is Bank Islam’s aspiration in working towards creating a business environment that is free from corruption and unethical practices.

In 2018, face-to-face learning sessions were conducted nationwide to inculcate and promote the principles of good governance in all aspects of its business operations that emphasise on integrity, accountability, fairness and no tolerance towards bribery and corruption. This learning session was followed with CFP signing by staff in all 13 States and 3 Federal Territories in front of the Malaysian Anti-Corruption Commission’s State Directors. A toll-free Integrity Hotline (1800-22-0091) and a dedicated email address (whistle@bankislam.com.my) have been established to facilitate any reports made by external as well as internal parties on unethical conduct involving any Bank Islam personnel. In addition to the pledge, Bank Islam’s activities towards achieving the pledge will be subject to audit by the Malaysian Anti-Corruption Commission’s Inspection and Consultancy Division as it has been in 2016 and in 2017.



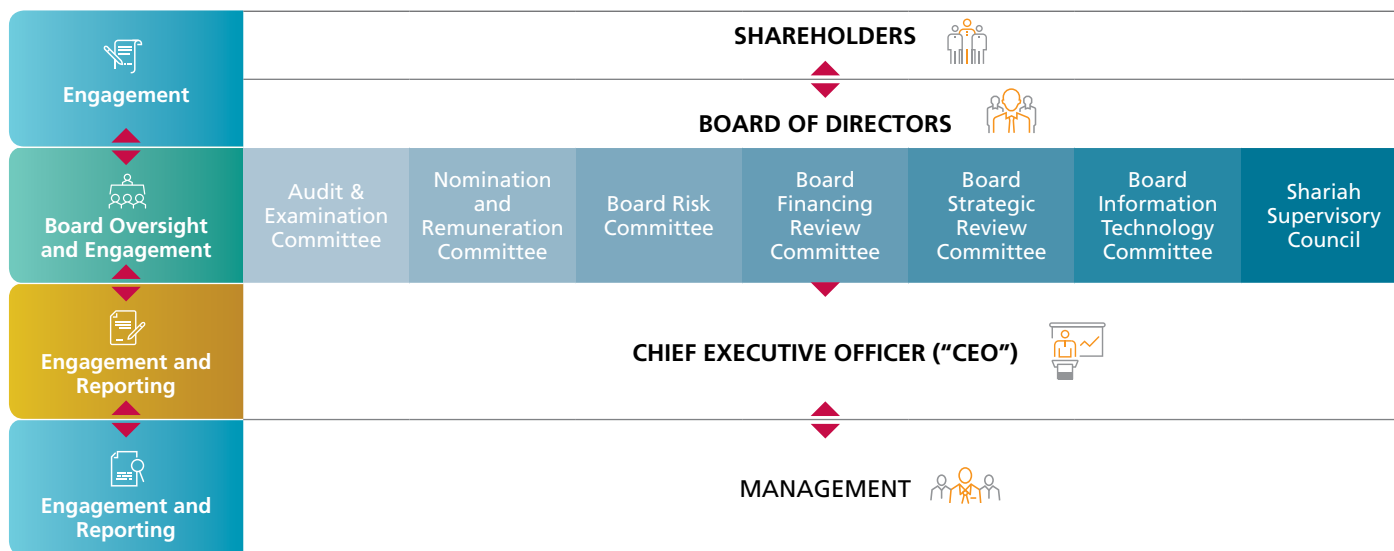
STATEMENT ON CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS OF BANK ISLAM (“THE BOARD”) IS COMMITTED TO PROMOTING AND INSTILLING A STRONG CULTURE OF CORPORATE GOVERNANCE THROUGHOUT THE ORGANISATION. THE BOARD RECOGNISES THE IMPORTANCE OF A SOUND INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM, AND ETHICAL BEHAVIOUR BASED ON SHARIAH RULES AND PRINCIPLES. AN INDEPENDENT SHARIAH SUPERVISORY COUNCIL REPORTS DIRECTLY TO THE BOARD, PROVIDING NECESSARY OVERSIGHT AND ENGAGEMENT TO ENSURE ALL DECISIONS ARE ALIGNED TO SHARIAH PRINCIPLES.

CORPORATE GOVERNANCE FRAMEWORK

The governance structure of Bank Islam is illustrated below:

110



Our corporate governance framework is in line with the recommended practices of Bank Negara Malaysia’s (“BNM”) Corporate Governance Policy issued on 3 August 2016 (“BNM CG Policy”), the Malaysian Code on Corporate Governance issued in 2017 (“MCCG 2017”) and other relevant requirements as outlined under the respective guidelines by BNM.

SECTION A: THE BOARD

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities



The Board has the overall responsibility to promote the sustainable growth and financial soundness of Bank Islam, and give direction and oversight to the management of the business and operations of Bank Islam.

Key responsibilities of board members

The key responsibilities of the board members are as follows:

Role 	Key responsibilities 
<p>Chairman Datuk Zamani Abdul Ghani</p>	<ul style="list-style-type: none"> • Provide leadership for the operation, governance and meetings of the Board; • Set the agenda for Board meetings and encouraging debate to ensure sound decision-making; • Oversee the performance evaluation of the Board and its Committees; and • Communicate with stakeholders and ensure stakeholders' views are communicated to the Board.
<p>Non-Executive Directors (Independent and Non-Independent) Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Zahari @ Mohd Zin Idris Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>) Mohamed Ridza Mohamed Abdulla Noraini Che Dan Nik Mohd Hasyudeen Yusoff Dato' Sri Khazali Ahmad Azizan Ahmad</p>	<ul style="list-style-type: none"> • Review and approve strategic and policy matters of the Bank's business and operations; • Scrutinise, measure and review the performance of the Management in implementing the approved strategies and policies; • Review the Bank's accounting and financial reporting system, ensure implementation of the Bank's governance, and ensure systems of internal control and risk management are appropriate and effective; • Oversee the Bank's compliance with regulatory requirements; and • Review succession plans for the Board, Shariah Supervisory Council ("SSC") and Senior Management.

The role and responsibilities of the Chairman and the Chief Executive Officer are clearly demarcated in the Board Charter. The key responsibilities of the Chief Executive Officer are as below:

Role 	Key Responsibilities 
<p>Chief Executive Officer Mohd Muazzam Mohamed</p>	<ul style="list-style-type: none"> • Develop and provide the strategic direction of Bank Islam's business plan; • Ensure the Bank's strategies, corporate policies and day-to-day business affairs are effectively implemented and managed; • Ensure that the Board's decisions are implemented and the Board's directions are responded to; • Keep the Board fully informed of all important aspects of the Bank's operations and ensure sufficient information is disseminated to the Board; and • Provide strong leadership and effectively communicate the vision, management philosophy and business strategies of the Bank to the employees.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The Board is assisted by the Company Secretary (the post is currently held by Maria Mat Said) who is responsible for the following matters:

<div style="background-color: #0070C0; color: white; padding: 5px; font-weight: bold;">CORPORATE GOVERNANCE ADVISORY</div> <ul style="list-style-type: none"> Advising the Board on its roles and responsibilities. Monitoring corporate governance developments and assisting the Board in applying governance practices. Facilitating the orientation of new Directors and assisting in Directors' training and development. 	<div style="background-color: #E67E22; color: white; padding: 5px; font-weight: bold;">COMPLIANCE ADVISORY</div> <ul style="list-style-type: none"> Advising the Board on corporate disclosures and compliance with Company regulation and other regulatory bodies. Notifying the Chairman of any possible violations of regulatory requirements. 	<div style="background-color: #8ECC4F; color: white; padding: 5px; font-weight: bold;">INFORMATION FLOWS AND MEETINGS</div> <ul style="list-style-type: none"> Managing the logistics and recording minutes of all Board and Board Committee meetings. Facilitating Board communication. Relaying Board and Board Committee decisions to Management to act upon. 	<div style="background-color: #7F7F7F; color: white; padding: 5px; font-weight: bold;">STAKEHOLDER COMMUNICATION</div> <ul style="list-style-type: none"> Managing processes pertaining to general meetings. Serving as a focal point for stakeholders' communication and engagement on corporate governance issues.
---	---	---	--

Authority and Delegation

The Board has authorised the Management to execute certain functions to facilitate the day-to-day operations of Bank Islam. However, the Board Charter and the Board of Directors' Terms of Reference prescribes that the following matters are specifically reserved for the Board:




Key Matters Reserved for the Board

- Strategic policy matters
- Financial results and declaration of dividends
- Any significant operating and credit policies
- Risk appetite setting
- Capital management plan
- Authority limits
- Any corporate exercise which involve acquisition or divestment or strategic interest
- Major acquisition of capital expenditure
- Appointment and remuneration of directors, SSC members, the CEO and key Senior Management officers
- Entry into any related party transaction
- Any new outsourcing proposals



Board Meetings

The Board and Board Committee meetings are held regularly to discuss key matters involving strategic, governance and operational issues. The Board and Board Committees' procedures are as follows:

Before Meeting 	At Every Meeting 	Frequent and Effective Engagement with the Board 
<ul style="list-style-type: none"> • Planning and scheduling are done in advance in consultation with the Directors. • The Chairman oversees the setting of the agenda in consultation with the CEO. • The agenda is carefully managed but allows for flexibility when needed. • Insertion of any other agenda items may be requested by any Director. • A comprehensive Board paper comprising objectives, background, purpose, implications, risk, analysis, recommendations and other relevant information is prepared and circulated to enable the Board to make informed and effective decisions. • All materials, including previous Board minutes are circulated at least five (5) days prior to the meetings. • External advisers may be engaged if deemed necessary. 	<ul style="list-style-type: none"> • The Chairman promotes open and frank debates by all Directors. Board members come well prepared to engage in robust discussions. • If there is a conflict of interest, the Director in question will excuse himself and abstain from discussions and deliberation on that matter. • The CEO gives an update on the Bank's business and operations as well as a macro perspective on industry trends and developments. • The Chief Financial Officer ("CFO") presents the financial performance and significant financial highlights. • The respective Heads of Division and external advisers may be invited to attend the meeting to advise the Board on certain matters under discussion. Directors will have the opportunity to discuss specific areas with them and where relevant, challenge the ideas presented. • Subject matter experts (external or in-house) are invited to present on key topics identified by the Board and to give updates on corporate restructuring, corporate governance, risk management, capital, tax, accounting, listing and other regulations which may have an impact on Bank Islam's affairs. • Decisions are made unanimously. • All decisions and conclusions are recorded in the Board minutes. 	<ul style="list-style-type: none"> • The Board is regularly updated on the performance of the Bank. • Outside Board meetings, Board approvals for matters in the ordinary course of business can be obtained through written resolutions. • Ad-hoc meetings are held when necessary. There were five (5) ad-hoc Board meetings held in 2018. • The CFO provides the Board with detailed financial performance reports every two (2) months. • Directors have direct access to Senior Management and may request for additional information from them. • Directors also have various opportunities to interact with Senior Management during the Bank's official functions/events. • Some Directors also sit on the Board of the subsidiaries. This arrangement enables them to have a better understanding of the operations and activities of the subsidiaries. • Directors have access to the Company Secretary at all times. The Company Secretary attends all meetings, generally assists Directors in the discharge of their duties and facilitates communication between the Board, the Board Committees and the Management. The Company Secretary also helps with the induction of new Directors.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Details of the Board of Directors' meetings and attendance in 2018 are as follows:

Name of Board Member	Attendance/Number of Meetings in 2018	%
Datuk Zamani Abdul Ghani (Chairman)	11/11	100
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin	11/11	100
Zahari @ Mohd Zin Idris	11/11	100
Datuk Zaiton Mohd Hassan	11/11	100
Mohamed Ridza Mohamed Abdulla	10/11	91
Noraini Che Dan	11/11	100
Nik Mohd Hasyudeen Yusoff	10/11	91
Dato' Sri Khazali Ahmad	11/11	100
Azizan Ahmad	11/11	100

114

Eleven (11) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the Board. Apart from the members of the Board, meetings are also attended by the Chairman of the SSC and the CEO.

ALL BOARD MEMBERS COMPLIED WITH THE MINIMUM ATTENDANCE REQUIREMENT UNDER THE BNM CG POLICY OF NOT LESS THAN 75%

TOTAL BOARD MEETINGS HOURS
22 HOURS

Board Activities

Amongst the strategic matters considered by the Board in 2018 include the following:

Area of Focus	Matters Considered by the Board
Strategy and Business Planning 	<ul style="list-style-type: none"> Review the Strategic Direction of the Bank for the next three (3) years until 2021; Review and approve strategy and business plan including the annual capital expenditure, budget, capital plan and Key Performance Indicators ("KPIs"); Ensure that the KPIs are in line with the proposed strategy and business plan; Review and challenge the Management's views/assumptions on the proposed strategy and business plan to ensure informed decision is made in the interest of the Bank; Approve the adoption of Value-based Intermediary ("VBI") as the overarching theme for the Bank's strategy and business plan for the financial year 2019. VBI is the Bank's new business model which aims to deliver a sustainable performance with a strategic focus to support economic, social and environmental development, and it will be guided by the Shariah principles and goals; and Review the remuneration and benefit structure of employees to instill a performance driven culture.



Area of Focus	Matters Considered by the Board
Business Performance 	<ul style="list-style-type: none"> Review the Bank's business performance based on the financial reports presented to the Board; Review performance of the CEO and the Management against the approved KPIs; and Review the progress of the strategic initiatives and key operational issues of the Bank.
Risk Management 	<ul style="list-style-type: none"> Review and approve risk management related policies, credit policies, and other significant operational policies based on the recommendations of the Board Risk Committee ("BRC"); and Approve the review of the authority limits of the financing committees to ensure better credit prudence and oversight by the Board.
Compliance 	<ul style="list-style-type: none"> Oversee the establishment, implementation and effectiveness of the compliance function, with the assistance of the BRC and the Audit & Examination Committee ("AEC").
Governance 	<ul style="list-style-type: none"> Oversee the implementation of the Bank's overall governance framework to be in line with the requirements under BNM Corporate Governance Policy, Shariah Governance framework for Islamic Financial Institutions and other best practices.
Succession Planning 	<ul style="list-style-type: none"> Oversee the process for nomination, remuneration and succession plan of the Board, Board Committees, SSC, the CEO and key Senior Management personnel.

Board Committees

The Board has delegated its authority to various Board committees to enable them to oversee specific areas but the Board remains fully accountable for any authority delegated to the Board.



IN 2018, THE BOARD ESTABLISHED TWO (2) ADDITIONAL BOARD COMMITTEES NAMELY THE BOARD STRATEGIC REVIEW COMMITTEE ("BSRC") AND BOARD INFORMATION TECHNOLOGY COMMITTEE ("BITC"), TO ASSIST THE BOARD IN OVERSEEING THE IMPLEMENTATION OF THE KEY STRATEGIC PLAN OF THE BANK AS WELL AS THE INITIATIVES RELATING TO INFORMATION TECHNOLOGY AND DIGITALISATION.

The roles and responsibilities of the Board Committees are as follows:

Board Committee 	Key Responsibilities 
Board Risk Committee ("BRC") Chairman Nik Mohd Hasyudeen Yusoff Members Datuk Zamani Abdul Ghani Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>) Zahari @ Mohd Zin Idris Noraini Che Dan Azizan Ahmad	<ul style="list-style-type: none"> Assist the Board in meeting the expectations on risk management as set out by BNM. Oversee the Management's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah risk and other risk. Ensure that the risk management process is in place and functioning.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Board Committee 	Key Responsibilities 
<p>Audit & Examination Committee ("AEC")</p> <p>Chairman Noraini Che Dan</p> <p>Members Datuk Zamani Abdul Ghani Zahari @ Mohd Zin Idris Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>) Dato' Sri Khazali Ahmad Nik Mohd Hasyudeen Yusoff Mohamed Ridza Mohamed Abdulla</p>	<ul style="list-style-type: none"> • Ensure that there is a reliable and transparent financial reporting process and internal control system within the Bank. • Oversee the effectiveness of the internal auditors and external auditors of the Bank.
<p>Nomination & Remuneration Committee ("NRC")</p> <p>Chairman Noraini Che Dan</p> <p>Members Datuk Zamani Abdul Ghani Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>) Zahari @ Mohd Zin Idris Nik Mohd Hasyudeen Yusoff</p>	<ul style="list-style-type: none"> • Assist the Board on the process for nomination, remuneration and succession plan of the Board, Board Committees, SSC, the Chief Executive Officer and key Senior Management personnel.
<p>Board Financing Review Committee ("BFRC")</p> <p>Chairman Zahari @ Mohd Zin Idris</p> <p>Members Datuk Zamani Abdul Ghani Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>) Nik Mohd Hasyudeen Yusoff Mohamed Azizan Ahmad</p>	<ul style="list-style-type: none"> • Review of financing and/or investment proposals approved by the Financing Committee 'A' and/or Underwriting & Investment Committee of the Management based on the limits determined by the Board.
<p>Board Strategic Review Committee ("BSRC")</p> <p>Chairman Nik Mohd Hasyudeen Yusoff</p> <p>Members Noraini Che Dan Mohamed Ridza Mohamed Abdulla Datuk Zaiton Mohd Hassan (<i>resigned with effect from 18 February 2019</i>)</p>	<ul style="list-style-type: none"> • Assist the Board to oversee, supervise and monitor the implementation of identified key strategic matters and any corporate exercises involving the Bank that the Board has endorsed or approved.

Board Committee 	Key Responsibilities 
<p>Board Information Technology Committee (“BITC”)</p> <p>Chairman Mohamed Ridza Mohamed Abdulla</p> <p>Members Dato’ Sri Khazali Ahmad Azizan Ahmad</p>	<ul style="list-style-type: none"> Assist the Board in overseeing the implementation of strategies of Information Technology (“IT”) and digitalisation activities including e-banking initiatives of the Bank.

The Terms of Reference of the BRC, AEC, NRC, BSRC and BITC are available at www.bankislam.com.my

Board Committee Meetings

Board Risk Committee (“BRC”)

Details of the BRC meetings and attendance in 2018 are as follows:

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Nik Mohd Hasyudeen Yusoff (Chairman)	6/6	100
Datuk Zamani Abdul Ghani	6/6	100
Professor Emeritus Tan Sri Dato’ Dr Abdul Shukor Husin	6/6	100
Zahari @ Mohd Zin Idris	6/6	100
Datuk Zaiton Mohd Hassan	4/6	67
Noraini Che Dan	6/6	100
Azizan Ahmad*	5/5	100

* Azizan Ahmad was appointed as the BRC member with effect from 1 February 2018.

Six (6) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the BRC. Apart from the members of the BRC, meetings are also attended by two (2) SSC representatives, the CEO, the Chief Risk Officer, the Chief Credit Officer, the Chief Shariah Officer, the Chief Compliance Officer and Head of Treasury. The Board receives regular updates on significant matters deliberated during the BRC meetings and minutes of the BRC meetings are circulated to the Board.

TOTAL BRC MEETINGS HOURS

21 HOURS

SIX (6) OUT OF SEVEN (7) BRC MEMBERS COMPLIED WITH THE MINIMUM ATTENDANCE REQUIREMENT UNDER THE BNM CG POLICY OF NOT LESS THAN 75%

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

A summary of the matters considered by the BRC in 2018 are as follows:

- Review of the following reports:
 - Risk management report covering credit risk, market risk, operational risk and Shariah non-compliance risk;
 - Emerging risk report; and
 - Compliance report covering Anti-Money Laundering/Counter Financing of Terrorism (“AML/CFT”), regulatory compliance and update on new policies and regulations.
- Review of the following for approval:
 - Strategies for liquidity management;
 - Stress test scenario and its methodology for capital management;
 - Credit scoring methodologies for credit management;
 - Investment strategies for Treasury; and
 - Limits for credit and market risk management.
- Review of the following for recommendation to the Board:
 - the risk appetite setting for the Bank to ensure it is in line with the corporate strategy and direction;
 - the implementation of the Internal Capital Adequacy Assessment Process (“ICAAP”) for the Bank;
 - new product/services proposed by the business units to ensure it is in line with the target risk profile and risk acceptance criteria for the Bank; and
 - significant business and operating policies of the Bank.

118

Audit & Examination Committee (“AEC”)

Details of the AEC meetings and attendance in 2018 are as follows:

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Noraini Che Dan (Chairman)	8/8	100
Datuk Zamani Abdul Ghani	8/8	100
Zahari @ Mohd Zin Idris	8/8	100
Datuk Zaiton Mohd Hassan	6/8	75
Nik Mohd Hasyudeen Yusoff	8/8	100
Mohamed Ridza Mohamed Abdulla	8/8	100
Dato' Sri Khazali Ahmad*	7/7	100

* Dato' Sri Khazali Ahmad was appointed as the AEC member with effect from 1 February 2018.

Eight (8) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the AEC. Apart from the members of the AEC, meetings are also attended by the CEO, the Chief Internal Auditor and the Chief Compliance Officer. The Board receives regular updates on significant matters deliberated during the AEC meetings and minutes of the AEC are circulated to the Board.

ALL MEMBERS COMPLIED WITH THE
MINIMUM ATTENDANCE REQUIREMENT
UNDER THE BNM CG POLICY OF NOT
LESS THAN **75%**

TOTAL AEC
MEETINGS HOURS
21 HOURS
45 MINUTES

A summary of the matters considered by the AEC in 2018 are as follows:

- Review of the following:
 - internal audit reports on the Head Office, the branches and identified critical units of Bank Islam;
 - Shariah audit report on relevant units/functions of Bank Islam;
 - the investigation reports on fraud cases in the Bank; and
 - significant matters highlighted by the Management or the External Auditor and reviewed the progress updates on the action plan.
- Review for recommendation to the Board:
 - the unaudited interim financial statements and the audited financial statements;
- Approved the external auditors and internal auditors' plan and reviewed the progress; and
- Evaluated the performance of the External Auditors and recommended their reappointment to the Board.

Nomination & Remuneration Committee ("NRC")

Details of the NRC meetings and attendance in 2018 are as follows:

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Noraini Che Dan (Chairman)	8/8	100
Datuk Zamani Abdul Ghani	8/8	100
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin	8/8	100
Zahari @ Mohd Zin Idris	8/8	100
Datuk Zaiton Mohd Hassan	7/8	88
Nik Mohd Hasyudeen Yusoff*	7/7	100

* Nik Mohd Hasyudeen Yusoff was appointed as the NRC member with effect from 1 February 2018.

Eight (8) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the NRC. Apart from the members of the NRC, meetings are also attended by the CEO. Head of the Human Resources will also be invited to facilitate deliberation of issues under his purview. The Board receives regular updates on significant matters deliberated during the NRC meetings and minutes of the NRC are circulated to the Board.

ALL MEMBERS COMPLIED WITH THE
MINIMUM ATTENDANCE REQUIREMENT
UNDER THE BNM CG POLICY OF NOT
LESS THAN 75%

TOTAL NRC
MEETINGS HOURS
12 HOURS
15 MINUTES

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

A summary of the matters considered by the NRC in 2018 are as follows:

Review for recommendation to the Board the following:

- the revised composition of the Board Committees;
- reappointment of one (1) Non-Independent Non-Executive Director and two (2) Independent Non-Executive Directors;
- the appointment of a new Chief Executive Officer (“CEO”) to replace the former CEO, who resigned on 20 July 2018;
- the appointment of new nominee directors in companies where Bank Islam has interest in;
- the appointment of new Heads of Division to fill up vacancies of several positions;
- renewal of contract of service of Senior Management and their remuneration;
- annual reward for Senior Management based on their performance and KPIs; and
- the review of the employees’ remuneration framework based on study undertaken by the external consultant.

Board Financing Review Committee (“BFRC”)

Details of the BFRC meetings and attendance in 2018 are as follows:

120

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Zahari @ Mohd Zin Idris (Chairman)	11/11	100
Datuk Zamani Abdul Ghani	11/11	100
Datuk Zaiton Mohd Hassan	7/11	64
Nik Mohd Hasyudeen Yusoff	11/11	100
Azizan Ahmad*	9/10	90

* Azizan Ahmad was appointed as the BFRC member with effect from 1 February 2018.

Eleven (11) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the BFRC. Apart from the members of the BFRC, the meetings are also attended by the CEO, the Chief Credit Officer and Heads of the respective business units. The Board receives regular updates on significant matters deliberated during the BFRC meetings and minutes of the BFRC are circulated to the Board.

FOUR (4) OUT OF FIVE (5) BFRC MEMBERS
COMPLIED WITH THE MINIMUM
ATTENDANCE REQUIREMENT UNDER THE
TERMS OF REFERENCE OF NOT LESS THAN

TOTAL BFRC
MEETINGS HOURS
14 HOURS
45 MINUTES

75%

A summary of the matters considered by the BFRC in 2018 are as follows:

Reviewed and where necessary exercised their right to veto the following proposals:

- 59 new investment or financing/credit proposals;
- 113 review of existing investment or financing/credit proposals;
- Underwriting of Restricted Investment Account under the Investment Account Platform (“IAP”); and
- Connected party transactions under BNM Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks.

BFRC also provides oversight on the approvals of investment or financing/credit proposals made by the Management at the Underwriting and Investment Committee and Financing Committee A. During the year under review, the Bank promoted the VBI investments or financing/credit proposals in line with the corporate strategic direction.

Board Strategic Review Committee ("BSRC")

Details of the BSRC meetings and attendance in 2018 are as follows:

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Nik Mohd Hasyudeen Yusoff (Chairman)	4/4	100
Datuk Zaiton Mohd Hassan	4/4	100
Noraini Che Dan	4/4	100
Mohamed Ridza Mohamed Abdulla	4/4	100

Four (4) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the BSRC. Apart from the members of the BSRC, meetings are also attended by the CEO. The Board receives regular updates on significant matters deliberated during the BSRC meetings and minutes of the BSRC are circulated to the Board.

ALL BSRC MEMBERS COMPLIED WITH THE MINIMUM ATTENDANCE REQUIREMENT UNDER THE TERMS OF REFERENCE OF NOT LESS THAN 75%

TOTAL BSRC MEETINGS HOURS
8 HOURS



A summary of the matters considered by the BSRC in 2018 are as follows:

Reviewed and recommended to the Board a 3-year strategic business direction and the proposed revision of the Vision and Mission Statement of the Bank.

Board Information Technology Committee ("BITC")

Details of the BITC meetings and attendance in 2018 are as follows:

Name of Committee Member	Attendance/Number of Meetings in 2018	%
Mohamed Ridza Mohamed Abdulla (Chairman)	3/3	100
Dato' Sri Khazali Ahmad	3/3	100
Azizan Ahmad	3/3	100

Three (3) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the BITC. Apart from the members of the BITC, the meetings are also attended by the CEO and the Chief Technology Officer. The Board receives regular updates on significant matters deliberated during the BITC meetings and minutes of the BITC are circulated to the Board.

ALL BITC MEMBERS COMPLIED WITH THE MINIMUM ATTENDANCE REQUIREMENT UNDER THE TERMS OF REFERENCE OF NOT LESS THAN 75%

TOTAL BITC MEETINGS HOURS
5 HOURS
30 MINUTES



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

A summary of the matters considered by the BITC in 2018 are as follows:

- Review of the IT security status of the Bank based on review performed by independent consultant;
- Review for recommendation to the Board the IT Blueprint of the Bank; and
- Reviewed and approved the Cyber Security and Technology Risk Management Strategies for the Bank.

Board Professionalism

• Board Conduct

The Board Charter clearly outlines the Board's duties and responsibilities, powers and relevant requirements to promote the Board's effectiveness and good conduct in accordance with good corporate governance practices which includes the following:-

Code of Ethics

The Board is committed to setting the tone and applying ethical standards of behavior through its code of ethics. In line with this, the Board observes the Code of Ethics based on the Code of Ethics for the Financial Services Industry issued by the Financial Services Professional Board, the Company Directors' Code of Ethics issued by the Companies Commission of Malaysia and such other code of ethics issued by the relevant governing authorities.

Conflicts of Interests

The Board Charter states that a director, upon acceptance of his/her appointment and subsequently upon come to his knowledge, to declare any conflicts of interest including whether such interest arises through close family members. In the event of any conflict of interest, the Director shall abstain from participating in discussions and decisions on matters which directly involve him.

External Professional Commitment

To ensure the director will not have competing time commitments that could impair his/her ability to discharge his/her duties effectively, the Board Charter states the maximum number of external professional commitments of each director must not be more than ten (10), unless with the prior approval of the Board.

Whistle-Blowing Policy

The Whistle-Blowing policy has been established to provide an avenue for reporting and/or disclosing of any wrongdoings, malpractices or irregularities committed by employees and/or external parties against the Bank's interest. Datuk Zamani Abdul Ghani is the designated non-executive director responsible for the effective implementation of the Whistle-blowing policy.

In 2018, the Board has approved the enhancement of the Whistle Blowing policy. Face-to-face learning sessions were conducted nationwide to provide better understanding on the enhanced

policy and the processes involved in the investigation after a report is lodged. The aim of the learning sessions was to instil confidence to employees that their identity will be protected throughout the process. In addition, the Anti-Corruption Pledge was also signed by staff in all 13 States and 3 Federal Territories in front of the Malaysian Anti-Corruption Commission's State Directors after the face-to-face learning sessions. Other steps the Bank has taken to encourage a compliance culture includes placing of buntings to encourage "Speaking Up" and establishment of an internal portal.

The improved policy and continuous learning saw an increase number of whistle-blowing cases lodged for the financial year under review which serves as an indicator that employees have faith in the framework. The outcome of the whistle-blowing investigations were shared with the AEC after the cases were deliberated in the Management's Disciplinary Committee.

• Professional development and continuous education for directors

Bank Islam is dedicated to the ongoing development of its directors to ensure that each director possesses the knowledge and skills necessary to discharge their responsibilities.

The Bank has adopted a policy on directors' training which includes the following:

- Any director that is newly appointed to the Board will undergo an orientation session with the Management. He/she will be briefed on the Bank's governance structure, key management members, business and operations and important regulations and laws. A director's handbook, the latest Annual Report of the Bank and other relevant information will be made available to the director. The said session will be organised as soon as practicable not later than three (3) months upon the appointment of the director;
- All directors of the Bank will be required to register for the director's core training program under the Financial Institutions Directors' Education Program ("FIDE") within a year and to complete the program within two (2) years upon his/her appointment;

- The directors are encouraged to attend other trainings that are relevant to enable them to discharge their responsibilities effectively. In this regard, focus will be on the elective trainings organised by FIDE Forum as such trainings are structured based on areas that would be relevant to the banking industry and conducted by experienced speakers and trainers;
- The directors may also attend other trainings organised by local professional bodies and regulatory authorities within Malaysia in areas that are relevant to the Bank; and

- The NRC may approve any directors to attend trainings overseas if such trainings are viewed to be crucial for the Bank and the trainings are not available within Malaysia.

All Board members have attended and completed the Director's Core Training Program under FIDE within the period stipulated under the Director's Training Policy of the Bank. In line with the MCCG 2017 recommended practice, the Company Secretary facilitates the orientation of new directors and assist in directors' training and development.

The following lists the training attended by the directors in 2018:

Name of Directors	Organiser	List of Training/Conference/Seminar/Workshop Attended
Datuk Zamani Abdul Ghani	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • 5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM
	<ul style="list-style-type: none"> • FIDE • FIDE • BIMB Invest (Internal) • Bank Islam (Internal) • Bank Islam (Internal) 	<ul style="list-style-type: none"> • Win The Innovation Race By Professor Roy Chua • Credit Risk Management - Banking Sector • Arabesque - Investment Strategy and Process • IT Security Talk By Cybersecurity Malaysia • Directors and Shareholders' Rights & Responsibilities
Professor Emeritus Tan Sri Dato' Dr Abdul Shukor Husin	<ul style="list-style-type: none"> • Bank Islam (Internal) • JAKIM • MUIP • USIM 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • Multaqa Dakwah Pemikiran Islam • Training Bengkel Zakat & Wakaf • Syarahan Perdana "Corporate and Syariah Governance and Public Trust Entities" • Konvensyen Zakat - Negeri Pahang, Kutipan dan Pengurusan Zakat Asnaf (Asnaf Muallaf) • Bengkel Khas Penyelidikan Mata Wang Krypto: Analisis Syarak
	<ul style="list-style-type: none"> • MUIP • Department of MUFTI Pahang 	
Zahari @ Mohd Zin Idris	<ul style="list-style-type: none"> • Bank Islam (Internal) • AIBIM 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • Development of Environment and Social Impact Assessment Framework ("ESIAF") for VBI • IT Security Talk By Cybersecurity Malaysia • Directors and Shareholders' Rights & Responsibilities
	<ul style="list-style-type: none"> • Bank Islam (Internal) • Bank Islam (Internal) 	
Datuk Zaiton Mohd Hassan	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • 5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM
	<ul style="list-style-type: none"> • FIDE • BIMB Invest (Internal) 	<ul style="list-style-type: none"> • 1st PIDM-FIDE FORUM Dialogue • Arabesque - Investment Strategy and Process

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Name of Directors	Organiser	List of Training/Conference/Seminar/Workshop Attended
Mohamed Ridza Mohamed Abdulla	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE • FIDE • BIMB Invest (Internal) • Silverlake • Bank Islam (Internal) • Management Events 	<ul style="list-style-type: none"> • Information Technology (“IT”) Roadmap and Digital Journey • BNM-FIDE FORUM Dialogue – Managing Cyber Risks in Financial Institutions • Credit Risk Management - Banking Sector • Arabesque - Investment Strategy and Process • Digital Collaboration & Transformation Conference • IT Security Talk By Cybersecurity Malaysia • High Council Meetups - ASEAN Board of Directors 2018
Noraini Che Dan	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE • FIDE • FIDE • TNB • SIDC • FIDE • TNB • Bank Islam (Internal) • SP SETIA • KHAZANAH NASIONAL • MASB • Bank Islam (Internal) 	<ul style="list-style-type: none"> • Information Technology (“IT”) Roadmap and Digital Journey • Navigation the VUCA World by Professor Tan Sri Dato ‘ Dr Lin See-Yan • FIDE FORUM EVENT - 1st Distinguished Board Leadership Series & BNM-FIDE FORUM Focus Group Discussion • 5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM • Board Development Programme 2018. Strategic Investment • Business Foresight Forum Disruption and Collaborations. The Rise of Capital Market BSS 4.0 • Credit Risk Management - Banking Sector • Conference of The Electric Power Supply Industry (CEPSI) • IT Security Talk By Cybersecurity Malaysia • Board Development Programme Sale and Services Tax • Forum on Balance Recalibrating Markets, Firms, Society and People • Session on Accounting and Islamic Finance • Directors and Shareholders’ Rights & Responsibilities
Nik Mohd Hasyudeen Yusoff	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE • SIDC • SIDC • SIDC • FIDE • FIDE • AICB • FIDE • ICLIF • Bank Islam (Internal) • FIDE 	<ul style="list-style-type: none"> • Information Technology (“IT”) Roadmap and Digital Journey • FIDE FORUM EVENT - 1st Distinguished Board Leadership Series & BNM-FIDE FORUM Focus Group Discussion • Capital Market Director Program – Module 1 • Capital Market Director Program – Module 2B • Capital Market Director Program – Module 3 • 5th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of BNM • 1st PIDM-FIDE FORUM Dialogue • The (“MIS”) Behavior of Financial Markets - Expert Insight • Emerging Risk, The Future and Return on Compliance Programme • The Mandatory Accreditation Programme • IT Security Talk By Cybersecurity Malaysia • FIDE FORUM Dinner Talk: “The Director as Coach”: An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE FORUM’s “DNA of a Board Leader”

Name of Directors	Organiser	List of Training/Conference/Seminar/Workshop Attended
Dato' Sri Khazali Ahmad	<ul style="list-style-type: none"> • Bank Islam (Internal) • FIDE • FIDE • FIDE • Bank Islam (Internal) 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • FIDE Core Program – Module A • Credit Risk Management - Banking Sector • FIDE Core Program – Module B • Directors and Shareholders' Rights & Responsibilities
Azizan Ahmad	<ul style="list-style-type: none"> • Bank Islam (Internal) • AIBIM • FIDE • FIDE • FIDE • Bank Islam (Internal) • Bank Islam (Internal) 	<ul style="list-style-type: none"> • Information Technology ("IT") Roadmap and Digital Journey • Development of Environment and Social Impact Assessment Framework ("ESIAF") for VBI • Understanding Liquidity Risk Management In Banking • FIDE Core Program – Module A • FIDE Core Program – Module B • IT Security Talk By Cybersecurity Malaysia • Directors and Shareholders' Rights & Responsibilities

• Board Evaluation

The annual Board Effectiveness Evaluation ("BEE") was conducted to assess the performance and effectiveness of the Board and its committees and individual directors.

The BEE examined the fitness and properness, contribution and performance, caliber and personality of the directors. A peer assessment is performed to evaluate the effectiveness of the Chairman, individual directors, the independent directors and the nominee directors. The results of the evaluation are tabulated and reviewed by the Board.

Board Composition

During the financial year under review, the Board comprised of nine (9) non-executive directors, six (6) of whom are independent. This composition complies with the BNM CG Policy requirement, i.e., for the Board to have majority independent directors. The Chairman of the Board is also an independent director. This provides an effective check and balance in the functions of the Board.

On 18 February 2019, Datuk Zaiton Mohd Hassan, a non-independent non-executive director resigned from the Board. With her resignation, the composition of directors was reduced to eight (8) members but maintained a majority of independent members.

Board Independence

The Board current composition has a high level of independence since six (6) out of nine (9) members are Independent Directors. The Board undertakes a rigorous review to determine the independence of the director. In considering the independence of the Directors, the following factors have been taken into account:

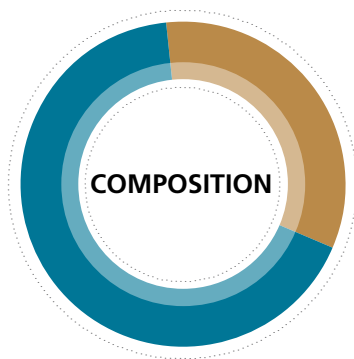
- ability to act independently in character and judgement and free from any association or circumstances that may impair his independence;
- involvement in any significant business or contractual relationship with a value of above RM1.0 million; and
- tenure for a period no longer than nine (9) years. However, the Board may decide to retain a member as an independent non-executive director beyond the nine (9) years period subject to the approval of the shareholders and BNM.

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

Board Diversity

The Board is committed to ensuring diversity and inclusiveness in its composition and deliberations. The Bank embraces the proposition that having a diverse Board would have a positive impact on the Bank. In this regard, the Board considers diversity from a number of different aspects, including gender, age, educational background, professional experience, skills, knowledge and length of service.



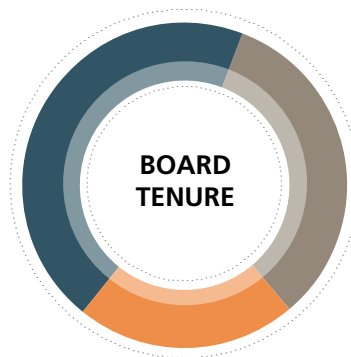
Independent Director ("INED")
67% - 6/9
 Non-Independent Director ("NINED")
33% - 3/9



Male
78% - 7/9
 Female
22% - 2/9



50 to 60 years
22% - 2/9
 60 to 70 years
45% - 4/9
 Above 70 years
33% - 3/9



Less than 3 years
45% - 4/9
 3 to 9 years
33% - 3/9
 Above 9 years
22% - 2/9

SKILLS & EXPERIENCE

Legal	11%	1/9
Aqidah & Philosophy	11%	1/9
Banking & Credit Management	44%	4/9
Accounting, Audit & Tax	55%	5/9
Economy & Finance	67%	6/9
Management, Leadership & Strategy	100%	9/9

Board Remuneration

Bank Islam has a remuneration structure for directors that is competitive and consistent with Bank Islam's culture, objectives and strategies.

The remuneration structure for non-executive directors takes into consideration relevant factors including:

- Function;
- Workload;
- Responsibilities; and
- Time spent for the preparation of the Board and Board Committees' meeting.

A premium is given to the Chairman of the Board and Board Committees in view of his/her additional role in guiding and managing the Board and Board Committees.

In line with good corporate governance practice of the Bank, the review of the remuneration is conducted every three (3) years.

The details of directors' remuneration during the financial year are disclosed in Note 34 on page 221 of Bank Islam's Financial Statements.

Senior Management Remuneration

Senior Management of Bank Islam comprises the CEO and Heads of Division whose responsibilities have a material impact on the Bank's performance and risk profile.

The breakdown of the total amount of remuneration awards in respect of senior management in 2018 is as follows:

Element	No of staff	Total Amount (RM)
Basic Salary, Fixed Allowance & Bonus	28	19.5 million
Benefits-in-Kind other Emolument	28	4.5 million

Percentage Fixed vs Percentage Variable

Fixed Remuneration - 53%

Variable income (Bonus) - 47%

Remuneration of the CEO and Senior Management

Bands (RM) – Total Remuneration (Basic salary, fixed allowances and bonus)	Number of Senior Management
1,500,001 and above	1
1,250,001 up to 1,500,000	1
1,000,001 up to 1,250,000	3
750,001 up to 1,000,000	7
500,001 up to 750,000	8
250,000 to 500,000	5
Below 250,000	3
Total	28

Employee Remuneration Structure

Employee remuneration comprised of the following two components:

Component	Comprising
Fixed	<ul style="list-style-type: none"> • Base salary • Fixed allowances
Variable	<ul style="list-style-type: none"> • Cash bonus

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

The Board has the responsibility to ensure that an effective governance, risk management and internal control framework are in place to ensure the Bank remains resilient and sustainable. Two (2) Board Committees, namely the Audit & Examination Committee ("AEC") and the Board Risk Committee ("BRC") assist the Board in discharging these duties.

Audit and Examination Committee ("AEC")

The AEC is chaired by Puan Noraini Che Dan. Out of the seven (7) members of the AEC, five (5) members are Independent Non-Executive Directors. Three (3) of the AEC members are members of the Malaysian Institute of Accountant ("MIA") of which two (2) of them are also members of the Malaysian Institute of Certified Public Accountants ("MICPA"). Apart from having members who are experienced in auditing and accounting, the AEC also comprised members that have experience in banking, economy, finance, legal and tax management. Collectively, the AEC members possess a wide range of necessary skills to discharge its duties effectively.

The list of trainings attended by all members of the AEC to keep themselves informed of relevant developments in accounting and auditing standards can be found on page 123.

Internal Auditors

The Board, through the AEC, is assisted by the Internal Audit Division ("IAD") that mainly performs the function of independently reviewing the adequacy and effectiveness of the Bank's risk management, internal control and governance systems and processes. The objectives, scope of activities and responsibilities of IAD are defined in the IAD Charter.

The IAD reports to the AEC and is headed by the Chief Internal Auditor, namely Zalfitri Abd Mutalip, who is qualified with a degree in Bachelor of Science in Business Administration (Finance) and Certificate in Internal Auditing for Financial Institution ("CIAFIN"). Processes are in place to ensure that personnel from IAD are free from any relationships or conflicts of interest, which could impair their objectivity and independence.

The IAD undertakes the audit of entities within the Bank, its subsidiaries and related parties of the Bank. The annual Audit Plan is reviewed and approved by the AEC prior to the start of each financial year. IAD adopts a risk-based approach in determining the auditable units and frequency of the audits.

The results of the audits conducted, including its risks and recommendations are reported to the AEC on a regular basis. Resolution of the audit findings and recommendations are performed by the Management and closely observed by the Management Audit Committee whose members comprise of the members of the senior management. In addition, Shariah audit reports including their findings, risks and recommendations are notified and deliberated at the SSC meetings.

The IAD is committed to provide an independent, objective assurance and advisory services that will add value and improve the Bank's operations.

External Auditors

The AEC has in place policies and procedures to assess on an annual basis the suitability, objectivity and independence of Bank Islam's External Auditors. The assessment includes the ability of the external auditor in meeting the Bank's requirements, business insights and ideas, service efficiency and effectiveness as well as value management. The AEC meets at least once a year with the external auditors without the presence of the Management.

Board Risk Committee ("BRC")

To ensure the effectiveness of the Bank's risk management framework and policies, the Board has established the BRC and the Management Risk Control Committee ("MRCC"). The BRC is chaired by Nik Mohd Hasyudeen Yusoff. Out of the seven (7) members of the BRC, four (4) members are Independent Non-Executive Directors.

The BRC assists the Board in meeting the expectations on risk management as set out by BNM and oversees the Management's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah risk, information technology risk and other risks and to ensure the effectiveness of the risk management process. The BRC is committed to promoting a compliance culture as part of Bank Islam's corporate culture.

Risk Management and Internal Control Framework

The Board recognises the importance of maintaining a sound system of internal control and risk management practices as well as good corporate governance. The Board exercises overall responsibility in identifying, evaluating and reviewing the adequacy and effectiveness of the Bank's risk management, governance and internal controls. The Board acknowledged that risks cannot be eliminated completely and as such, systems and processes have been put in place to provide reasonable, and not absolute, assurance against material misstatement of financial information or against any losses and fraud.

The Board is of the view that the internal control framework that has been instituted throughout Bank Islam is sufficient to safeguard the shareholder's investment, customers' interest and Bank Islam's assets. Reviews are continuously carried out to ensure effectiveness of the system.

Bank Islam has established processes to ensure the integrity of its internal control system and manage the existing and potential risks with control and governance processes.

The Bank's approach to management of risk is guided by its Risk Management Framework, which consists of the following key elements:

- Risk Governance;
- Risk Appetite;
- Risk Management Process; and
- Risk Culture.



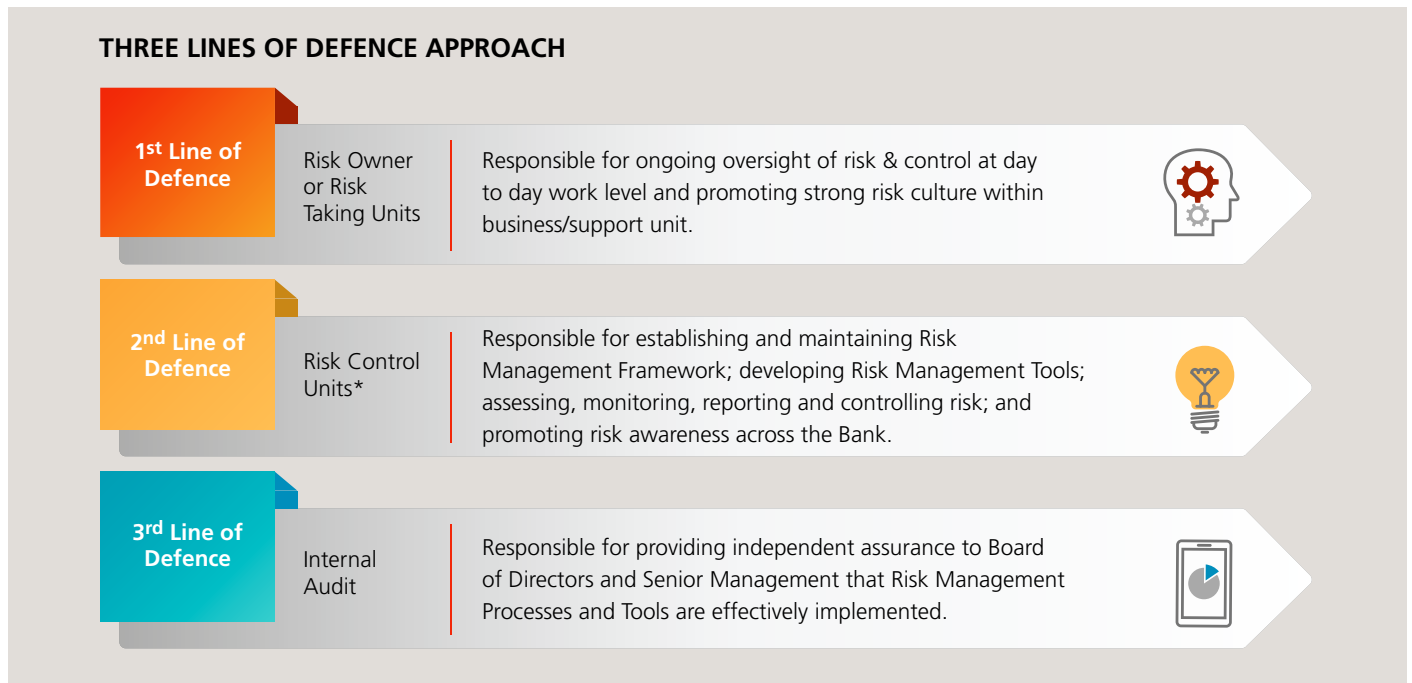
STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Risk Governance

The following Risk Committees have been established to facilitate the implementation of the Risk Management Framework.

BOARD OF DIRECTORS				
The Bank's ultimate governing body which plays a critical role in ensuring sound and prudent policy and practices in the Bank. It provides an effective check and balance mechanism in the overall management of the Bank.				
BOARD COMMITTEES				
BOARD FINANCING REVIEW COMMITTEE ("BFRC")		BOARD RISK COMMITTEE ("BRC")		
Responsible for: <ul style="list-style-type: none"> reviewing all investment and financing/ credit related proposals above specified limits. 		Responsible for: <ul style="list-style-type: none"> overseeing the Bank's activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah compliance risk, IT risk and any other relevant risks ensuring risk management process is in place and functioning 		
MANAGEMENT COMMITTEES				
FINANCING COMMITTEES	BUSINESS CONTINUITY MANAGEMENT COMMITTEE ("BCMC")	MANAGEMENT RISK CONTROL COMMITTEE ("MRCC")		ASSET & LIABILITY MANAGEMENT COMMITTEE ("ALCO")
Responsible for: <ul style="list-style-type: none"> Assessing/approving credits and investment/ capital market proposals. 	Responsible for: <ul style="list-style-type: none"> Reviewing the Bank's BCM issues and making appropriate recommendation 	Responsible for: <ul style="list-style-type: none"> Performing the oversight functions Effective risk management of key issues 		Responsible for: <ul style="list-style-type: none"> Overseeing and deliberating key issues relating to Bank's asset and liability management and market risk
		OPERATIONAL RISK CONTROL COMMITTEE ("ORCC")	RECOVERY MANAGEMENT COMMITTEE ("RMC")	
		Responsible for: <ul style="list-style-type: none"> Facilitating MRCC in the management of key issues on operational risk 	Responsible for: <ul style="list-style-type: none"> Overseeing recovery issues and related operational strategies on recovery 	

The Bank's risk governance approach is premised on the 3-Lines of Defence Approach by placing accountability and ownership of risks to where they arise while maintaining the level of independence among risk taking units, risk control units and independent assurance unit in managing risk.

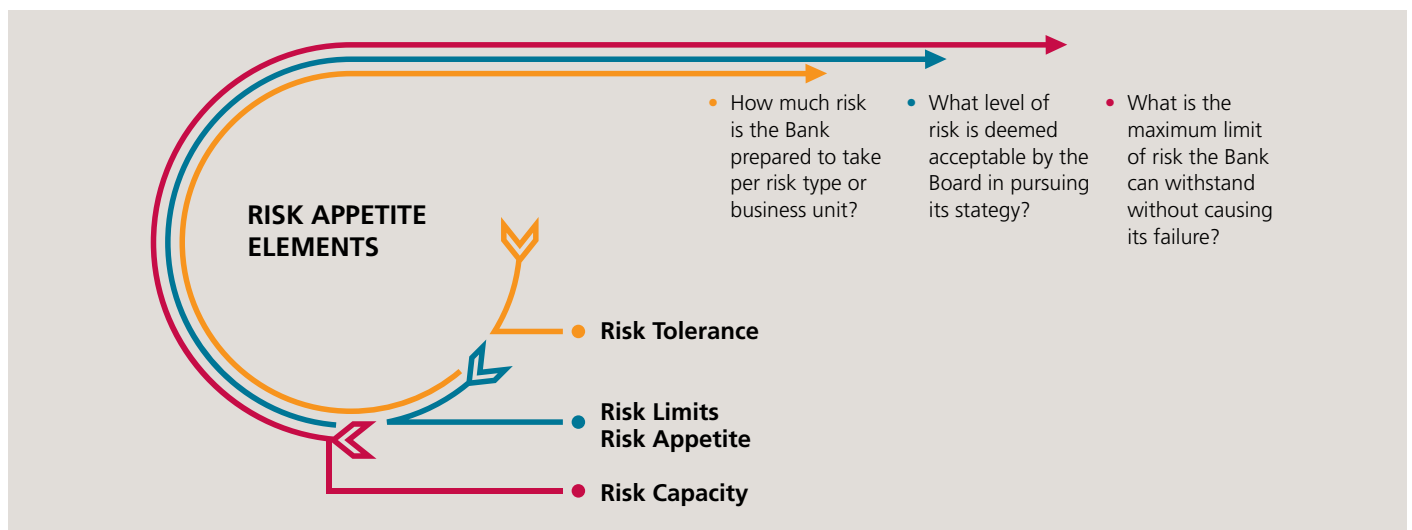


* Consists of Risk Management Division (including Shariah Risk Management), Credit Management Division, Compliance Division and Chief Information Security Officer ("CISO")'s Office.

Risk Appetite

A critical component of the Bank's Risk Management Framework is the Bank's risk appetite, which enables the Board and Management at all levels to communicate, understand and assess the types and level of risks that the Bank is willing to accept in pursuing its strategies.

The Bank's risk appetite has been integrated into its Corporate Direction and Business Plan and is changeable based on business and market conditions. It is determined based on the following elements:

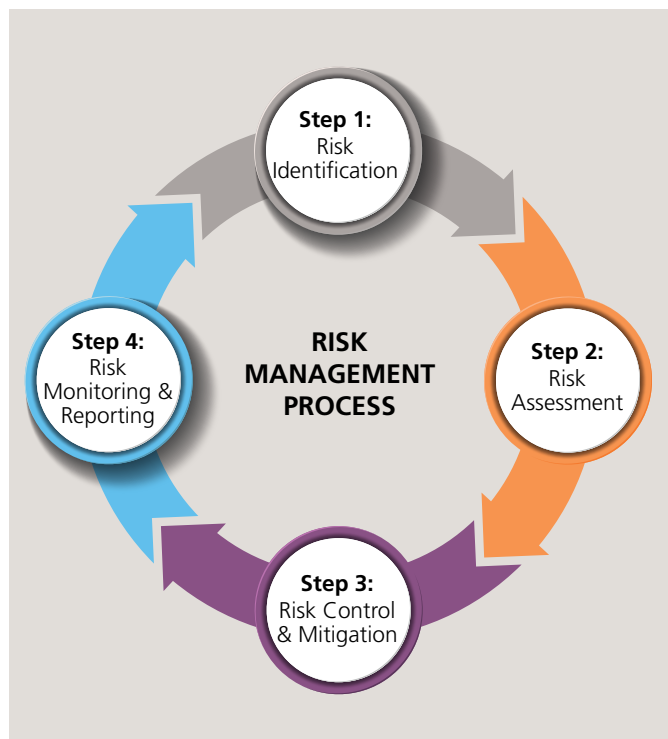


STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The Bank takes steps to ensure that trigger levels, limit structures and delegated authorities are re-aligned and potential risk appetite implications are considered in all major resource allocation decisions. In setting the risk appetite of the Bank and to enhance the Bank's risk adjusted returns, the discussion of risks is from the point of view of optimising the Bank's risk-return profile instead of 'loss minimising'.

Risk Management Process

A standard risk management process has been adopted by the Bank to ensure that Bank-wide risks are properly identified and managed in a structured, systematic and consistent manner. The risk management process is as follows:



Risk Culture

Risk culture is key to the long-term effectiveness of the Bank's risk management strategy. As encapsulated in the Bank's Risk Management Tagline, "Managing Risk is Everyone's Business", building a strong risk culture is the responsibility of the Board, Senior Management and all employees of the Bank. To ensure this, the risk management process and approach has been embedded in all the Bank's core business processes, functions and activities.

Shariah Compliance Risk

Shariah compliance risk ("SCR") is classified as part of the operational risk. It is defined as "the possible failures to meet the obligation to Shariah principles, or in other words, possible incidences of Shariah non-compliances".¹ The responsibility of managing SCR is spearheaded by the Bank's Shariah Risk Management Department.

The Bank's Shariah risk management is guided by the Risk Management framework and Shariah Risk Management Guideline which sets out the high-level framework supporting the Shariah Compliance Policy and details out the Shariah risk management processes and tools. The guideline serves to provide a consistent framework for managing SCR across the Bank.

Shariah risk management is a discipline that systematically identifies, measures, monitors and controls SCR to mitigate the occurrence of Shariah Non-Compliance events within the Bank. Being part of operational risk, it leverages on the same principles, processes and tools of operational risk.

In general, all Operational Risk Management ("ORM") tools are extended to the process of managing SCR. However, the tools are modified to suit the regulatory requirements on Shariah governance in order to provide a robust and consistent approach in managing SCR.

Information Technology Risk

Information technology ("IT") risk (including cyber security risk) is the business risk associated with the use, ownership, operation, influence, involvement and adoption of technology within the Bank. Banking industry heavily relies on technology and Bank Islam is of no exception. Such reliance poses the Bank to IT related risks such as cyber attacks and system disruptions. To mitigate this, Bank Islam has put in place appropriate control measures and continued to enhance its controls and processes, as well as invested in the latest IT infrastructure. In essence, the Bank is leveraging on technology, not only as an enabler to serve and protect customer better, but also to minimise business disruptions.

The responsibility for managing technology risk is spearheaded by the Chief Information Security Officer ("CISO")'s Office. While the CISO's Office is responsible to establish, maintain and enforce IT risk policies and guidelines, it also works closely with IT Division, especially in identification, assessment, mitigation and monitoring of technology risk in the Bank.

¹ BNM's Shariah Governance Framework, 2011 page 5. The term Shariah compliance risk and Shariah non-compliance risk are used interchangeably in the Bank's documents. However, they carry the same meaning.

Compliance Culture

The journey of cultivating compliance culture in the Bank is a continuous one with the strong tone from the top, cascading the momentum right down into the blood and vein of every employee of the Bank to assimilate it as part of the Bank's culture. The Board and the senior management of the Bank have embedded the principle of "Zero-Tolerance" through-out the financial year under review as part of the compliance cultural branding in this era of severe consequences for being non-compliant. The Board has also reinforced compliance resources and approved all proposed budget for compliance systems and projects.

The Bank's Compliance policy and framework prepares the Bank with the right platform, mechanism and tools in order to manage its compliance risk. Each and every staff of the Bank in concert has the responsibility to protect the interest of the Bank using the robust identification and mitigation process as part of setting up the overall compliance environment.

The traditional three (3) line of defence approach for managing compliance risk has thus far been effective. Bank Islam's staff at all levels has a duty to play in respect of ensuring the management of compliance risk which is further measured in their Key Performance Indicator. Hence, the mitigation of any compliance risk is a shared responsibility.

The following key compliance activities were introduced in 2018:

- Revised the AML/CFT policy to capture all enhancements made by Regulators;
- Eliminated potential data integrity issues relating to AML/CFT by designing a new customer risk profile scoring and automate it to front-end systems;
- Embarked on Artificial Intelligence based solutions for AML/CFT transaction monitoring;
- Introduced behavioural parameters for AML/CFT transaction monitoring;
- Introduced tighter customer on-boarding measures to combat mule accounts;
- Offered advise across businesses on matters pertaining to interpreting regulatory requirements to identify inherent compliance risk;
- Validated the internal Compliance Risk Assessment Methodology to benchmark against industry standards;
- Completed the annual compliance review program as planned to provide assurance on net compliance risk and identify the flaws in designed controls if any;

- Led the rectification of data to comply to SREF;
- Equipped compliance officers with certification and tailored learning programmes as part of human capital development; and
- Advocated the 'Zero-Tolerance" and the compliance culture by participating in conferences held by Businesses.

PRINCIPLE C: BOARD INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

The Board recognises the importance of timely, complete, accurate and equal dissemination of information with regard to the Bank's performance and other matters affecting the Stakeholders' interest. The Bank is committed to providing effective and open communication in order to improve disclosure and transparency.

Bank Islam's corporate website provides easy access to comprehensive and updated information about the Bank.

As a wholly owned subsidiary of BIMB Holdings Berhad, a listed company on Bursa Malaysia, Bank Islam also leverages on BIMB Holdings Berhad's investor relations activities in disseminating relevant and material information about the Bank to its stakeholders.

Disclosure on Investor Relations activities can be found in BIMB Holdings Berhad's Integrated Annual Report 2018 and their website www.bimbholdings.com.



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

SECTION B: THE SHARIAH SUPERVISORY COUNCIL ("SSC")

The SSC forms an important part of the governance structure of the Bank, and functionally reports to the Board.

Composition

The SSC currently has five (5) members. The current composition of the SSC is in line with the requirement of Principle 2 of the Shariah Governance Framework ("SGF").

The members of the SSC come from diverse backgrounds, experience and knowledge. Each SSC member is an expert in their respective specialised field such as Islamic law, Islamic banking, capital market, takaful, waqf, zakat, fatwa, halal industry etc. Additionally, their qualification in Islamic jurisprudence (*usul al-fiqh*) and Islamic commercial laws (*fiqh al-mu'amalat*), expertise and vast experiences in the academia as well as in the industry definitely support the depth and breadth of the Shariah deliberations.

Duties and Responsibilities

In addition to the Board's oversight accountability on Shariah compliance, the SSC was established to perform an oversight role on any Shariah matters and to advise the Bank in ensuring its business, affairs and activities comply with Shariah. The SSC's primary duties and responsibilities are outlined in the Terms of Reference which is available at www.bankislam.com.my.

Authority

The SSC has the authority to do the following:

- Decide on Shariah related matters referred to the SSC by taking into consideration of the published rulings of the Shariah Advisory Council ("SAC") of BNM. In the event where the decision given by the SSC is different from the ruling given by the SAC, the rulings of the SAC shall prevail. However, the SSC is allowed to adopt a more stringent Shariah decision;
- Decide on Shariah related matters without undue influence that would hamper the SSC from exercising objective judgement in deliberating issues brought before them;
- Ensure that decisions made by the SSC are duly observed and implemented by the Bank. Decisions made by the SSC should not be set aside or modified without its consent;
- Access to accurate, timely and complete information from the Management including but not limited to all relevant records, transactions, or manuals as required by them in performing their duties. If the information provided is insufficient, the SSC may request for additional information which shall be duly provided by the Bank; and

- Inform the Board of any case that the SSC has reason to believe that the Bank has been carrying on Shariah non-compliant activities and to recommend suitable measures to rectify the situation. In cases where Shariah non-compliant activities are not effectively or adequately addressed or no rectification measures are made by the Bank, the SSC shall inform BNM of the fact. In this case, the SSC will not be regarded as breaching the confidentiality and secrecy code if the confidential information is disclosed to BNM in good faith.

Code of Conduct

SSC members are expected to possess good character, competence, diligence and capability of making sound judgement in accordance with its Code of Conduct. To ensure the quality and consistency of the decisions, the SSC has formulated the Methodology and Means of Decision Making to arrive to a decision on a given issue by applying the *usul fiqh* discipline and making reference to Shariah standards, fatwa and resolutions of Shariah authority councils and *fiqh* academies. It also provides the process of the SSC and the Bank to review previous decisions at the request of the Bank or on its own initiative.

Responsibilities of the Bank Towards Shariah Compliance

The Bank works hand-in-hand with the SSC to ensure that all business activities, products, services and operations are in compliance with Shariah. While the SSC is responsible for forming and expressing decisions on the Bank's compliance with Shariah, the ultimate responsibility for compliance rests with the Management of the Bank. Therefore, it is the responsibility of the Bank to perform the following:-

- refer all Shariah issues in its business operations to the SSC for decision;
- adopt and take necessary measures for implementation of the SSC's decisions;
- provide sufficient resources to the SSC including budget allocation, independent expert consultation, reference materials and training;
- ensure that the SSC is familiar with the operations and business of the Bank;
- provide the SSC access to all relevant records, transactions, manuals and relevant information, as required by its members in performing their duties; and
- recommend the appropriate remuneration to the SSC members which commensurate with and reflect the duties and responsibilities of the SSC.

It is the Bank's responsibility to perform the following with regard to Shariah Compliance:-

- To comply with SSC decisions and establish Shariah requirements in its entire products, services, legal documentations and activities; and
- The Bank shall not change its allegiance and obedience to the SSC decisions to suit its convenience.

Appointment and Reappointment of Members

The Board, on the recommendation of the NRC, decides on the appointment and reappointment of the SSC members, subject to BNM's written approval. The Board ensures the level and make-up of the SSC members are of the necessary credibility, integrity and calibre with the required skills and knowledge.

The appointment and reappointment of the SSC members is subject to the Fit and Proper Criteria adopted by Bank Islam as required under Principle 4 of the SGF and Fit and Proper policy document issued by BNM.

SSC Meetings

Details of the SSC meetings and attendance in 2018 are as follows:

Name of SSC Members	Attendance/Number of Meetings in 2018	%
Professor Dato' Dr Ahmad Hidayat Buang (Chairman)	8/8	100
Ustaz Dr Ahmad Shahbari @ Sobri Salamon	8/8	100
Assistant Professor Dr Uzaimah Ibrahim	8/8	100
Associate Professor Dr Yasmin Hanani Mohd Safian	7/8	88
Sahibus Samahah Dato' Dr Haji Anhar Haji Opir	8/8	100

Eight (8) meetings were held during the financial year ended 31 December 2018, in line with the required frequency as stipulated in the Terms of Reference of the SSC. Apart from the members of the SSC, meetings are also attended by three (3) directors as permanent invitees. Their presence at the meetings does not only improve the quality of engagement between the Board members with SSC members but also increase their appreciation towards Shariah deliberations and decisions. However, the Board members presence does not affect the independent deliberation by the SSC members in their informed decision making. The Board receives regular updates on significant matters deliberated during the SSC meetings and minutes of the SSC meetings are circulated to the Board.

ALL MEMBERS COMPLIED WITH THE MINIMUM ATTENDANCE REQUIREMENT UNDER THE BNM SHARIAH GOVERNANCE FRAMEWORK OF NOT LESS THAN 75%

TOTAL SSC MEETINGS HOURS
28 HOURS
30 MINUTES

Training

In line with Principle 4 of the SGF, continuous training is vital for the SSC members to keep abreast with the development in the banking industry and to enhance their skills and knowledge in discharging their responsibilities effectively.

During the financial year, all five (5) of the SSC members had enrolled the Certified Shariah Advisor ("CSA") by the Association of Shariah Advisors in Islamic Finance Malaysia ("ASAS"). The certification was commissioned by BNM to motivate professionalism among Shariah advisors. This initiative by ASAS was mentioned in the Malaysian Financial Blueprint 2011-2020 under Agenda 3.2 to develop Malaysia as reference centre for Islamic financial transactions.

STATEMENT ON CORPORATE GOVERNANCE

(cont'd)

The details of trainings attended by the SSC members are as follows:-

Name of SSC Members	Training Programme	Organiser
Professor Dato' Dr Ahmad Hidayat Buang	<ul style="list-style-type: none"> • Town Hall Session – Certified Shariah Advisors Programme Briefing • LIQA' ASAS "Value-Based Intermediation" • Certified Shariah Advisors ("CSA") modules: <ul style="list-style-type: none"> - Principles of Accounting & Finance - Principles of Islamic Financial System - Codes of Ethics & Professional Conduct - Legal & Regulatory Framework • Muzakarah Ahli Majlis Penasihat Syariah ("MPS") Institusi Kewangan di Malaysia Kali Ke-14 	<ul style="list-style-type: none"> • BNM • ASAS • ASAS • JAKIM
Ustaz Dr Ahmad Shahbari @ Sobri Salamon	<ul style="list-style-type: none"> • Town Hall Session – Certified Shariah Advisors Programme Briefing • LIQA' ASAS "Value-Based Intermediation" • CSA modules: <ul style="list-style-type: none"> - Principles of Islamic Financial System - Codes of Ethics & Professional Conduct - Legal & Regulatory Framework - Islamic Capital Market - Legal Documentation For Islamic Financial & Capital Market Services 	<ul style="list-style-type: none"> • BNM • ASAS • ASAS
Assistant Professor Dr Uzaimah Ibrahim	<ul style="list-style-type: none"> • Town Hall Session – Certified Shariah Advisors Programme Briefing • CSA modules: <ul style="list-style-type: none"> - Principles of Accounting & Finance - Principles of Economics - Codes of Ethics & Professional Conduct 	<ul style="list-style-type: none"> • BNM • ASAS
Associate Professor Dr Yasmin Hanani Mohd Safian	<ul style="list-style-type: none"> • Town Hall Session – Certified Shariah Advisors Programme Briefing • CSA modules: <ul style="list-style-type: none"> - Principles of Accounting & Finance - Introduction to Commercial Law - Principles of Islamic Financial System - Codes of Ethics & Professional Conduct - Introduction to Commercial Law - Legal & Regulatory Framework • Muzakarah Ahli Majlis Penasihat Syariah ("MPS") Institusi Kewangan di Malaysia Kali Ke-14 	<ul style="list-style-type: none"> • BNM • ASAS • JAKIM
Sahibus Samahah Dato' Dr Haji Anhar Haji Opir	<ul style="list-style-type: none"> • Town Hall Session – Certified Shariah Advisors Programme Briefing • CSA modules: <ul style="list-style-type: none"> - Principles of Islamic Financial System - Code of Ethics & Professional Conduct - Legal & Regulatory Framework - Islamic Capital Market - Legal Documentation For Islamic Financial & Capital Market Services 	<ul style="list-style-type: none"> • BNM • ASAS

SSC Remuneration

Bank Islam has in place a remuneration structure for the SSC members that is sufficient to attract, retain and remunerate for their contribution to the Bank. The remuneration structure takes into consideration the relevant factors which include the function, workload, responsibilities and time spent for the preparation of the SSC meetings. A higher rate (premium) is given to the Chairman of the SSC in view of his additional role in guiding and managing the SSC. The remuneration includes monthly fees, meeting allowances and other benefits such training fund.

In line with good corporate governance practice of the Bank, the review of the remuneration is conducted every three (3) years.

Evaluation

The SSC has formalised the evaluation process that was duly approved by the Boards in line with the requirements of Para 4.4 of the SGF to annually assess its effectiveness in supporting a sound Shariah governance system within the Bank. The evaluation process includes collective assessment, peer evaluation and evaluation by internal resources.

The SSC, led by its Chairman, evaluates the overall performance of the SSC against the pre-established criteria in the following areas:

- (a) Effectiveness of the SSC structure;
- (b) Effectiveness of the SSC meeting;
- (c) Quality of proposal and meeting materials; and
- (d) Succession planning.

A peer assessment is also performed by each SSC member to evaluate the individual performance of his/her peers based on the competency, knowledge and contribution as well as the overall effectiveness of the SSC. In addition, another evaluation is conducted by internal resources, i.e., the Management members who attend the SSC meetings to evaluate on the contribution of the SSC members in deliberating papers presented before them and their accessibility as and when guidance and decision is required.


The results of the assessments are tabulated and reviewed at the NRC meeting prior to deliberation at the Board meeting.





FINANCIAL STATEMENTS

140	Directors' Report	156	Consolidated Statement of Changes in Equity
145	Statement by Directors	157	Statement of Changes in Equity
146	Report of the Shariah Supervisory Council	158	Statements of Cash Flows
150	Statutory Declaration	160	Notes to the Financial Statements
151	Independent Auditors' Report	273	Pillar 3 Disclosure
153	Statements of Financial Position		
154	Statements of Profit or Loss and Other Comprehensive Income		





DIRECTORS' REPORT

for the financial year ended 31 December 2018

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 2018.

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 15 to the financial statements.

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

IMMEDIATE AND ULTIMATE HOLDING COMPANY/ENTITY

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

SUBSIDIARIES

The details of the Bank's subsidiaries are disclosed in Note 15 to the financial statements.

RESULTS

	Group RM'000	Bank RM'000
Profit before zakat and tax expense	810,258	808,237
Zakat and tax expense	(216,371)	(217,709)
Profit for the year	593,887	590,528

RESERVES AND PROVISIONS

During the financial year ended 31 December 2018, the Group and the Bank have recognised the impact, net of tax, on the opening balance of fair value reserves and retained earnings following the transition to MFRS 9, *Financial Instruments* amounting to RM13,190,000 and RM143,408,000, as disclosed in Note 2.1(b) and Note 24.

During the financial year ended 31 December 2018, the Group and the Bank have also transferred RM54,645,000 from its regulatory reserve to retained earnings, as disclosed in Note 24.

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

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 2017 as reported in the Directors' Report of that year:	
Final dividend of approximately 6.09 sen per ordinary share paid on 4 June 2018	150,180
In respect of the financial year ended 31 December 2018:	
Interim dividend of approximately 5.79 sen per ordinary share paid on 20 September 2018	142,870
	293,050

The Directors recommend a final dividend of 6.07 sen per ordinary share totalling RM152,310,000 for the financial year ended 31 December 2018.

DIRECTORS OF THE BANK

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

Datuk Zamani Abdul Ghani (Chairman)
 Tan Sri Dato' Dr. Abdul Shukor Husin
 Dato' Sri Khazali Ahmad
 Datuk Zaiton Mohd Hassan (resigned on 18 February 2019)
 Zahari @ Mohd Zin Idris
 Mohamed Ridza Mohamed Abdulla
 Nik Mohd Hasyudeen Yusoff
 Noraini Che Dan
 Azizan Ahmad

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 Mohd Muazzam Mohamed (resigned on 6 August 2018) Mohamad Jamali Haron (appointed on 6 August 2018)
BIMB Investment Management Berhad	Nik Mohd Hasyudeen Yusoff Najmuddin Mohd Lutfi Dato' Ghazali Awang Malkiat Singh @ Malkit Singh Maan AVL Delbara Singh Dr. Mohd Hatta Dagap Datuk Noripah Kamso (resigned on 14 December 2018) Mujibburrahman Abd Rashid (resigned on 20 July 2018)
Bank Islam Trust Company (Labuan) Ltd. and its subsidiary: BIMB Offshore Company Management Services Sdn. Bhd.	Zahari @ Mohd Zin Idris Maria Mat Said
Farihan Corporation Sdn. Bhd.	Razman Ismail Maria Mat Said

None of the Bank and subsidiaries' Directors holding office as at 31 December 2018 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 34 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' REPORT

for the financial year ended 31 December 2018
(cont'd)

ISSUE OF SHARES

On 20 September 2018, the Bank increased its issued and paid-up capital from RM2,869,497,600 to RM3,012,367,600 via the issuance of 43,960,000 new ordinary shares at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan of one hundred percent of the interim dividend of approximately 5.79 sen per share in respect of financial year ended 31 December 2018, as disclosed in Note 23 to the financial statements.

There were no other changes in the issued and paid-up capital of the Bank 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, the total amount of Takaful cost incurred for Directors and Officers Liability Takaful coverage of the Group and of the Bank is RM110,757.

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.

ITEMS OF AN UNUSUAL NATURE

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

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

COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING

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

2019 BUSINESS PLAN AND OUTLOOK BUSINESS PLAN, STRATEGY AND FUTURE OUTLOOK

The Malaysian banking sector is expected to remain stable in 2019, coupled with ongoing challenges such as moderating loan growth and margins. Industry loan growth is expected to moderate to 5.1% in 2019 from 6.2% in 2018. Despite the challenging outlook on banking industry, Islamic finance continued to contribute major growth in banking industry. In the past 10 years, Islamic banking asset has been growing at a rate of 14.5% Compounded Annual Growth Rate ("CAGR"), surpassing conventional lending growth of 5.6%. The market share has also risen from 15.9% in 2007 to 26.8% in 2018. Islamic banking industry is expected to have 40% market share of total banking assets by 2020. This is partially due to the introduction of Value Based Intermediation ("VBI") by BNM to steer financial players towards sustainable impact on the economy, community and environment.

In addition, supportive measures adopted by the Malaysian government through the recent Budget 2019 announcement are put in place to ensure growth of the Islamic economy. These include the continued prioritisation on Islamic banking, enlargement on halal productivity industry, increasing Shariah-compliant Small Medium Enterprise ("SME") Financing Schemes and digital initiatives.

In this regards, the Bank's strategic plan for the next three years is to deliver sustainable performance with a strategic focus to support the economy, community and environment. The Bank's corporate direction is premised on VBI, at the heart of the Bank's business model. With Shariah Principles/ Halal and Trustworthy being the key distinctive features, the Bank continues its journey in adopting VBI principles such as Triple Bottom Line ("TBL") considerations, of community, environment and prosperity.

DIRECTORS' REPORT

for the financial year ended 31 December 2018
(cont'd)

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	13 November 2018	Long-term rating: AA3 Short-term rating: P1 Outlook: Stable

AUDITORS

The auditors, Messrs. KPMG Desa Megat PLT, retire and do not seek re-appointment at the forthcoming Annual General Meeting of the Group and of the Bank.

The auditors' remuneration is disclosed in Note 33 to the financial statements.

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

144

Datuk Zamani Abdul Ghani
Chairman

Noraini Che Dan
Director

Kuala Lumpur,
Date: 27 March 2019

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 153 to 272 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 2018 and of their financial performance and cash flows for the financial year then ended.

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

Datuk Zamani Abdul Ghani

Chairman

Noraini Che Dan

Director

Kuala Lumpur,

Date: 27 March 2019

REPORT OF THE SHARIAH SUPERVISORY COUNCIL



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

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 BNM and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2018.

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

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

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

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

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

APPROVALS

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

SHARIAH GOVERNANCE

We have approved in our meetings, initiatives in strengthening the Shariah governance of the Bank which include the review and update of the Shariah Review Guideline, Shariah Non-Compliance Management & Reporting Guideline, Shariah Compliance Risk Management Guideline and Shariah Compliance Policy that aim, among others, to set out the Shariah Compliance Risk Management framework and Shariah review processes. In addition, we also approved a dedicated Shariah Compliance Policy for the offshore branch of the Bank i.e. Bank Islam Labuan Offshore Branch ("BILOB").

We also approved the review of Charity Fund Management Guideline that governs the management of Shariah non-compliant income fund as well as other charity funds to ensure its compliance with Shariah rules and principles.

SHARIAH RISK MANAGEMENT

We observe that the Bank implements measures in managing its Shariah non-compliance risk Bank-wide as communicated in its integrated Enterprise-Wide Risk Management Policy. This includes the implementation of Risk Control Self-Assessment (“RCSA”) that aims to assess the significance of identified Shariah non-compliance risks and effectiveness of the controls in providing reasonable mitigation to avoid any occurrence of Shariah non-compliance events in meeting the business objectives. The identified Shariah risk in RCSA has increased Shariah awareness level among staff especially Risk Controllers (“RC”) at their functional areas and has strengthened existing controls to mitigate Shariah non-compliance risk.

SHARIAH REVIEW & SHARIAH AUDIT

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

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

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

Shariah Audit

- 1) Wealth Management Ar-Rahnu and Operations
- 2) Consumer Banking Division
- 3) Trade Operations Department
- 4) Deposit & Cash Management Division
- 5) Credit Administration Department
- 6) Treasury Division
- 7) Shariah Division
- 8) Corporate Support Division
- 9) Assessment on the Bank’s compliance with the BNM Kafalah Policy Document
- 10) Assessment on the Bank’s compliance with the BNM Mudarabah Policy Document
- 11) Assessment on the Bank’s compliance with the BNM Wakalah Policy Document
- 12) Assessment on the Bank’s compliance with the BNM Qard Policy Document
- 13) Assessment on the Bank’s compliance with the BNM Hibah Policy Document
- 14) 52 Bank Islam Branches¹
- 15) 4 Ar-Rahnu Outlets¹

Shariah Review

- 1) Compliance to BNM’s *Kafalah* Policy Document
- 2) Validation on compliance with BNM’s Special Deposit Facility Document
- 3) Verification on the Compliance to the SSC Decisions in FY2017
- 4) Bank Islam Card Centre
- 5) Trade Operations Products
- 6) Profit Allocation for Investment Account
- 7) Procedures of Housing Developer Account (“HDA”)
- 8) Operation of Consumer Products at Branches
- 9) Ar-Rahnu Business
- 10) Marketing of BIMB-Arabesque Malaysia Shariah ESG (Equity), BIMB-Arabesque Global Dividend Fund 1 and BIMB Invest Wafiyah (Money Market) Funds
- 11) Al-Awfar and Bank Islam Card Draw Activities
- 12) Corporate Support Division
- 13) Third Party Agreements executed by General Administration Department

¹ Only Shariah related findings were escalated for deliberation and decision.

REPORT OF THE SHARIAH SUPERVISORY COUNCIL

(cont'd)

SHARIAH TRAINING & AWARENESS

During the year, twenty eight (28) Shariah training and awareness sessions were held covering 1,107 participants among the Bank's employees nationwide.

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

The Bank has also conducted two (2) Shariah Town Hall sessions for all RC where the sessions updated the RCs on new Shariah requirements/rulings issued either by us or the regulators and lesson learnt from Shariah non-compliance occurrences.

The Bank has embarked on an initiative to increase the knowledge of the staff by engaging Islamic Banking and Finance Institute Malaysia ("IBFIM") for in-house certification programme namely Associate Qualification in Islamic Finance ("AQIF"), Intermediate Qualification of Islamic Finance ("IQIF") and Certified Qualification in Islamic Finance ("CQIF"). The Bank's Shariah officers are also part of the trainers for the AQIF modules. The certifications enhance staff competencies and knowledge in Islamic finance that include fundamentals of Islamic finance and its operational applications including regulatory framework, risk management, compliance, ethics, etc..

To ensure our continuous professional development is in line with the regulatory expectation, the Bank has enrolled all SSC members and key Shariah officers to the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP") programmes offered by Association of Shariah Advisors in Islamic Finance ("ASAS").

148

SHARIAH NON-COMPLIANT EVENTS & INCOME

Throughout the financial year 2018, we confirmed eight (8) incidences of Shariah non-compliance events detailed as follows:

- (i) Two (2) occurrence of absence of *wakalah aqad* execution for Term Deposit Tawarruq-i ("TDT-i") at branches;
- (ii) Two (2) occurrence of payment of late payment charges due to delay in rental payment;
- (iii) Absence of *Mudarabah aqad* execution for Investment Account at branch;
- (iv) Overcharged profit during abandoned period of house financing;
- (v) Income recognition of interchange fee received from Non-Halal Merchant Category Code ("MCC"); and
- (vi) Absence of Tawarruq commodity trading for Islamic Credit Card.

We also deliberated the causes of the incidences and acknowledged 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 Shariah non-compliance reporting requirement prescribed by BNM.

Within the financial year, the Bank has collected and purified Shariah non-compliance income amounting to RM9,852.53 due to unavoidable operational activities. The amount was disposed to charitable causes upon our approval as further described in the Note 25 – Sources and Uses of Charity Funds. The Bank has paid and refunded to the deserving counterparties amounting to RM11,568.13 based on the rectification plan approved by us.

BUSINESS ZAKAT

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

Several *zakat* authorities had mandated the Bank as their agent to distribute a portion of the business *zakat* to eligible beneficiaries (*asnaf*), including needy individuals, mosque, non-governmental organisations, student welfare funds of higher learning institutions and schools as guided by the Business Zakat Payment Guideline that was approved by us.

SADAQA HOUSE

In the financial year, the Bank has launched Sadaqa House, a charity crowdfunding platform as an initiative to expand the Bank's roles in Islamic social finance agenda alongside *zakat* and *waqf* instruments as well as supporting VBI of BNM. To ensure the interest of Sadaqa House donors are safeguarded, we have reviewed the conduct of fund management as well as the selection of change-makers and their respective charity projects.

SAFEGUARDING THE INVESTMENT ACCOUNT HOLDERS ("IAH") INTEREST

In ensuring the interest of IAHs are protected, we confirmed that the profit allocation for the IAHs 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 has been made available on the Bank's website upon approval by us.

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

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Bank, excluding the eight (8) Shariah non-compliance incidences mentioned above, during the financial year ended 31 December 2018 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
5. The fund management and distribution of Sadaqa House are in accordance with Shariah rules and principles.

On that note, we, members of SSC of Bank Islam Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Bank for the year ended 31 December 2018 have been conducted in conformity with the Shariah rules and principles.

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

Allah knows best.

Professor Dato' Dr. Ahmad Hidayat Buang

Ustaz Dr. Ahmad Shahbari@Sobri Salamon

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

Associate Professor Dr. Yasmin Hanani Mohd Safian

Assistant Professor Dr. Uzaimah Ibrahim

Kuala Lumpur,
Date: 27 March 2019

STATUTORY DECLARATION

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

I, **Mohd Muazzam bin Mohamed**, the officer primarily responsible for the financial management of Bank Islam Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 153 to 272 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above named Mohd Muazzam bin Mohamed, MIA CA (15917) in Kuala Lumpur on 27 March 2019.

Mohd Muazzam bin Mohamed

Before me,

INDEPENDENT AUDITORS' REPORT

to the Member of Bank Islam Malaysia Berhad

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Bank Islam Malaysia Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Bank, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 153 to 272.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT

to the Member of Bank Islam Malaysia Berhad
(cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

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

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

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

OTHER MATTER

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

KPMG Desa Megat PLT

Firm Number: LLP0010082-LCA & AF0759
Chartered Accountants

Adrian Lee Lye Wang

Approval Number: 02679/11/2019 J
Chartered Accountant

Petaling Jaya

Date: 27 March 2019

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

	Note	Group		Bank	
		31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Assets					
Cash and short-term funds	3	2,092,654	4,185,697	2,086,703	4,185,561
Deposits and placements with banks and other financial institutions	4	2,432,000	–	2,432,000	–
Financial assets held-for-trading	5	–	380,925	–	375,664
Financial assets at fair value through profit or loss	6	364,959	–	359,533	–
Derivative financial assets	7	34,148	68,319	34,148	68,319
Financial assets available-for-sale	8	–	9,252,683	–	9,253,140
Financial assets at fair value through other comprehensive income	9	11,354,299	–	11,355,089	–
Financial assets held-to-maturity	10	–	–	–	–
Financing, advances and others	11	45,680,680	42,113,420	45,680,680	42,113,420
Other financial assets at amortised cost	12	129,042	123,503	126,533	121,062
Statutory deposits with Bank Negara Malaysia	13	1,602,284	1,407,284	1,602,284	1,407,284
Current tax assets		8,466	1,792	8,403	1,737
Deferred tax assets	14	51,385	37,288	49,842	37,288
Investments in subsidiaries	15	–	–	15,525	15,525
Property and equipment	16	188,816	172,003	188,153	171,240
Total assets		63,938,733	57,742,914	63,938,893	57,750,240
Liabilities and equity					
Deposits from customers	17	49,895,232	46,192,910	49,909,199	46,209,028
Investment accounts of customers	18	5,176,819	4,260,185	5,176,819	4,260,185
Derivative financial liabilities	7	19,520	74,668	19,520	74,668
Bills and acceptance payable		41,114	420,258	41,114	420,258
Recourse obligations on financing sold to Cagamas	19	1,501,187	–	1,501,187	–
Subordinated Sukuk Murabahah	20	1,308,634	1,006,486	1,308,634	1,006,486
Other liabilities	21	706,133	782,299	695,714	773,769
Zakat and taxation	22	13,687	46,404	13,539	46,340
Total liabilities		58,662,326	52,783,210	58,665,726	52,790,734
Equity					
Share capital	23	3,012,368	2,869,498	3,012,368	2,869,498
Reserves		2,264,039	2,090,206	2,260,799	2,090,008
Total equity		5,276,407	4,959,704	5,273,167	4,959,506
Total liabilities and equity		63,938,733	57,742,914	63,938,893	57,750,240
Restricted investment accounts managed by the Bank					
	18	78,717	124,384	78,717	124,384
Total Islamic banking assets owned and managed by the Bank					
		64,017,450	57,867,298	64,017,610	57,874,624
Commitments and contingencies	44	14,162,355	13,768,162	14,162,355	13,768,162

The notes on pages 160 to 272 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2018

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds	26	2,601,825	2,324,187	2,601,825	2,324,187
Income derived from investment account funds	27	257,915	247,046	257,915	247,046
Income derived from investment of shareholders' funds	28	476,277	434,353	442,331	421,285
Net allowance for impairment on financing and advances, net of recoveries	29	(81,454)	15,613	(81,454)	15,613
Net allowance for impairment on other financial assets		43	(243)	43	(243)
Direct expenses		(17,870)	(18,421)	(17,870)	(18,421)
Total distributable income		3,236,736	3,002,535	3,202,790	2,989,467
Wakalah fees from restricted investment accounts	18	485	2,595	485	2,595
Income attributable to depositors	30	(1,289,275)	(1,103,036)	(1,289,542)	(1,103,275)
Income attributable to investment account holders	31	(94,559)	(105,301)	(94,559)	(105,301)
Total net income		1,853,387	1,796,793	1,819,174	1,783,486
Personnel expenses	32	(595,319)	(569,343)	(583,460)	(560,447)
Other overhead expenses	33	(391,099)	(419,101)	(370,766)	(415,634)
Finance cost on Subordinated Sukuk Murabahah	20	866,969	808,349	864,948	807,405
		(56,711)	(41,296)	(56,711)	(41,296)
Profit before zakat and tax		810,258	767,053	808,237	766,109
Zakat		(13,664)	(13,373)	(13,530)	(13,306)
Tax expense	36	(202,707)	(187,562)	(204,179)	(187,454)
Profit for the year		593,887	566,118	590,528	565,349
Earnings per share (sen)	37	23.96	23.27		

	Note	Group		Bank	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit for the year		593,887	566,118	590,528	565,349
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		(8,290)	45,908	(7,973)	45,990
Movement in fair value reserve (debt securities):					
Net change in fair value		47,747	–	47,747	–
Net amount transferred to profit or loss		(27,444)	–	(27,444)	–
Movement in fair value reserve (available-for-sale):					
Net change in fair value		–	43,480	–	43,480
Net amount transferred to profit or loss		–	(6,157)	–	(6,157)
Income tax effect relating to components of other comprehensive income		(3,633)	(8,958)	(3,633)	(8,958)
		8,380	74,273	8,697	74,355
Items that will not be reclassified to profit or loss					
Movement in fair value reserve (equity instrument):					
Net change in fair value		(5,166)	–	(5,166)	–
Other comprehensive income for the year, net of tax		3,214	74,273	3,531	74,355
Total comprehensive income for the year		597,101	640,391	594,059	639,704

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2018

Group	Note	Attributable to equity holders of the Bank				Total equity RM'000
		Share capital RM'000	Non-distributable Share premium RM'000	Other reserves RM'000	Distributable Retained earnings RM'000	
At 1 January 2017		2,404,384	264,790	1,193,045	523,247	4,385,466
Profit for the year		–	–	–	566,118	566,118
Currency translation difference in respect of foreign operations		–	–	45,908	–	45,908
Fair value reserve – Net change in fair value – Net amount reclassified to profit or loss		–	–	43,480	–	43,480
Income tax effect relating to components of other comprehensive income		–	–	(6,157)	–	(6,157)
Income tax effect relating to components of other comprehensive income		–	–	(8,958)	–	(8,958)
Total comprehensive income for the year		–	–	74,273	566,118	640,391
Transfer of share premium to share capital	23	264,790	(264,790)	–	–	–
Transfer of reserve fund to retained earnings	24	–	–	(1,392,159)	1,392,159	–
Transfer to regulatory reserve	24	–	–	64,645	(64,645)	–
Dividends paid on ordinary shares	38	–	–	–	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	38	200,324	–	–	–	200,324
At 31 December 2017/1 January 2018		2,869,498	–	(60,196)	2,150,402	4,959,704
Adjustment on adoption of MFRS 9 (net of tax)		–	–	13,190	(143,408)	(130,218)
Adjusted total equity 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 – Net change in fair value – Net amount reclassified to profit or loss		–	–	42,581	–	42,581
Income tax effect relating to components of other comprehensive income		–	–	(27,444)	–	(27,444)
Income tax effect relating to components of other comprehensive income		–	–	(3,633)	–	(3,633)
Total comprehensive income for the year		–	–	3,214	593,887	597,101
Transfer from regulatory reserve to retained earnings	24	–	–	(54,645)	54,645	–
Dividends paid on ordinary shares	38	–	–	–	(293,050)	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan	38	142,870	–	–	–	142,870
At 31 December 2018		3,012,368	–	(98,437)	2,362,476	5,276,407

Note 24

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2018

Bank	Note	Attributable to equity holders of the Bank				Total equity RM'000
		Share capital RM'000	Non-distributable Share premium RM'000	Other reserves RM'000	Distributable Retained earnings RM'000	
At 1 January 2017		2,404,384	264,790	1,192,822	523,959	4,385,955
Profit for the year		–	–	–	565,349	565,349
Currency translation difference in respect of foreign operations		–	–	45,990	–	45,990
Fair value reserve – Net change in fair value – Net amount reclassified to profit or loss		–	–	43,480	–	43,480
Income tax effect relating to components of other comprehensive income		–	–	(6,157)	–	(6,157)
Income tax effect relating to components of other comprehensive income		–	–	(8,958)	–	(8,958)
Total comprehensive income for the year		–	–	74,355	565,349	639,704
Transfer of share premium to share capital	23	264,790	(264,790)	–	–	–
Transfer of reserve fund to retained earnings	24	–	–	(1,392,159)	1,392,159	–
Transfer to regulatory reserve	24	–	–	64,645	(64,645)	–
Dividends paid on ordinary shares	38	–	–	–	(266,477)	(266,477)
Issue of shares pursuant to Dividend Reinvestment Plan	38	200,324	–	–	–	200,324
At 31 December 2017/1 January 2018		2,869,498	–	(60,337)	2,150,345	4,959,506
Adjustment on adoption of MFRS 9 (net of tax)		–	–	13,190	(143,408)	(130,218)
Adjusted total equity 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 – Net change in fair value – Net amount reclassified to profit or loss		–	–	42,581	–	42,581
Income tax effect relating to components of other comprehensive income		–	–	(27,444)	–	(27,444)
Income tax effect relating to components of other comprehensive income		–	–	(3,633)	–	(3,633)
Total comprehensive income for the year		–	–	3,531	590,528	594,059
Transfer from regulatory reserve to retained earnings	24	–	–	(54,645)	54,645	–
Dividends paid on ordinary shares	38	–	–	–	(293,050)	(293,050)
Issue of shares pursuant to Dividend Reinvestment Plan	38	142,870	–	–	–	142,870
At 31 December 2018		3,012,368	–	(98,261)	2,359,060	5,273,167

Note 24

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2018

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from operating activities				
Profit before zakat and tax	810,258	767,053	808,237	766,109
Adjustments for:				
Depreciation of property and equipment	47,970	54,480	47,723	54,220
Net (gain)/loss on disposal of property and equipment	(372)	71	(372)	71
Property and equipment written off	332	56	332	56
Allowance for impairment on financing, advances and others	186,402	–	186,402	–
Collective assessment allowance	–	34,706	–	34,706
Individual assessment allowance	–	71,735	–	71,735
Net allowance for impairment on other financial assets	(43)	243	(43)	243
Net gain on sale of financial assets at fair value through profit or loss	(4,535)	–	(4,535)	–
Net loss on sale of financial assets held-for-trading	–	765	–	765
Net gain on sale of financial assets at fair value through other comprehensive income	(27,444)	–	(27,444)	–
Net gain on sale of financial assets available-for-sale	–	(6,157)	–	(6,157)
Net gain on sale of financial assets held to maturity	–	(31,551)	–	(31,551)
Fair value gain on financial assets at fair value through profit or loss	(206)	–	(206)	–
Fair value gain on financial assets held-for-trading	–	(5,214)	–	(5,214)
Dividends from securities	(1,763)	(2,600)	(1,612)	(2,422)
Net derivative (gain)/loss	(52)	779	(52)	779
Finance cost on Subordinated Sukuk Murabahah	56,711	41,296	56,711	41,296
Operating profit before changes in assets and liabilities	1,067,258	925,662	1,065,141	924,636
Changes in assets and liabilities:				
Financing, advances and others	(3,897,070)	(3,030,587)	(3,897,070)	(3,030,587)
Statutory deposits with Bank Negara Malaysia	(195,000)	(32,408)	(195,000)	(32,408)
Bills and other receivables	(16,603)	31,476	(16,535)	30,876
Deposits from customers	3,702,322	252,496	3,700,171	259,313
Investment accounts of customers	916,634	447,924	916,634	447,924
Deposits and placements of banks and other financial institutions	–	(30,000)	–	(30,000)
Bills and acceptance payable	(379,144)	373,980	(379,144)	373,980
Other liabilities	(131,979)	143,352	(133,869)	137,981
Recourse obligations on financing sold to Cagamas	1,501,187	–	1,501,187	–
Cash generated from/(used in) operations	2,567,605	(918,105)	2,561,515	(918,285)
Zakat paid	(12,678)	(12,869)	(12,628)	(12,837)
Tax paid	(219,087)	(184,591)	(218,947)	(184,473)
Tax refund	60	45	–	–
Net cash generated from/(used in) operating activities	2,335,900	(1,115,520)	2,329,940	(1,115,595)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from investing activities				
Purchase of property and equipment	(65,167)	(41,360)	(65,020)	(41,349)
Proceeds from disposal of property and equipment	425	305	425	305
Dividends from securities	1,763	2,600	1,612	2,422
Net proceeds from disposal/(purchase) of securities	(2,020,930)	1,035,696	(2,021,098)	1,035,872
Net cash generated from/(used in) investing activities	(2,083,909)	997,241	(2,084,081)	997,250
Cash flows from financing activities				
Subordinated Sukuk Murabahah	300,000	300,000	300,000	300,000
Dividend paid on ordinary shares	(293,050)	(266,477)	(293,050)	(266,477)
Proceeds from issuance of ordinary shares pursuant to Dividend Reinvestment Plan	142,870	200,324	142,870	200,324
Finance cost paid on Subordinated Sukuk Murabahah	(54,563)	(39,203)	(54,563)	(39,203)
Net cash generated from/(used in) financing activities*	95,257	194,644	95,257	194,644
Net increase in cash and cash equivalents	347,248	76,365	341,116	76,299
Cash and cash equivalents at 1 January	4,185,697	4,063,417	4,185,561	4,063,268
Exchange difference on translation	(8,291)	45,915	(7,974)	45,994
Cash and cash equivalents at 31 December	4,524,654	4,185,697	4,518,703	4,185,561
Cash and cash equivalents comprise:				
Cash and short-term funds	2,092,654	4,185,697	2,086,703	4,185,561
Deposits and placements with banks and other financial institutions	2,432,000	–	2,432,000	–
	4,524,654	4,185,697	4,518,703	4,185,561

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

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 15 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 27 March 2019.

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 9 *Financial Instruments* 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 9, the adoption of other accounting standards, interpretations and amendments did not have any significant impact on the Group and the Bank.

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

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

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(a) Statement of compliance (cont'd)

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 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.
- from the annual period beginning on 1 January 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 except as mentioned in the subsequent paragraphs:

MFRS 16, Leases

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

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

The Group and the Bank have assessed the estimated impact that initial application of MFRS 16 will have on its consolidated financial statements. The recognition of the 'right-of-use' asset and the lease liability will increase the Group's and the Bank's total assets by approximately 0.4% and total liabilities by approximately 0.5% as at 1 January 2019.

In terms of capital ratio, the Group and the Bank expect a marginal decrease of capital ratio by approximately 0.3% due to higher risk-weighted assets.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(b) Changes in significant accounting policies

MFRS 9, *Financial Instruments*

The Group and the Bank have adopted the MFRS 9, *Financial Instruments* issued by the MASB which became effective on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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

As permitted by the transitional provisions of MFRS 9, the Group and the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected not to apply the hedge accounting requirements of MFRS 139 on adoption of MFRS 9.

Additionally, the Group has adopted consequential amendments to MFRS 7, *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to the comparative information.

The adoption of MFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets.

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

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

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Group and the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) are described in more detail in Note 2.5 and Note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets**

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

Under MFRS 9, on initial recognition, a financial asset is classified and measured at:

- amortised cost;
- FVOCI – debt investment;
- FVOCI – equity investment; or
- FVTPL.

The classification of financial assets depends on the Group's and the Bank's business model in which a financial asset is managed and its contractual cash flow characteristics.

The impact on classification and measurement to the Group's and the Bank's financial assets on the initial application of MFRS 9 on 1 January 2018 are summarised as follows:

Group	Note	Measurement category		Carrying amount	
		Original classification under MFRS 139	New classification under MFRS 9	Original under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial assets					
Cash and short-term funds		Financing and receivables	Amortised cost	4,185,697	4,185,697
Deposits and placements with banks and other financial institutions		Financing and receivables	Amortised cost	–	–
Financial assets held-for-trading		FVTPL	FVTPL	380,925	380,925
Derivative financial assets		FVTPL	FVTPL	68,319	68,319
Financial assets AFS (debt instruments)	(a)	AFS	FVOCI	9,215,834	9,215,834
Financial assets AFS (equity instruments)	(b)	AFS	FVOCI	22,912	41,016
Financial assets AFS	(c)	AFS	FVTPL	13,937	13,937
Financial assets held-to-maturity	(d)	Held-to-maturity	Amortised cost	–	–
Financing, advances and others		Financing and receivables	Amortised cost	42,113,420	41,924,321
Other financial assets		Financing and receivables	Amortised cost	123,503	123,503

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(b) Changes in significant accounting policies (cont'd)

MFRS 9, *Financial Instruments* (cont'd)

(i) Classification of financial assets (cont'd)

Bank	Note	Measurement category		Carrying amount	
		Original classification under MFRS 139	New classification under MFRS 9	Original under MFRS 139 RM'000	New under MFRS 9 RM'000
Financial assets					
Cash and short-term funds		Financing and receivables	Amortised cost	4,185,561	4,185,561
Deposits and placements with banks and other financial institutions		Financing and receivables	Amortised cost	–	–
Financial assets held-for-trading		FVTPL	FVTPL	375,664	375,664
Derivative financial assets		FVTPL	FVTPL	68,319	68,319
Financial assets AFS (debt instruments)	(a)	AFS	FVOCI	9,215,834	9,215,834
Financial assets AFS (equity instruments)	(b)	AFS	FVOCI	23,369	41,473
Financial assets AFS	(c)	AFS	FVTPL	13,937	13,937
Financial assets held-to-maturity	(d)	Held-to-maturity	Amortised cost	–	–
Financing, advances and others		Financing and receivables	Amortised cost	42,113,420	41,924,321
Other financial assets		Financing and receivables	Amortised cost	121,062	121,062

(a) Debt investment securities are held to meet everyday liquidity needs. The Group and the Bank seek to minimise the costs of managing those liquidity needs and therefore actively manage the return on the portfolio. The return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group and the Bank consider that under MFRS 9, these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

(b) Comprise of non-traded equity investments for which the Group and the Bank have elected to designate at FVOCI under MFRS 9. Accordingly, the assets remain to be accounted for at FVOCI with no subsequent recycling of realised gains and losses permitted. Before the adoption of MFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measurable. MFRS 9 has removed this cost measurement exception.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

- (c) Comprise of investments in unit trust previously classified as AFS under MFRS 139. These investments were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis.
- (d) Certain debt securities are held for long term yield. These securities may be sold, but such sales are not expected to be frequent. The Group and the Bank consider that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified and measured at amortised cost under MFRS 9.

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018:

Group	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
Financial assets at FVTPL				
Investment securities	380,925	–	–	380,925
Derivative financial assets	68,319	–	–	68,319
From financial assets AFS	–	13,937	–	13,937
Total financial assets at FVTPL	449,244	13,937	–	463,181
Financial assets AFS				
Opening balance	9,252,683	–	–	9,252,683
To FVOCI-debt	–	(9,215,834)	–	(9,215,834)
To FVOCI-equity	–	(22,912)	–	(22,912)
To FVTPL	–	(13,937)	–	(13,937)
Total financial assets AFS	9,252,683	(9,252,683)	–	–
FVOCI-debt				
Opening balance	–	–	–	–
From financial assets AFS	–	9,215,834	–	9,215,834
Total FVOCI-debt	–	9,215,834	–	9,215,834

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Group	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
FVOCI-equity				
Opening balance	–	–	–	–
From financial assets AFS	–	22,912	18,104	41,016
Total FVOCI-equity	–	22,912	18,104	41,016
Total FVOCI	–	9,238,746	18,104	9,256,850
Financial assets held-to-maturity				
Opening balance	–	–	–	–
To amortised cost	–	–	–	–
Total financial assets held-to-maturity	–	–	–	–
Financing, advances and others				
Opening balance	42,113,420	–	–	42,113,420
Increase in expected credit losses	–	–	(189,099)	(189,099)
Total financing, advances and others	42,113,420	–	(189,099)	41,924,321
Other financial assets at amortised cost				
Opening balance	123,503	–	–	123,503
From financial assets held-to-maturity	–	–	–	–
Total other financial assets at amortised cost	123,503	–	–	123,503
Total change to financial assets at 1 January 2018	51,938,850	–	(170,995)	51,767,855

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Group	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
Deferred tax assets				
Opening balance	37,288	–	–	37,288
Remeasurement arising from reclassifications	–	–	(4,165)	(4,165)
Total deferred tax assets	37,288	–	(4,165)	33,123
Fair value reserve				
AFS reserve				
Opening balance	(22,064)	–	–	(22,064)
AFS reclassified to FVTPL	–	(749)	–	(749)
Related tax	–	180	–	180
Debt securities reclassified from AFS to FVOCI	–	22,633	–	22,633
Non-trading equities reclassified from AFS to FVOCI	–	–	–	–
Total AFS reserve	(22,064)	22,064	–	–
FVOCI reserve				
Opening balance	–	–	–	–
Debt securities reclassified from AFS to FVOCI	–	(22,633)	–	(22,633)
Non-trading equities reclassified from AFS to FVOCI	–	–	18,104	18,104
Related tax	–	–	(4,345)	(4,345)
Total FVOCI reserve	–	(22,633)	13,759	(8,874)

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Group	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
Retained earnings				
Opening balance	2,150,402	–	–	2,150,402
AFS investments reclassified to FVTPL (after tax)	–	569	–	569
Recognition of expected credit losses under MFRS 9 (after tax)	–	–	(143,977)	(143,977)
Total retained earnings	2,150,402	569	(143,977)	2,006,994
Total change to reserves balances at 1 January 2018	2,128,338	–	(130,218)	1,998,120
Bank	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
Financial assets at FVTPL				
Investment securities	375,664	–	–	375,664
Derivative financial assets	68,319	–	–	68,319
From financial assets AFS	–	13,937	–	13,937
Total financial assets at FVTPL	443,983	13,937	–	457,920
Financial assets AFS				
Opening balance	9,253,140	–	–	9,253,140
To FVOCI-debt	–	(9,215,834)	–	(9,215,834)
To FVOCI-equity	–	(23,369)	–	(23,369)
To FVTPL	–	(13,937)	–	(13,937)
Total financial assets AFS	9,253,140	(9,253,140)	–	–

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Bank	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
FVOCI-debt				
Opening balance	–	–	–	–
From financial assets AFS	–	9,215,834	–	9,215,834
Total FVOCI-debt	–	9,215,834	–	9,215,834
FVOCI-equity				
Opening balance	–	–	–	–
From financial assets AFS	–	23,369	18,104	41,473
Total FVOCI-equity	–	23,369	18,104	41,473
Total FVOCI	–	9,239,203	18,104	9,257,307
Financial assets held-to-maturity				
Opening balance	–	–	–	–
To amortised cost	–	–	–	–
Total financial assets held-to-maturity	–	–	–	–
Financing, advances and others				
Opening balance	42,113,420	–	–	42,113,420
Increase in expected credit losses	–	–	(189,099)	(189,099)
Total financing, advances and others	42,113,420	–	(189,099)	41,924,321

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation (cont'd)****(b) Changes in significant accounting policies (cont'd)****MFRS 9, Financial Instruments (cont'd)****(i) Classification of financial assets (cont'd)**

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Bank	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
Other financial assets at amortised cost				
Opening balance	121,062	–	–	121,062
From financial assets held-to-maturity	–	–	–	–
Total other financial assets at amortised cost	121,062	–	–	121,062
Total change to financial assets at 1 January 2018	51,931,605	–	(170,995)	51,760,610
Deferred tax assets				
Opening balance	37,288	–	–	37,288
Remeasurement arising from reclassifications	–	–	(4,165)	(4,165)
Total deferred tax assets	37,288	–	(4,165)	33,123
Fair value reserve				
AFS reserve				
Opening balance	(22,064)	–	–	(22,064)
AFS reclassified to FVTPL	–	(749)	–	(749)
Related tax	–	180	–	180
Debt securities reclassified from AFS to FVOCI	–	22,633	–	22,633
Non-trading equities reclassified from AFS to FVOCI	–	–	–	–
Total AFS reserve	(22,064)	22,064	–	–

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**2.1 Basis of preparation** (cont'd)**(b) Changes in significant accounting policies** (cont'd)**MFRS 9, Financial Instruments** (cont'd)**(i) Classification of financial assets** (cont'd)

The following table reconciles the carrying amounts under MFRS 139 to the carrying amounts under MFRS 9 on transition to MFRS 9 on 1 January 2018: (cont'd)

Bank	MFRS 139 carrying amount at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000
FVOCI reserve				
Opening balance	–	–	–	–
Debt securities reclassified from AFS to FVOCI	–	(22,633)	–	(22,633)
Non-trading equities reclassified from AFS to FVOCI	–	–	18,104	18,104
Related tax	–	–	(4,345)	(4,345)
Total FVOCI reserve	–	(22,633)	13,759	(8,874)
Retained earnings				
Opening balance	2,150,345	–	–	2,150,345
AFS investments reclassified to FVTPL (after tax)	–	569	–	569
Recognition of expected credit losses under MFRS 9 (after tax)	–	–	(143,977)	(143,977)
Total retained earnings	2,150,345	569	(143,977)	2,006,937
Total change to reserves balances at 1 January 2018	2,128,281	–	(130,218)	1,998,063

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(b) Changes in significant accounting policies (cont'd)

MFRS 9, *Financial Instruments* (cont'd)

(ii) Impairment of financial assets

The 'incurred loss' model under MFRS 139 is replaced with the MFRS 9 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under MFRS 9, credit losses are recognised earlier than under MFRS 139 – see Note 2.10.

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

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

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

* AFS debt securities reclassified as FVOCI at 1 January 2018.

Additional information about how the Group and the Bank measure the allowance for impairment is described in Note 2.10.

The following table reconciles the closing impairment allowance in accordance with MFRS 139 to the opening ECL allowances determined in accordance with MFRS 9 as at 1 January 2018.

Group and Bank	MFRS 139 impairment allowance at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 impairment allowance as at 1 January 2018 RM'000
Financing and advances	572,516	–	83,489	656,005
Financial guarantee contracts	–	–	67,410	67,410
Financing commitments	–	–	38,200	38,200
AFS debt securities reclassified as FVOCI	–	–	345	345
	572,516	–	189,444	761,960

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial assets at FVTPL and FVOCI (2017: held-for-trading and available-for-sale), 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 2.5 and Note 41 – Fair value of financial instruments
- Note 2.10 – Impairment
- Note 14 – Deferred tax assets

2.2 Basis of consolidation

(a) Subsidiaries

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

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

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

(b) Business combinations

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Basis of consolidation (cont'd)

(b) Business combinations (cont'd)

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 (2017: available-for-sale) depending on the level of influence retained.

(d) Transactions eliminated on consolidation

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

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 (2017: available-for-sale) equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

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

(b) Foreign operations denominated in functional currencies other than Ringgit Malaysia ("RM")

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

2.5 Financial instruments

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

Initial recognition and measurement

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

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

Classification and subsequent measurement

Financial assets - Policy applicable from 1 January 2018

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

(b) Financial assets at FVOCI

(i) FVOCI – debt investment

A debt investment 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Financial instruments (cont'd)

Classification and subsequent measurement (cont'd)

Financial assets - Policy applicable from 1 January 2018 (cont'd)

(b) Financial assets at FVOCI (cont'd)

(i) FVOCI – debt investment (cont'd)

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 investment

On initial recognition of an equity investment that is not held for trading, the Group and the Bank may irrevocably elect to present subsequent changes in 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.

Financial assets - Business model assessment: Policy applicable from 1 January 2018

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Financial instruments (cont'd)

Classification and subsequent measurement (cont'd)

Financial assets - Business model assessment: Policy applicable from 1 January 2018 (cont'd)

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"): Policy applicable from 1 January 2018

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).

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.

Financial assets - Policy applicable before 1 January 2018

Financial assets are categorised as follows:

(a) Financing and receivables

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Financial instruments (cont'd)

Classification and subsequent measurement (cont'd)

Financial assets - Policy applicable before 1 January 2018 (cont'd)

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

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

(i) Held-for-trading

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

(ii) Designated under fair value option

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

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

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

(c) Financial assets held-to-maturity

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

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

(d) Financial assets available-for-sale

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

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

Profit calculated for a debt instrument using the effective profit method is recognised in the profit or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Financial instruments (cont'd)

Derivative financial instruments

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

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

Financial liabilities

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

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

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

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

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

(a) Investment accounts

Investment accounts are either:

(i) Unrestricted investment accounts

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

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

(ii) Restricted investment accounts

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Financial instruments (cont'd)

Financial guarantee contracts

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

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

Derecognition

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Property and equipment (cont'd)

(a) Recognition and measurement (cont'd)

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

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

(b) Subsequent costs

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

(c) Depreciation

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

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

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

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

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

2.7 Leased assets – Finance lease

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Leased assets – Operating lease

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

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

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

2.9 Bills and other receivables

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

2.10 Impairment

Impairment of financial assets - Policy applicable from 1 January 2018

(i) Impairment of financial assets

The Group's and the Bank's accounting policy for impairment of financial assets changed significantly under MFRS 9, and the expected credit loss model was applied for the financial year ended 31 December 2018.

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Impairment (cont'd)

Impairment of financial assets - Policy applicable from 1 January 2018 (cont'd)

(i) Impairment of financial assets (cont'd)

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, which is the median scenario, assigned a 60% probability of occurring, and two less likely scenarios, an upside and a 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.

(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 and 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Impairment (cont'd)

Impairment of financial assets - Policy applicable from 1 January 2018 (cont'd)

(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, 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.

Impairment of financial assets - Policy applicable before 1 January 2018

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Impairment (cont'd)

Impairment of financial assets - Policy applicable before 1 January 2018 (cont'd)

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

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

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

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Impairment (cont'd)

Impairment of other assets (cont'd)

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 has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

2.13 Contingent liabilities

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

2.14 Contingent assets

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

2.15 Segment reporting

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

2.16 Equity instruments

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

Share Capital

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.17 Recognition of income

Financing income

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

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

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

Fee and other income recognition

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.20 Employee benefits

Short-term employee benefits

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

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

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

2.21 Earnings per ordinary shares

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

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

2.22 Fair value measurements

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

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

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

3. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Cash and balances with banks and other financial institutions	891,697	921,777	886,074	921,641
Money at call and interbank placements with remaining maturity not exceeding one month	1,200,957	3,263,920	1,200,629	3,263,920
	2,092,654	4,185,697	2,086,703	4,185,561

4. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
Bank Negara Malaysia	2,432,000	–

5. FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government Investment Issues	–	355,681	–	355,681
Sukuk	–	19,983	–	19,983
Unit trust	–	5,261	–	–
	–	380,925	–	375,664

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government Investment Issues	30,328	–	30,328	–
Sukuk	–	–	–	–
Unit trust	219,808	–	214,382	–
Bank Negara Monetary Notes	114,823	–	114,823	–
	364,959	–	359,533	–

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

7. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

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

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

Group and Bank	Notional amount RM'000	31.12.2018 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)

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

8. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government Investment Issues	–	1,525,094	–	1,525,094
Negotiable Islamic Debt Certificates	–	–	–	–
Sukuk	–	7,690,740	–	7,691,197
	–	9,215,834	–	9,216,291
At fair value				
Quoted shares				
- outside Malaysia	–	17,612	–	17,612
Quoted unit trust				
- in Malaysia	–	13,937	–	13,937
	–	31,549	–	31,549

8. FINANCIAL ASSETS AVAILABLE-FOR-SALE (cont'd)

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
At cost				
Unquoted shares in Malaysia*	–	23,520	–	23,520
Less: Accumulated impairment loss*	–	(18,239)	–	(18,239)
	–	5,281	–	5,281
At cost				
Unquoted shares outside Malaysia	–	329	–	329
Less: Impairment loss	–	(310)	–	(310)
	–	19	–	19
	–	9,252,683	–	9,253,140

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

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Financial assets at fair value through other comprehensive income:				
(a) Debt securities	11,318,781	–	11,318,781	–
(b) Equity investments	35,518	–	36,308	–
	11,354,299	–	11,355,089	–

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Malaysian Government Investment Issues	2,129,754	–	2,129,754	–
Sukuk	8,493,541	–	8,493,541	–
Bank Negara Monetary Notes	389,231	–	389,231	–
Islamic Commercial Papers	306,255	–	306,255	–
	11,318,781	–	11,318,781	–

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME** (cont'd)**(a) Debt investment securities at fair value through other comprehensive income** (cont'd)

Movements of allowance for impairment on financial assets at fair value through other comprehensive income.

	Group and Bank 31.12.2018 RM'000
12 months ECL	
At 1 January 2018	–
- Effects on adoption of MFRS 9	345
At 1 January 2018, as restated	345
Reversal of impairment during the year	(43)
At 31 December 2018	302

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Quoted Shares				
- outside Malaysia	12,446	–	12,446	–
Unquoted Shares				
- in Malaysia	23,056	–	23,846	–
- outside Malaysia	16	–	16	–
	23,072	–	23,862	–
	35,518	–	36,308	–

10. FINANCIAL ASSETS HELD-TO-MATURITY

	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
At amortised cost		
Unquoted securities in Malaysia: Sukuk	–	6,887
Less: Accumulated impairment loss	–	(6,887)
	–	–

11. FINANCING, ADVANCES AND OTHERS

(a) By type and Shariah contract

Group and Bank 31.12.2018	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										
- collective assessment allowance - 12 months ECL										(416,450)
- collective assessment allowance - lifetime ECL										(216,564)
- individual assessment allowance - lifetime ECL										(156,691)
Net financing, advances and others										45,680,680

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**11. FINANCING, ADVANCES AND OTHERS** (cont'd)**(a) By type and Shariah contract** (cont'd)

Group and Bank 31.12.2017	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Bai' Al-Dayn RM'000	Bai' Al-Inah RM'000	At- Tawarruq RM'000	Ijarah Muntahiah Bit-Tamleek^ RM'000	Ijarah Thumma Al-Bai^ RM'000	Istisna' RM'000	Ar-Rahnu RM'000	Total RM'000
At amortised cost										
Cash line	-	-	-	29,197	1,207,519	-	-	-	-	1,236,716
Term financing										
House financing	4,127,474	-	-	-	11,981,534	-	-	55,733	-	16,164,741
Syndicated financing	-	-	-	44,968	578,156	-	108,570	-	-	731,694
Leasing financing	-	-	-	-	-	87,945	299	-	-	88,244
Bridging financing	-	-	-	-	-	-	-	76,622	-	76,622
Personal financing	-	-	-	20,340	12,347,365	-	-	-	-	12,367,705
Other term financing	1,532,421	1,130,377	-	3,429	7,558,287	-	-	1,257	-	10,225,771
Staff financing	71,358	7,634	-	-	134,660	-	-	11,676	-	225,328
Credit cards	-	-	-	-	458,138	-	-	-	-	458,138
Trade bills discounted	-	819,992	186,433	-	-	-	-	-	-	1,006,425
Trust receipts	-	2,922	-	-	-	-	-	-	-	2,922
Pawn broking	-	-	-	-	-	-	-	-	87,222	87,222
Investment Account Platform *	-	-	-	-	14,408	-	-	-	-	14,408
	5,731,253	1,960,925	186,433	97,934	34,280,067	87,945	108,869	145,288	87,222	42,685,936
Allowance for impairment on financing, advances and others										
- collective assessment allowance										(446,069)
- individual assessment allowance										(126,447)
Net financing, advances and others										42,113,420

11. FINANCING, ADVANCES AND OTHERS (cont'd)**(a) By type and Shariah contract** (cont'd)

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

		Group and Bank	
		31.12.2018	31.12.2017
		RM'000	RM'000
House financing			
Unrestricted Investment Accounts	18	3,886,107	3,127,603
Sold to Cagamas with recourse	19	1,501,187	–
		5,387,294	3,127,603
Personal financing			
Unrestricted Investment Accounts	18	1,290,712	1,132,582

* 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	
		31.12.2018	31.12.2017
		RM'000	RM'000
Domestic non-bank financial institutions		1,637,318	1,353,524
Domestic business enterprise		6,924,836	6,426,088
Small & medium enterprises		2,092,024	1,869,781
Government & statutory bodies		601,285	827,671
Individuals		35,069,160	32,014,038
Other domestic entities		18,947	7,642
Foreign entities		126,815	187,192
		46,470,385	42,685,936

(c) By profit rate sensitivity

		Group and Bank	
		31.12.2018	31.12.2017
		RM'000	RM'000
Fixed rate			
House financing		1,073,575	1,168,200
Others		3,102,294	3,560,756
Floating rate			
House financing		17,636,273	15,625,095
Others		24,658,243	22,331,885
		46,470,385	42,685,936

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**11. FINANCING, ADVANCES AND OTHERS** (cont'd)**(d) By remaining contractual maturity**

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Maturity within one year	4,774,098	4,414,217
More than one year to three years	1,299,229	1,087,304
More than three years to five years	2,921,287	2,598,903
More than five years	37,475,771	34,585,512
	46,470,385	42,685,936

(e) By geographical distribution

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Central Region	22,125,064	20,673,380
Eastern Region	7,646,307	6,860,968
Northern Region	6,640,816	6,121,471
Southern Region	6,723,490	5,908,526
East Malaysia Region	3,334,708	3,121,591
	46,470,385	42,685,936

(f) By sector

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Primary agriculture	754,835	486,679
Mining and quarrying	9,060	8,080
Manufacturing (including agro-based)	909,850	835,268
Electricity, gas and water	371,479	337,388
Wholesale & retail trade, and hotels & restaurants	1,098,346	1,228,681
Construction	2,417,262	2,176,453
Real estate	1,712,250	1,582,531
Transport, storage and communications	824,949	655,633
Finance, insurance and business activities	2,299,319	2,147,118
Education, health and others	1,000,735	1,210,056
Household sectors	35,072,300	32,018,049
	46,470,385	42,685,936

11. FINANCING, ADVANCES AND OTHERS (cont'd)**(g) Movement in impaired financing and advances ("impaired financing") are as follows:**

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
At 1 January 2018/1 January 2017	398,277	389,445
Classified as impaired during the year	621,974	648,281
Reclassified as not impaired during the year	(321,635)	(331,592)
Amount recovered	(117,477)	(92,432)
Amount written off	(155,202)	(209,231)
Exchange differences	–	(6,194)
At 31 December 2018/31 December 2017	425,937	398,277
Gross impaired financing as a percentage of gross financing, advances and others	0.92%	0.93%

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

(h) Impaired financing by geographical distribution

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Central Region	245,531	223,305
Eastern Region	101,868	107,422
Northern Region	25,349	28,710
Southern Region	31,320	22,915
East Malaysia Region	21,869	15,925
	425,937	398,277

(i) Impaired financing by sector

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Manufacturing (including agro-based)	21,426	35,448
Wholesale & retail trade, and hotels & restaurants	56,665	38,433
Construction	123,007	86,357
Transport, storage and communications	10,936	12,604
Finance, insurance and business activities	3,066	3,799
Education, health & others	4,642	5,106
Household sectors	206,195	216,530
	425,937	398,277

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**11. FINANCING, ADVANCES AND OTHERS** (cont'd)**(j) Movement of allowance for impairment on financing, advances and others**

Group and Bank	← Collective →			Total collective RM'000	Individual RM'000	Total RM'000
	12-month ECL RM'000	Lifetime ECL not credit- impaired RM'000	Lifetime ECL credit- impaired RM'000			
At 1 January 2018				446,069	126,447	572,516
- effects of adoption of MFRS 9				187,404	1,695	189,099
Restated at 1 January 2018	390,478	139,501	103,494	633,473	128,142	761,615
Transfer to 12-month ECL	6,841	(6,525)	(316)	-	-	-
Transfer to Lifetime ECL not credit impaired	(4,419)	8,639	(4,220)	-	-	-
Transfer to Lifetime ECL credit impaired	(523)	(8,454)	8,977	-	-	-
Net allowance made during the year	(22,326)	1,175	101,690	80,539	58,801	139,340
New financial assets originated or purchased	88,675	7,437	5,090	101,202	-	101,202
Financial assets that have been derecognised	(39,166)	(12,371)	(2,603)	(54,140)	-	(54,140)
Write-offs	-	-	(124,950)	(124,950)	(30,252)	(155,202)
Exchange differences	(3,110)	-	-	(3,110)	-	(3,110)
At 31 December 2018	416,450	129,402	87,162	633,014	156,691	789,705
Group and Bank						31.12.2017 RM'000
<u>Collective assessment allowance</u>						
At 1 January 2017						554,971
Net allowance made during the year						34,706
Amount written off						(141,940)
Exchange differences						(1,668)
At 31 December 2017						446,069
<u>Individual assessment allowance</u>						
At 1 January 2017						128,198
Net allowance made during the year						102,059
Amount recovered						(30,324)
Amount written off						(67,291)
Exchange differences						(6,195)
At 31 December 2017						126,447

11. FINANCING, ADVANCES AND OTHERS (cont'd)**(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 31.12.2018 RM'000
Amortised cost before the modification	15,756
Gross carrying amount at end of reporting period	15,921

12. OTHER FINANCIAL ASSETS AT AMORTISED COST

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Sukuk [^]	6,887	–	6,887	–
Other receivables	97,473	90,137	95,680	87,964
Deposit and prepayments	31,458	33,086	30,434	31,968
Related companies*	586	755	894	1,605
	136,404	123,978	133,895	121,537
Less : Accumulated impairment loss				
Individual assessment				
Sukuk [^]	(6,887)	–	(6,887)	–
Other receivables	(475)	(475)	(475)	(475)
	129,042	123,503	126,533	121,062

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

[^] Previously classified as financial assets held-to-maturity as disclosed in Note 10. These assets are classified and measured at amortised cost under MFRS 9.

13. 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.

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**14. DEFERRED TAX ASSETS****Recognised deferred tax assets**

Deferred tax assets are attributable to the following:

Group	Assets		Liabilities		Net	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Property and equipment	–	–	(6,568)	(8,986)	(6,568)	(8,986)
Provisions	29,787	26,478	–	–	29,787	26,478
Impairment allowances	26,860	–	–	–	26,860	–
Unabsorbed capital allowances	829	12,829	–	–	829	12,829
Change in fair value reserve	–	6,967	(831)	–	(831)	6,967
Set off of tax	(7,379)	(8,986)	7,379	8,986	–	–
Tax losses	1,308	–	–	–	1,308	–
Net tax assets	51,405	37,288	(20)	–	51,385	37,288

Movement in temporary differences during the year:

Group	At	Recognised	Recognised	At	Remeasure-	At	Recognised	Recognised	At
	1.1.2017 RM'000	in profit or loss RM'000	in other comprehensive income RM'000	31.12.2017 RM'000	ment of expected credit loss RM'000	1.1.2018 RM'000	in profit or loss RM'000	in other comprehensive income RM'000	31.12.2018 RM'000
Property and equipment	(16,993)	8,007	–	(8,986)	–	(8,986)	2,418	–	(6,568)
Provisions	24,483	1,995	–	26,478	–	26,478	3,309	–	29,787
Impairment allowances	–	–	–	–	–	–	26,860	–	26,860
Unabsorbed capital allowances	24,963	(12,134)	–	12,829	–	12,829	(12,000)	–	829
Change in fair value reserve	15,925	–	(8,958)	6,967	(4,165)	2,802	–	(3,633)	(831)
Tax losses	–	–	–	–	–	–	1,308	–	1,308
Total assets	48,378	(2,132)	(8,958)	37,288	(4,165)	33,123	21,895	(3,633)	51,385

14. DEFERRED TAX ASSETS (cont'd)**Recognised deferred tax assets** (cont'd)

Deferred tax assets are attributable to the following:

Bank	Assets		Liabilities		Net	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Property and equipment	–	–	(6,548)	(8,986)	(6,548)	(8,986)
Provisions	29,532	26,478	–	–	29,532	26,478
Impairment allowances	26,860	–	–	–	26,860	–
Unabsorbed capital allowances	829	12,829	–	–	829	12,829
Change in fair value reserve	–	6,967	(831)	–	(831)	6,967
Set off of tax	(7,379)	(8,986)	7,379	8,986	–	–
Net tax assets	49,842	37,288	–	–	49,842	37,288

Movement in temporary differences during the year:

Bank	At	Recognised	Recognised	At	Remeasure-	At	Recognised	Recognised	At
	1.1.2017 RM'000	in profit or loss RM'000	in other comprehensive income RM'000	31.12.2017 RM'000	ment of expected credit loss RM'000	1.1.2018 RM'000	in profit or loss RM'000	in other comprehensive income RM'000	31.12.2018 RM'000
Property and equipment	(16,993)	8,007	–	(8,986)	–	(8,986)	2,438	–	(6,548)
Provisions	24,483	1,995	–	26,478	–	26,478	3,054	–	29,532
Impairment allowances	–	–	–	–	–	–	26,860	–	26,860
Unabsorbed capital allowances	24,963	(12,134)	–	12,829	–	12,829	(12,000)	–	829
Change in fair value reserve	15,925	–	(8,958)	6,967	(4,165)	2,802	–	(3,633)	(831)
Total assets	48,378	(2,132)	(8,958)	37,288	(4,165)	33,123	20,352	(3,633)	49,842

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

14. DEFERRED TAX ASSETS (cont'd)**Unrecognised deferred tax assets**

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Unabsorbed capital allowance	128,475	78,475	128,440	78,440
Unutilised tax losses	1,251	6,701	–	–
Deductible temporary differences	329	329	–	–
	130,055	85,505	128,440	78,440

The Bank's unabsorbed capital allowances of RM128,440,000 in respect of its leasing business whereby management considered it uncertain whether the Bank is able to utilise the benefits in the future. As such, deferred tax assets have not been recognised.

15. INVESTMENTS IN SUBSIDIARIES

	Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
At cost		
Unquoted shares in Malaysia	16,447	16,447
Less: Accumulated impairment loss	(922)	(922)
	15,525	15,525

Details of subsidiaries are as follows:

Name of Company	Principal activities	Effective ownership interest	
		31.12.2018 %	31.12.2017 %
Al-Wakalah Nominees (Tempatan) Sdn. Bhd.	Provides nominee services	100	100
BIMB Investment Management Berhad	Manages Islamic Unit Trust Funds	100	100
Bank Islam Trust Company (Labuan) Ltd.	Provides services as a Labuan registered trust company	100	100
and its subsidiary:			
BIMB Offshore Company Management Services Sdn. Bhd.	Acts as Resident Corporate Secretary and Director for Offshore Companies	100	100
Farihan Corporation Sdn. Bhd.	Provides manpower services to the Bank	100	100

16. 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
Cost									
At 1 January 2017	14,784	33,172	122,865	90,091	346,970	1,157	62	5,726	614,827
Additions	–	545	1,807	4,983	11,552	466	4,733	17,274	41,360
Reclassifications	–	256	1,362	686	3,159	–	(2,304)	(3,159)	–
Disposals	–	–	(3)	(209)	(1,339)	(680)	–	–	(2,231)
Written off	–	(113)	(921)	(420)	–	–	–	–	(1,454)
Exchange difference	–	(2)	(32)	(45)	(32)	–	–	–	(111)
At 31 December 2017	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
Accumulated depreciation									
At 1 January 2017	1,652	22,333	75,559	71,826	257,181	714	–	–	429,265
Depreciation for the year	174	2,004	9,128	7,065	35,991	118	–	–	54,480
Disposals	–	–	(3)	(203)	(1,332)	(317)	–	–	(1,855)
Written off	–	(104)	(898)	(396)	–	–	–	–	(1,398)
Exchange difference	–	(2)	(31)	(41)	(30)	–	–	–	(104)
At 31 December 2017	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
Carrying amounts									
At 1 January 2017	13,132	10,839	47,306	18,265	89,789	443	62	5,726	185,562
At 31 December 2017	12,958	9,627	41,323	16,835	68,500	428	2,491	19,841	172,003
At 31 December 2018	12,784	8,480	38,161	14,335	73,001	335	4,846	36,874	188,816

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**16. PROPERTY AND EQUIPMENT** (cont'd)

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
Cost									
At 1 January 2017	14,784	32,983	122,789	89,729	344,950	1,157	62	5,726	612,180
Additions	-	545	1,807	4,980	11,544	466	4,733	17,274	41,349
Reclassifications	-	256	1,362	686	3,159	-	(2,304)	(3,159)	-
Disposals	-	-	(3)	(209)	(1,339)	(680)	-	-	(2,231)
Written off	-	(113)	(921)	(417)	-	-	-	-	(1,451)
Exchange difference	-	(2)	(32)	(31)	(6)	-	-	-	(71)
At 31 December 2017	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
Accumulated depreciation									
At 1 January 2017	1,652	22,208	75,521	71,484	256,054	714	-	-	427,633
Depreciation for the year	174	1,971	9,118	7,059	35,780	118	-	-	54,220
Disposals	-	-	(3)	(203)	(1,332)	(317)	-	-	(1,855)
Written off	-	(104)	(898)	(393)	-	-	-	-	(1,395)
Exchange difference	-	(2)	(31)	(28)	(6)	-	-	-	(67)
At 31 December 2017	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
Carrying amounts									
At 1 January 2017	13,132	10,775	47,268	18,245	88,896	443	62	5,726	184,547
At 31 December 2017	12,958	9,596	41,295	16,819	67,812	428	2,491	19,841	171,240
At 31 December 2018	12,784	8,433	38,135	14,318	72,428	335	4,846	36,874	188,153

17. DEPOSITS FROM CUSTOMERS**(a) By type of deposit**

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Savings Deposit				
<i>Wadiah</i>	4,410,537	4,138,519	4,410,537	4,138,519
Demand Deposit				
<i>Wadiah</i>	10,663,456	11,333,608	10,670,826	11,343,024
Term Deposit	34,727,635	30,617,889	34,734,232	30,624,591
Special Investment Deposit <i>Mudharabah</i>	6,252	6,182	6,252	6,182
General Investment Deposit <i>Mudharabah</i>	287,013	322,561	287,013	322,561
Term Deposit-i <i>Tawarruq</i>	30,751,990	26,728,087	30,758,587	26,734,789
Negotiable Islamic Debt Certificates (NIDC)	3,682,380	3,561,059	3,682,380	3,561,059
Others	93,604	102,894	93,604	102,894
Total Deposits	49,895,232	46,192,910	49,909,199	46,209,028

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Due within six months	16,428,971	18,565,407	16,429,087	18,571,396
More than six months to one year	9,685,966	8,742,154	9,691,736	8,742,867
More than one year to three years	6,484,593	1,618,691	6,485,304	1,618,691
More than three years to five years	2,128,105	1,691,637	2,128,105	1,691,637
	34,727,635	30,617,889	34,734,232	30,624,591

(c) By type of customers

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Domestic non-bank financial institutions	12,385,381	14,063,475	12,399,348	14,079,593
Business enterprises	16,725,704	12,406,686	16,725,704	12,406,686
Government and statutory bodies	12,049,184	8,847,454	12,049,184	8,847,454
Individuals	5,199,550	4,810,541	5,199,550	4,810,541
Domestic banking institutions	1,634,224	3,395,740	1,634,224	3,395,740
Others	1,901,189	2,669,014	1,901,189	2,669,014
	49,895,232	46,192,910	49,909,199	46,209,028

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**18. INVESTMENT ACCOUNTS OF CUSTOMERS****(a) By type and Shariah contract**

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Unrestricted investment accounts		
Without maturity		
<i>Mudharabah</i>	2,594,846	1,994,491
- <i>Savings</i>	2,413,645	1,986,005
- <i>Demand</i>	181,201	8,486
With maturity		
<i>Wakalah</i>	2,581,973	2,265,694
	5,176,819	4,260,185
Restricted investment accounts ("RIA") managed by the Bank[^]		
With maturity		
<i>Wakalah</i>	78,717	124,384

[^] 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 RM78,285,000 (2017: RM123,962,000).

(b) By type of customers

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Individuals	2,674,428	2,212,239
Government and statutory bodies	767,996	400,709
Business Enterprises	507,160	474,464
Non-bank financial institutions	1,175,273	1,077,298
International Islamic Bank	2,400	-
Others	49,562	95,475
	5,176,819	4,260,185

18. INVESTMENT ACCOUNTS OF CUSTOMERS (cont'd)**(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 2017	1,516,844	2,295,417	3,812,261	141,343
<i>Funding inflows/outflows:</i>				
Net movement	475,709	–	475,709	–
New placement	–	6,536,170	6,536,170	19,939
Redemption/Principal repayment	–	(6,669,256)	(6,669,256)	(46,150)
Income from investment	94,386	152,660	247,046	11,847
<i>Bank's share of profit:</i>				
Profit distributed to Mudharib	(92,448)	–	(92,448)	–
Wakalah fees	–	(49,297)	(49,297)	(2,595)
As at 31 December 2017/1 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	2,594,846	2,581,973	5,176,819	78,717
<i>Investment portfolio:</i>				
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
	2,594,846	2,581,973	5,176,819	78,717
2017				
House financing	1,994,491	1,133,112	3,127,603	–
Personal financing	–	1,132,582	1,132,582	–
Other term financing	–	–	–	124,384
	1,994,491	2,265,694	4,260,185	124,384

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**18. INVESTMENT ACCOUNTS OF CUSTOMERS** (cont'd)**(d) By maturity structures, profit sharing ratio and rate of return**

	Total amount RM'000	Investment account holders Average profit sharing ratio (%)	Average rate of return (%)	Bank's wakalah fee (%)
2018				
Unrestricted investment accounts:				
<i>Less than 3 months</i>				
- Mudharabah	2,594,846	2	0.24	–
- Wakalah	1,112,699	–	3.81	1.63
	3,707,545			
<i>Between 3 to 12 months</i>				
- Wakalah	1,469,274	–	3.72	1.72
	5,176,819			
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
	78,717			
2017				
Unrestricted investment accounts:				
<i>Less than 3 months</i>				
- Mudharabah	1,994,491	2	0.11	–
- Wakalah	1,228,421	–	3.69	1.45
	3,222,912			
<i>Between 3 to 12 months</i>				
- Wakalah	1,037,273	–	3.72	1.42
	4,260,185			
Restricted investment accounts:				
<i>Less than 2 years</i>				
	429	–	6.30	0.30
<i>Between 2 to 5 years</i>				
	123,955	–	3.52	1.88
	124,384			

19. 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 11.

20. SUBORDINATED SUKUK MURABAHAH

	Note	Group and Bank	
		31.12.2018 RM'000	31.12.2017 RM'000
Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme			
First tranche	(a)	303,450	303,355
Second tranche	(b)	400,851	401,085
Third tranche	(c)	302,005	302,046
		1,006,306	1,006,486
Issued under the RM10.0 billion Sukuk Murabahah Programme			
First tranche	(d)	302,328	–
		1,308,634	1,006,486
Finance cost on Subordinated Sukuk Murabahah		56,711	41,296

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.

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

Group and Bank	At 1.1.2018 RM'000	Changes from financing cash flows RM'000	Finance cost for the year RM'000	At 31.12.2018 RM'000
Nominal value	1,000,000	300,000	–	1,300,000
Finance cost payable	6,486	(54,563)	56,711	8,634
	1,006,486	245,437	56,711	1,308,634

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

21. OTHER LIABILITIES

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Other payables	574,073	651,703	566,321	644,664
Accruals	132,060	130,596	129,393	129,105
	706,133	782,299	695,714	773,769

Included in other payables is undistributed charity fund amounting to RMNil (2017: RMNil) for the Group and the Bank respectively. Movement of sources and uses of charity fund are disclosed in Note 25.

22. ZAKAT AND TAXATION

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Zakat	13,685	13,385	13,539	13,323
Taxation	2	33,019	–	33,017
	13,687	46,404	13,539	46,340

23. SHARE CAPITAL

Group and Bank	Number of shares		Amount	
	31.12.2018 '000	31.12.2017 '000	31.12.2018 RM'000	31.12.2017 RM'000
Issued and fully paid				
Ordinary shares				
At 1 January	2,466,022	2,404,384	2,869,498	2,404,384
Transfer from share premium	–	–	–	264,790
Allotment of new ordinary shares	43,960	61,638	142,870	200,324
At 31 December	2,509,982	2,466,022	3,012,368	2,869,498

The Bank increased its share capital on 20 September 2018 by RM142,870,000 via the issuance of 43,960,000 new ordinary shares at a consideration of RM3.25 each arising from the Dividend Reinvestment Plan of one hundred percent of the final dividend of approximately 5.79 sen in respect of financial year ended 31 December 2018, as disclosed in Note 38.

During the financial year ended 31 December 2017, the Bank transferred RM264,790,400 share premium to its share capital pursuant to the transition provisions set out in Section 618(2) of the Companies Act 2016.

The Bank further increased its share capital during the financial year ended 31 December 2017 by RM200,323,500 via the issuance of 41,282,000 and 20,356,000 new ordinary shares at a consideration of RM3.25 per share respectively arising from the Dividend Reinvestment Plan of one hundred percent and fifty percent respectively of dividends declared and paid, as disclosed in Note 38.

24. OTHER RESERVES

Group	Statutory reserve (a) RM'000	Fair value reserve (b) RM'000	FVOCI reserve (c) RM'000	Translation reserve (d) RM'000	Regulatory reserve (e) RM'000	Total RM'000
At 1 January 2017	1,392,159	(50,429)	–	(148,685)	–	1,193,045
Foreign exchange translation differences	–	–	–	45,908	–	45,908
Fair value reserve						
- Net change in fair value	–	43,480	–	–	–	43,480
- Net amount reclassified to profit or loss	–	(6,157)	–	–	–	(6,157)
Income tax expense relating to components of other comprehensive income	–	(8,958)	–	–	–	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	–	–	–	–	(1,392,159)
Transfer of retained earnings to regulatory reserve	–	–	–	–	64,645	64,645
At 31 December 2017/1 January 2018	–	(22,064)	–	(102,777)	64,645	(60,196)
Adjustment on adoption of MFRS 9 (net of tax)	–	22,064	(8,874)	–	–	13,190
Restated total equity at 1 January 2018	–	–	(8,874)	(102,777)	64,645	(47,006)
Foreign exchange translation differences	–	–	–	(8,290)	–	(8,290)
Fair value reserve						
- Net change in fair value	–	–	42,581	–	–	42,581
- Net amount reclassified to profit or loss	–	–	(27,444)	–	–	(27,444)
Income tax expense relating to components of other comprehensive income	–	–	(3,633)	–	–	(3,633)
Transfer from regulatory reserve to retained earnings	–	–	–	–	(54,645)	(54,645)
At 31 December 2018	–	–	2,630	(111,067)	10,000	(98,437)

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**24. OTHER RESERVES** (cont'd)

Bank	Statutory reserve (a) RM'000	Fair value reserve (b) RM'000	FVOCI reserve (c) RM'000	Translation reserve (d) RM'000	Regulatory reserve (e) RM'000	Total RM'000
At 1 January 2017	1,392,159	(50,429)	-	(148,908)	-	1,192,822
Foreign exchange translation differences	-	-	-	45,990	-	45,990
Fair value reserve						
- Net change in fair value	-	43,480	-	-	-	43,480
- Net amount reclassified to profit or loss	-	(6,157)	-	-	-	(6,157)
Income tax effect relating to components of other comprehensive income	-	(8,958)	-	-	-	(8,958)
Transfer of reserve fund to retained earnings	(1,392,159)	-	-	-	-	(1,392,159)
Transfer of retained earnings to regulatory reserve	-	-	-	-	64,645	64,645
At 31 December 2017/1 January 2018	-	(22,064)	-	(102,918)	64,645	(60,337)
Adjustment on adoption of MFRS 9 (net of tax)	-	22,064	(8,874)	-	-	13,190
Restated total equity at 1 January 2018	-	-	(8,874)	(102,918)	64,645	(47,147)
Foreign exchange translation differences	-	-	-	(7,973)	-	(7,973)
Fair value reserve						
- Net change in fair value	-	-	42,581	-	-	42,581
- Net amount reclassified to profit or loss	-	-	(27,444)	-	-	(27,444)
Income tax effect relating to components of other comprehensive income	-	-	(3,633)	-	-	(3,633)
Transfer from regulatory reserve to retained earnings	-	-	-	-	(54,645)	(54,645)
At 31 December 2018	-	-	2,630	(110,891)	10,000	(98,261)

(a) The statutory reserve was previously maintained in compliance with the requirements of Bank Negara Malaysia and was not distributable as cash dividends. During the financial year ended 31 December 2017, the Bank has transferred RM1,392,158,939 from statutory reserve fund to its retained earnings pursuant to the Revised Policy Document issued by BNM on 3 May 2017.

(b) The fair value reserve includes the cumulative net change in the fair value of financial assets available-for-sale, until the financial asset is derecognised.

(c) The FVOCI reserve includes the cumulative net change in the fair value of financial assets FVOCI, until the financial asset is derecognised.

(d) 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.

(e) 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.

25. SOURCES AND USES OF CHARITY FUNDS

Group and Bank	Charity funds RM'000	Shariah Non-compliance income RM'000	Total RM'000
Undistributed funds as at 1 January 2017	–	5	5
Funds collected/received during the year	–	8	8
Uses of funds during the year	–	(11)	(11)
<i>Contribution to Non-profit Organisation</i>	–	(4)	(4)
<i>Contribution for Da'wah activities</i>	–	(5)	(5)
<i>Contribution to Institution</i>	–	(2)	(2)
Undistributed funds as at 31 December 2017/1 January 2018	–	2	2
Funds collected/received during the year	–	9	9
Uses of funds during the year	–	(4)	(4)
<i>Contribution to Education Fund</i>	–	(4)	(4)
Undistributed funds as at 31 December 2018	–	7	7

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	Group and Bank	
	2018 RM'000	2017 RM'000
Income derived from investment of:		
(i) General investment deposits	19,074	22,296
(ii) Term deposit-i	1,596,723	1,370,064
(iii) Savings and demand deposits	790,472	739,255
(iv) Other deposits	195,556	192,572
	2,601,825	2,324,187

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS** (cont'd)**(i) Income derived from investment of general investment deposits**

	Group and Bank	
	2018	2017
	RM'000	RM'000
Finance income and hibah		
Financing, advances and others	16,802	19,305
Financial assets:		
- fair value through profit and loss	110	-
- fair value through other comprehensive income	1,473	-
- other financial assets at amortised cost	4	-
- held-for-trading	-	142
- available-for-sale	-	2,136
- held-to-maturity	-	60
Money at call and deposits with financial institutions	473	296
	18,862	21,939
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	30	-
Net gain on revaluation of financial assets at fair value through profit or loss	3	-
Net loss from sale of financial assets held-for-trading	-	(10)
Net gain on revaluation of financial assets held-for-trading	-	46
	33	36
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	179	-
Net gain from sale of financial assets available-for-sale	-	51
Net gain from sale of financial assets held-to-maturity	-	270
	179	321
	19,074	22,296
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	240	322

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (cont'd)**(ii) Income derived from investment of term deposit-i**

	Group and Bank	
	2018	2017
	RM'000	RM'000
Finance income and hibah		
Financing, advances and others	1,390,942	1,170,411
Financial assets:		
- fair value through profit and loss	9,977	-
- fair value through other comprehensive income	136,410	-
- other financial assets at amortised cost	368	-
- held-for-trading	-	9,643
- available-for-sale	-	144,803
- held-to-maturity	-	4,085
Money at call and deposits with financial institutions	38,924	16,156
	1,576,621	1,345,098
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	2,799	-
Net gain on revaluation of financial assets at fair value through profit or loss	94	-
Net loss from sale of financial assets held-for-trading	-	(442)
Net gain on revaluation of financial assets held-for-trading	-	3,084
	2,893	2,642
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	17,209	-
Net gain from sale of financial assets available-for-sale	-	3,480
Net gain from sale of financial assets held-to-maturity	-	18,844
	17,209	22,324
	1,596,723	1,370,064
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	21,904	18,818

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS** (cont'd)**(iii) Income derived from investment of savings and demand deposits**

	Group and Bank	
	2018	2017
	RM'000	RM'000
Finance income and hibah		
Financing, advances and others	688,992	630,634
Financial assets:		
- fair value through profit and loss	4,984	-
- fair value through other comprehensive income	67,395	-
- other financial assets at amortised cost	175	-
- held-for-trading	-	5,192
- available-for-sale	-	78,063
- held-to-maturity	-	2,202
Money at call and deposits with financial institutions	19,142	10,077
	780,688	726,168
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	1,394	-
Net gain on revaluation of financial assets at fair value through profit or loss	114	-
Net loss from sale of financial assets held-for-trading	-	(275)
Net gain on revaluation of financial assets held-for-trading	-	1,649
	1,508	1,374
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	8,276	-
Net gain from sale of financial assets available-for-sale	-	1,866
Net gain from sale of financial assets held-to-maturity	-	9,847
	8,276	11,713
	790,472	739,255
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	10,924	10,288

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (cont'd)**(iv) Income derived from investment of other deposits**

	Group and Bank	
	2018	2017
	RM'000	RM'000
Finance income and hibah		
Financing, advances and others	170,760	164,014
Financial assets:		
- fair value through profit and loss	1,247	-
- fair value through other comprehensive income	16,620	-
- other financial assets at amortised cost	38	-
- held-for-trading	-	1,371
- available-for-sale	-	20,574
- held-to-maturity	-	578
Money at call and deposits with financial institutions	4,806	2,560
	193,471	189,097
Other dealing income		
Net gain from sale of financial assets at fair value through profit or loss	312	-
Net loss on revaluation of financial assets at fair value through profit or loss	(7)	-
Net loss from sale of financial assets held-for-trading	-	(38)
Net gain on revaluation of financial assets held-for-trading	-	435
	305	397
Other operating income		
Net gain from sale of financial assets at fair value through other comprehensive income	1,780	-
Net gain from sale of financial assets available-for-sale	-	488
Net gain from sale of financial assets held-to-maturity	-	2,590
	1,780	3,078
	195,556	192,572
<i>of which</i>		
<i>Financing income earned on impaired financing</i>	2,736	2,738

27. INCOME DERIVED FROM INVESTMENT ACCOUNT FUNDS

	Group and Bank	
	2018	2017
	RM'000	RM'000
Finance income		
Unrestricted investment accounts		
- <i>Mudharabah</i>	122,522	94,386
- <i>Wakalah</i>	135,393	152,660
	257,915	247,046

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**28. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS**

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance income and hibah				
Financing, advances and others	7,345	6,951	7,345	6,951
Financial assets:				
- fair value through other comprehensive income	184,280	-	184,280	-
- available-for-sale	-	147,372	-	147,372
Money at call and deposits with financial institutions	6	4	4	4
	191,631	154,327	191,629	154,327
Other dealing income				
Net gain from foreign exchange transactions	54,716	66,396	54,739	66,396
Net derivatives loss	52	(779)	52	(779)
Net gain on revaluation of financial assets at fair value through profit or loss	2	-	-	-
	54,770	65,617	54,791	65,617
Other operating income				
Net gain from sale of financial assets available-for-sale	-	272	-	272
Gross dividend income from unit trust in Malaysia	1,763	2,600	1,612	2,422
	1,763	2,872	1,612	2,694
Fees and commission				
Card fees and commission	70,627	70,751	70,627	70,751
Takaful service fees and commission	29,791	28,436	29,791	28,436
Financing fees	18,976	22,810	18,976	22,810
Sales charges on unit trust	24,210	8,450	-	-
Unit trust management fees	15,254	10,158	-	-
Commission on MEPS	13,444	13,184	13,444	13,184
Ar-Rahnu fees	10,863	11,984	10,863	11,984
Mobile banking fees	6,630	6,808	6,630	6,808
Corporate advisory fees	6,549	5,877	6,549	5,877
Deposit and payment service fees	5,959	6,677	5,959	6,677
Processing fees	2,212	4,202	2,188	4,200
Commission on bills payment system	3,006	2,831	3,006	2,831
Commission from wealth management services	31	58	6,579	6,787
Ta'widh Charges	975	698	975	698
Others	16,754	15,842	15,610	14,633
	225,281	208,766	191,197	195,676
Other income				
Rental income	2,266	2,446	2,638	2,788
Net gain/(loss) on disposal of property and equipment	372	(71)	372	(71)
Other income	194	396	92	254
	2,832	2,771	3,102	2,971
	476,277	434,353	442,331	421,285

29. NET ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	Group and Bank	
	2018	2017
	RM'000	RM'000
Net allowance for impairment on financing, advances and others:		
- collective assessment allowance	127,601	34,706
- individual assessment allowance	58,801	71,735
Bad debts and financing recovered	(104,948)	(122,054)
	81,454	(15,613)

30. INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers:				
- Mudharabah fund	9,730	11,445	9,730	11,445
- Non-Mudharabah fund	1,236,386	1,088,245	1,236,653	1,088,484
Deposits and placements of banks and other financial institutions:				
- Non-Mudharabah fund	409	3,346	409	3,346
Recourse obligation on financing sold to Cagamas	42,750	-	42,750	-
	1,289,275	1,103,036	1,289,542	1,103,275

31. INCOME ATTRIBUTABLE TO INVESTMENT ACCOUNT HOLDERS

	Group and Bank	
	2018	2017
	RM'000	RM'000
Unrestricted investment accounts		
- Mudharabah	5,530	1,938
- Wakalah	89,029	103,363
	94,559	105,301

32. PERSONNEL EXPENSES

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	315,500	291,285	309,152	286,154
Allowances and bonuses	159,001	149,181	156,754	147,529
Employees' Provident Fund	57,338	54,226	56,170	53,273
Directors and Shariah Supervisory Council Members' remuneration	7,312	11,875	6,362	11,182
Medical benefits	21,032	28,420	20,537	28,209
Staff sales commission	14,104	14,645	14,104	14,645
Others	21,032	19,711	20,381	19,455
	595,319	569,343	583,460	560,447

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**33. OTHER OVERHEAD EXPENSES**

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Promotion				
Credit and debit card expenses	30,802	31,114	30,802	31,114
Advertisement and publicity	9,692	9,608	9,336	9,454
Others	30,030	13,915	9,319	10,111
	70,524	54,637	49,457	50,679
Establishment				
Depreciation of property and equipment	47,970	54,480	47,723	54,220
Information technology expenses	50,842	59,535	50,842	59,535
Office rental	54,207	54,314	54,152	54,254
Security services	9,954	16,267	9,954	16,267
Utilities	14,306	14,068	14,235	13,992
Office maintenance	11,324	11,522	11,107	11,169
Takaful	8,335	8,069	8,329	8,037
Rental of equipment	4,700	4,504	4,619	4,429
Others	320	320	320	320
	201,958	223,079	201,281	222,223
General expenses				
Indirect tax expenses	11,848	23,318	11,847	23,317
Outsourcing fees				
- Management of self-service terminal	12,608	12,128	12,608	12,128
- Credit recovery	2,417	2,516	2,417	2,516
- Others	2,674	4,169	2,674	4,169
Office supplies	8,202	9,593	8,067	9,462
Licenses	8,246	9,500	8,246	9,500
Travelling and transportation	8,135	7,893	7,947	7,813
Bank and service charges	6,984	7,615	6,958	7,601
Security services for cash in transit	6,523	6,419	6,523	6,419
Postage and delivery charges	6,418	4,979	6,387	4,963
Management fees	-	-	8,589	4,633
Subscription fees	3,739	4,061	3,739	4,061
Professional fees	6,245	4,379	6,078	4,203
Mobile banking expenses	1,602	1,359	1,602	1,359
Auditors' remuneration				
- statutory audit fees	925	775	848	700
- others	1,365	642	1,365	642
Processing charges	980	655	980	655
Property and equipment written off	332	56	332	56
Others	29,374	41,328	22,821	38,535
	118,617	141,385	120,028	142,732
	391,099	419,101	370,766	415,634

34. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Bank				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	–	7,366	–	7,366
Benefits-in-kind	–	113	–	113
	–	7,479	–	7,479
<i>Chief Executive Officer:</i>				
Salaries and other remuneration, including meeting allowances	2,745	677	2,744	671
Benefits-in-kind	31	16	31	16
	2,776	693	2,775	687
<i>Non-Executive Directors:</i>				
Fees	1,663	1,376	1,627	1,356
Other emoluments	1,424	1,234	1,406	1,217
Benefits-in-kind	234	219	234	219
	3,321	2,829	3,267	2,792
Directors of subsidiaries				
<i>Executive Director:</i>				
Salaries and other remuneration, including meeting allowances	742	502	–	–
	742	502	–	–
<i>Non-Executive Directors:</i>				
Fees	72	72	–	–
Other emoluments	65	67	–	–
	137	139	–	–
Total	6,976	11,642	6,042	10,958
Members of Shariah Supervisory Council (SSC)				
- SSC of the Bank	592	575	585	572
- SSC of a subsidiary	9	6	–	–
Total	601	581	585	572
Grand total (excluding benefits-in-kind) (Note 32)	7,312	11,875	6,362	11,182

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

34. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION

(cont'd)

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

	← Remuneration received from the Bank →				Bank Total RM'000	Remuneration received from subsidiaries		Group Total RM'000
	Salary And Bonus RM'000	Fees RM'000	Other Emoluments RM'000	Benefits -in-kind RM'000		Fees RM'000	Other Emoluments RM'000	
31 December 2018								
Chief Executive Officer:								
Mohd Muazzam Mohamed (appointed on 5 December 2018)	61	–	14	2	77	–	–	77
Khairul Kamarudin (resigned on 20 July 2018)	1,908	–	761	29	2,698	–	1	2,699
	1,969	–	775	31	2,775	–	1	2,776
Non-Executive Directors:								
Datuk Zamani Abdul Ghani	–	240	228	89	557	–	–	557
Tan Sri Dato' Dr. Abdul Shukor Husin	–	156	127	–	283	–	–	283
Dato' Sri Khazali Ahmad (appointed on 2 January 2018)	–	105	63	25	193	–	–	193
Datuk Zaiton Mohd Hassan (resigned on 18 February 2019)	–	213	171	–	384	–	–	384
Zahari @ Mohd Zin Idris	–	216	225	20	461	12	7	480
Mohamed Ridza Mohamed Abdulla	–	108	121	–	229	–	–	229
Nik Mohd Hasyudeen Yusoff	–	226	196	25	447	24	11	482
Noraini Che Dan	–	209	191	50	450	–	–	450
Azizan Ahmad (appointed on 2 January 2018)	–	154	84	25	263	–	–	263
	–	1,627	1,406	234	3,267	36	18	3,321
	1,969	1,627	2,181	265	6,042	36	19	6,097

34. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION

(cont'd)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and the Directors of the Bank are as follows: (cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

34. CHIEF EXECUTIVE OFFICER, DIRECTORS AND SHARIAH SUPERVISORY COUNCIL MEMBERS' REMUNERATION

(cont'd)

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 Rm'000	Other Emoluments Rm'000			
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
31 December 2017					
Professor Dato' Dr. Ahmad Hidayat Buang	72	75	147	–	147
Ustaz Dr. Ahmad Shahbari @ Sobri Salamon	66	36	102	3	105
Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir (appointed on 1 April 2017)	49	10	59	–	59
Assistant Professor Dr. Uzaimah Ibrahim	66	42	108	–	108
Ustazah Dr. Yasmin Hanani Mohd Safian	66	49	115	–	115
Ustaz Dr. Muhammad Syafii Antonio (resigned on 31 March 2017)	17	24	41	–	41
	336	236	572	3	575

35. 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	
	2018 RM'000	2017 RM'000
Other key management personnel:		
- Short-term employee benefits	21,275	21,425

Number of employees categorised as key management personnel as at 31 December 2018 was 23 (2017: 23).

36. TAX EXPENSE

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysian income tax:				
Current year	231,420	191,736	231,287	191,620
Over provision in prior years	(6,818)	(6,306)	(6,756)	(6,298)
	224,602	185,430	224,531	185,322
Deferred tax expense relating to origination and reversal of temporary differences arising from:				
Current year	(22,070)	2,024	(20,527)	2,024
Under provision in prior years	175	108	175	108
	(21,895)	2,132	(20,352)	2,132
	202,707	187,562	204,179	187,454

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before tax	810,258	767,053	808,237	766,109
Income tax calculated using Malaysian tax rate of 24%	194,462	184,093	193,977	183,866
Income not subject to tax	(394)	(11,924)	(352)	(11,924)
Non-deductible expenses	4,967	9,591	5,135	9,702
	199,035	181,760	198,760	181,644
Derecognition of deferred tax assets	10,315	12,000	12,000	12,000
(Over)/Under provision in prior years				
- Income tax	(6,818)	(6,306)	(6,756)	(6,298)
- Deferred tax	175	108	175	108
	202,707	187,562	204,179	187,454

37. EARNINGS PER SHARE

Basic earnings per share are calculated based on the net profit attributable to equity holders of the Group of RM593,887,000 (2017: RM566,118,000) and the weighted average number of ordinary shares outstanding during the year of 2,478,307,000 (2017: 2,432,580,000).

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**38. DIVIDENDS**

Dividends paid by the Bank:

	Sen per share	Total amount RM'000	Date of payment
2018			
Final 2017	6.09	150,180	4 June 2018
Interim 2018	5.79	142,870	20 September 2018
		293,050	
2017			
Final 2016	5.58	134,167	15 June 2017
Interim 2017	5.41	132,310	20 September 2017
		266,477	

On 4 June 2018, the Bank paid a final dividend of approximately 6.09 sen per ordinary share totalling RM150.2 million for the financial year ended 31 December 2017. The total dividend amounting to RM150.2 million was paid wholly in cash.

From the total dividend amount paid of RM142.9 million on 20 September 2018, 100% or RM142.9 million was reinvested to subscribe for 43,960,000 new ordinary shares at RM3.25 each via the Dividend Reinvestment Plan.

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

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

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 2018 ordinary dividend	6.07	152,310

39. 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.

Group 2018	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	2,087,356	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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

39. OPERATING SEGMENTS (cont'd)

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

40. 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 available-for-sale ("AFS")
- Financial assets at fair value through other comprehensive income ("FVOCI")
- Financial assets held-to-maturity ("HTM")
- Financing, advances and receivables ("F&R")
- Other financial assets at amortised cost ("FA")
- Financial liabilities measured at amortised cost ("FL")

40. FINANCIAL RISK MANAGEMENT (cont'd)**(a) Financial instruments by categories** (cont'd)

Bank 31 December 2018	Carrying amount RM'000	FVTPL RM'000	FVOCI RM'000	Amortised cost RM'000
Financial assets				
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	126,533	–	–	126,533
Statutory deposits with Bank Negara Malaysia	1,602,284	–	–	1,602,284
	63,676,970	393,681	11,355,089	51,928,200
Financial liabilities				
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	695,714	–	–	695,714
	58,652,187	19,520	–	58,632,667

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(a) Financial instruments by categories** (cont'd)

Bank 31 December 2017	Carrying amount RM'000	F&R/(FL) RM'000	FVTPL RM'000	AFS RM'000	HTM RM'000
Financial assets					
Cash and short-term funds and deposits and placements with financial institutions	4,185,561	4,185,561	–	–	–
Financial assets held-for-trading	375,664	–	375,664	–	–
Derivative financial assets	68,319	–	68,319	–	–
Financial assets available-for-sale	9,253,140	–	–	9,253,140	–
Financial assets held-to-maturity	–	–	–	–	–
Financing, advances and others	42,113,420	42,113,420	–	–	–
Other financial assets at amortised cost	121,062	121,062	–	–	–
Statutory deposits with Bank Negara Malaysia	1,407,284	1,407,284	–	–	–
	57,524,450	47,827,327	443,983	9,253,140	–
Financial liabilities					
Deposits from customers	46,209,028	46,209,028	–	–	–
Investment accounts of customers	4,260,185	4,260,185	–	–	–
Derivative financial liabilities	74,668	–	74,668	–	–
Bills and acceptance payable	420,258	420,258	–	–	–
Subordinated Sukuk Murabahah	1,006,486	1,006,486	–	–	–
Other liabilities	773,769	773,769	–	–	–
	52,744,394	52,669,726	74,668	–	–

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

40. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk

Overview

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

Credit risk governance

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

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

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

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

Management of credit risk

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

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.

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**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	
		31.12.2018	31.12.2017
		RM'000	RM'000
Cash and short-term funds and deposits and placements with financial institutions		4,518,703	4,185,561
Financial assets at FVTPL		359,533	–
Financial assets held-for-trading		–	375,664
Derivative financial assets	(a)	34,148	68,319
Financial assets at FVOCI		11,355,089	–
Financial assets available-for-sale		–	9,253,140
Financial assets held-to-maturity		–	–
Financing, advances and others	(b)	45,680,680	42,113,420
Other financial assets at amortised cost		126,533	121,062
		62,074,686	56,117,166
Credit related obligation:			
Financial guarantee contracts	(c)	1,750,185	1,881,438
Financing commitments	(d)	8,964,336	8,059,908
		10,714,521	9,941,346
Total credit exposures		72,789,207	66,058,512

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.

(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.

40. FINANCIAL RISK MANAGEMENT (cont'd)**(b) Credit risk** (cont'd)**Maximum exposure to credit risk** (cont'd)

(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 2018, the net carrying amount of credit-impaired financing and advances to corporate and commercial customers amounted to RM219,737,000 (2017: RM181,816,000) and the value of collateral held against those financing and advances amounted to RM132,080,000 (2017: RM176,225,000).

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.

FTV ratio	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
<i>Credit-impaired financing</i>		
Less than 50%	4,562	5,532
51-70%	14,033	31,391
More than 70%	85,089	81,278
	103,684	118,201

(c) Financial guarantee contracts ("FGC")

FGCs comprise mainly of 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 of 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.

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(b) Credit risk** (cont'd)**(i) Concentration of credit risk for Group and Bank**

Group As at 31 December 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
Real estate	-	-	-	535,965	1,674,983	2,210,948	4,596	779,439
Transport, storage and communications	-	-	-	1,287,410	799,778	2,087,188	126,107	421,043
Finance, insurance and business activities	3,632,957	364,959	3,215	6,097,992	2,248,011	12,347,134	143,400	1,105,952
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	599,728	2,177,101
	4,524,654	364,959	34,148	11,354,299	45,680,680	61,958,740	1,750,185	8,964,336

* Financing commitments excluding derivative financial assets

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

* Commitments and contingencies excluding derivative financial assets

40. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(i) Concentration of credit risk for Group and Bank (cont'd)

Bank As at 31 December 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
Real estate	-	-	-	535,965	1,674,983	2,210,948	4,596	779,439
Transport, storage and communications	-	-	-	1,287,410	799,778	2,087,188	126,107	421,043
Finance, insurance and business activities	3,632,629	359,533	3,215	6,098,782	2,248,011	12,342,170	143,400	1,105,952
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	2,177,102
	4,518,703	359,533	34,148	11,355,089	45,680,680	61,948,153	1,750,186	8,964,337

* Financing commitments excluding derivative financial assets

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

* Commitments and contingencies excluding derivative financial assets

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)**(b) Credit risk** (cont'd)**(ii) Collateral**

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

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

As at 31 December 2018 and 31 December 2017, there were no assets repossessed by the Group and the Bank as a result of taking possession of collateral held as security, or by calling upon other credit enhancements.

(iii) Credit quality of gross financing and advances

The credit quality of the Group's and the Bank's gross financing are summarised as follows:

Group and Bank 31.12.2018	12-month ECL RM'000	Lifetime ECL not credit-impaired RM'000	Lifetime ECL credit-impaired RM'000	Total RM'000
Financing, advances and others				
Neither past due nor impaired ("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
	44,778,873	674,066	–	45,452,939
Past due but not impaired ("PDNI")	–	591,509	–	591,509
Impaired	–	–	425,937	425,937
	44,778,873	1,265,575	425,937	46,470,385
Allowance for impairment on financing, advances and others:				
- collective assessment	(326,702)	(125,183)	(83,722)	(535,607)
- individual assessment	–	–	(156,691)	(156,691)
	44,452,171	1,140,392	185,524	45,778,087

40. FINANCIAL RISK MANAGEMENT (cont'd)**(b) Credit risk** (cont'd)**(iii) Credit quality of gross financing and advances** (cont'd)

The credit quality of the Group's and the Bank's gross financing are summarised as follows: (cont'd)

Group and Bank 31.12.2018	12-month ECL RM'000	Lifetime ECL not credit-impaired RM'000	Lifetime ECL credit-impaired RM'000	Total RM'000
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
	8,832,618	100,846	–	8,933,464
PDNI	–	10,520	–	10,520
Impaired	–	–	20,352	20,352
	8,832,618	111,366	20,352	8,964,336
Allowance for impairment on financing, advances and others				
- collective assessment	(54,238)	(3,177)	(3,440)	(60,855)
	8,778,380	108,189	16,912	8,903,481
Financial guarantee contracts				
NPDNI				
- Excellent	1,692,780	3,138	–	1,695,918
- Satisfactory	49,235	3,262	–	52,497
- Fair	–	–	–	–
	1,742,015	6,400	–	1,748,415
PDNI	–	942	–	942
Impaired	–	–	828	828
	1,742,015	7,342	828	1,750,185
Allowance for impairment on financing, advances and others				
- collective assessment	(35,510)	(1,042)	–	(36,552)
	1,706,505	6,300	828	1,713,633

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(iii) Credit quality of gross financing and advances (cont'd)

The credit quality of the Group's and the Bank's gross financing are summarised as follows: (cont'd)

Group and Bank 31.12.2017	Consumer RM'000	Business RM'000	Total RM'000
NPDNI	31,276,065	10,460,497	41,736,562
<i>Excellent to good</i>	26,212,600	8,931,557	35,144,157
<i>Satisfactory</i>	4,564,174	1,528,175	6,092,349
<i>Fair</i>	499,291	765	500,056
PDNI	362,240	188,857	551,097
Impaired	216,461	181,816	398,277
	31,854,766	10,831,170	42,685,936
Allowance for impairment on financing, advances and others			
- collective assessment allowance			(446,069)
- individual assessment allowance			(126,447)
			42,113,420

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 gross financing and advances:-

- **Neither past due nor impaired financing**

Financing for which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired and there is no objective evidence of impairment.

- **Past due but not impaired financing**

Financing for which its contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank.

- **Impaired financing**

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

40. FINANCIAL RISK MANAGEMENT (cont'd)**(b) Credit risk** (cont'd)**(iii) Credit quality of gross financing and advances** (cont'd)***Past due but not impaired financing***

	Group and Bank			
	31.12.2018	% to gross financing	31.12.2017	% to gross financing
	RM'000		RM'000	
By ageing				
<i>Month-in-arrears 1</i>	357,420	0.77	362,240	0.85
<i>Month-in-arrears 2</i>	234,089	0.50	188,857	0.44
	591,509	1.27	551,097	1.29

Impaired financing

	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
Individually assessed	251,694	217,209
<i>of which:</i>		
<i>Month-in-arrears 0</i>	21,789	20,060
<i>Month-in-arrears 1</i>	6,433	69,204
<i>Month-in-arrears 2</i>	5,247	3,317
<i>Month-in-arrears 3 and above</i>	218,225	124,628
Collectively assessed	174,243	181,068
	425,937	398,277

Impaired financing of which rescheduled and restructured financing

	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
Consumer	16,855	21,264
Business	6,859	8,117
	23,714	29,381

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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(iii) Credit quality of gross financing and advances (cont'd)

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 ("KLCI")	1,650.0	1,850.0	1,750.0	1,950.0	1,542.5	1,742.5
House Price Index ("HPI")	2.3%	1.8%	5.8%	5.3%	-1.2%	-0.2%
Consumer Price Index ("CPI")	2.4%	2.7%	1.9%	2.2%	3.4%	3.7%
Unemployment Rate	3.3%	3.3%	3.0%	3.0%	3.6%	3.7%
Industrial Production Index ("IPI")	3.3	2.2	6.0	4.9	(2.1)	(0.7)

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.

(iv) Credit quality of other financial assets

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

Bank As at 31 December 2018	12-month ECL RM'000	Lifetime ECL credit-impaired RM'000	Total RM'000
Financial assets at FVOCI			
Debt investment securities			
Government bonds and treasury bills	2,630,367	–	2,630,367
Sukuk			
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
Other unrated financial assets	–	–	–
	11,298,781	20,000	11,318,781

40. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Credit risk (cont'd)

(iv) Credit quality of other financial assets (cont'd)

Credit quality of other financial assets by external rating is as follows: (cont'd)

Bank As at 31 December 2018	12-month ECL RM'000	Lifetime ECL credit-impaired RM'000	Total RM'000
Financial assets at FVOCI			
Equity investment			
Other unrated financial assets			36,308
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 unrated financial assets			214,382
			359,533

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(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 market rate of return, either due to general market movements or due to issuer/customer specific reasons;
- **Foreign Exchange Risk:** the impact of exchange rate movements on the Bank's currency positions; and
- **Equity Investment Risk:** the profitability impact on the Bank's equity positions or investments caused by changes in equity prices or values.

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

Market risk governance

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

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

Management of market risk

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

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

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

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

40. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk (cont'd)

(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 As at 31 December 2018	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
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	41,478,399	497,224	66,576	1,308,965	2,693,284	-	-	46,044,448	5.81
- impaired net of allowances*	-	-	-	-	-	(363,768)	-	(363,768)	
Other financial assets at amortised cost	-	-	-	-	-	1,979,993	-	1,979,993	
Total assets	45,611,541	813,613	785,657	7,105,577	6,715,316	2,507,922	399,107	63,938,733	

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk (cont'd)

(i) Profit rate risk (cont'd)

Group As at 31 December 2018	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
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	-	-	-	-	-	719,820	-	719,820	
Total liabilities	10,548,778	10,678,377	10,467,290	8,415,163	-	18,533,198	19,520	58,662,326	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	5,276,407	-	5,276,407	
Total equity	-	-	-	-	-	5,276,407	-	5,276,407	
Total liabilities and shareholders' equity	10,548,778	10,678,377	10,467,290	8,415,163	-	23,809,605	19,520	63,938,733	
On-balance sheet profit sensitivity gap	35,062,763	(9,864,764)	(9,681,633)	(1,309,586)	6,715,316	(21,301,683)	379,587	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	(400,000)	-	-	-	-	-	
Total profit sensitivity gap	35,162,763	(9,564,764)	(10,081,633)	(1,309,586)	6,715,316	(21,301,683)	379,587	-	

40. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk (cont'd)

(i) Profit rate risk (cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

Group As at 31 December 2017	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000			
Liabilities									
Deposits from customers	8,164,490	13,367,794	7,370,928	1,714,677	-	15,575,021	-	46,192,910	2.54
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258	
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	-	-	-	
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43
Other liabilities	-	-	-	-	-	828,703	-	828,703	
Total liabilities	9,006,635	14,575,261	7,753,492	2,714,677	-	18,658,477	74,668	52,783,210	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,704	-	4,959,704	
Total equity	-	-	-	-	-	4,959,704	-	4,959,704	
Total liabilities and shareholders' equity	9,006,635	14,575,261	7,753,492	2,714,677	-	23,618,181	74,668	57,742,914	
On-balance sheet profit sensitivity gap	31,667,621	(13,868,957)	(6,946,959)	3,900,890	6,001,602	(21,128,773)	374,576	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-	
Total profit sensitivity gap	31,767,621	(13,568,957)	(6,946,959)	3,500,890	6,001,602	(21,128,773)	374,576	-	

40. FINANCIAL RISK MANAGEMENT (cont'd)

(c) Market risk (cont'd)

(i) Profit rate risk (cont'd)

Bank As at 31 December 2018	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
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	41,478,399	497,224	66,576	1,308,965	2,693,284	-	-	46,044,448	5.81
- impaired net of allowances*	-	-	-	-	-	(363,768)	-	(363,768)	
Other financial assets at amortised cost	-	-	-	-	-	1,990,740	-	1,990,740	
Total assets	45,612,331	813,613	785,329	7,105,577	6,715,316	2,513,046	393,681	63,938,893	

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

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

Bank As at 31 December 2018	Non-trading book					Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000						
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	
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-	
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	-	-	-	-	-	709,253	-	709,253		
Total liabilities	10,549,842	10,680,105	10,470,384	8,415,874	-	18,530,001	19,520	58,665,726		
Equity										
Equity attributable to equity holders of the Bank	-	-	-	-	-	5,273,167	-	5,273,167		
Total equity	-	-	-	-	-	5,273,167	-	5,273,167		
Total liabilities and shareholders' equity	10,549,842	10,680,105	10,470,384	8,415,874	-	23,803,168	19,520	63,938,893		
On-balance sheet profit sensitivity gap	35,062,489	(9,866,492)	(9,685,055)	(1,310,297)	6,715,316	(21,290,122)	374,161	-		
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	(400,000)	-	-	-	-	-		
Total profit sensitivity gap	35,162,489	(9,566,492)	(10,085,055)	(1,310,297)	6,715,316	(21,290,122)	374,161	-		

40. FINANCIAL RISK MANAGEMENT (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)

Bank As at 31 December 2017	Non-trading book					Non- profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
Liabilities									
Deposits from customers	8,166,979	13,370,765	7,372,170	1,714,677	-	15,584,437	-	46,209,028	2.54
Investment accounts of customers	711,299	1,171,831	382,564	-	-	1,994,491	-	4,260,185	1.01
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	8.03
Derivative financial liabilities	-	-	-	-	-	-	74,668	74,668	1.95
Bills and acceptance payable	130,846	35,636	-	-	-	253,776	-	420,258	
Subordinated Sukuk Murabahah	-	-	-	1,000,000	-	6,486	-	1,006,486	5.43
Other liabilities	-	-	-	-	-	820,109	-	820,109	
Total liabilities	9,009,124	14,578,232	7,754,734	2,714,677	-	18,659,299	74,668	52,790,734	
Equity									
Equity attributable to equity holders of the Bank	-	-	-	-	-	4,959,506	-	4,959,506	
Total equity	-	-	-	-	-	4,959,506	-	4,959,506	
Total liabilities and shareholders' equity	9,009,124	14,578,232	7,754,734	2,714,677	-	23,618,805	74,668	57,750,240	
On-balance sheet profit sensitivity gap	31,665,589	(13,871,928)	(6,948,201)	3,900,890	6,001,602	(21,117,267)	369,315	-	
Off-balance sheet profit sensitivity gap (profit rate swaps)	100,000	300,000	-	(400,000)	-	-	-	-	
Total profit sensitivity gap	31,765,589	(13,571,928)	(6,948,201)	3,500,890	6,001,602	(21,117,267)	369,315	-	

40. FINANCIAL RISK MANAGEMENT (cont'd)**(c) Market risk** (cont'd)**(i) Profit rate risk** (cont'd)**Profit rate risk in the non-trading portfolio**

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

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

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

	2018		2017	
	-100bps	+100bps	-100bps	+100bps
	Increase/(Decrease)			
Bank	RM million	RM million	RM million	RM million
Impact on EaR	(129.46)	129.46	(85.41)	85.41
Impact on EVE	133.41	(133.41)	168.00	(168.00)

Another control to manage the profit rate risk in the non-trading portfolio includes present value of 1 basis point change ("PV01") which measures the portfolio's sensitivity to market rates movement.

(ii) Market risk in the Trading Portfolio

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)**(c) Market risk** (cont'd)**(ii) Market risk in the trading portfolio** (cont'd)

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

Bank	As at	1.1.2018 to 31.12.2018		
	31.12.2018	Average	Maximum	Minimum
	RM million	RM million	RM million	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

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

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

(iii) Foreign exchange risk

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

Sensitivity Analysis

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

Group and Bank	2018		2017	
	-1% Depreciation	+1% Appreciation	-1% Depreciation	+1% Appreciation
	RM'000	RM'000	RM'000	RM'00
US Dollar	11,830	(11,830)	9,331	(9,331)
Euro	4,938	(4,938)	5,197	(5,197)
Others	(112)	112	826	(826)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Liquidity risk

Overview

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

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

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

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

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

The 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 triggers are set to meet the following objectives:

- Maintaining sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Ensuring that cash flows are relatively diversified across all maturities;
- Ensuring that the deposit base is not overly concentrated to a relatively small number of depositors;
- Maintaining sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up;
- 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. 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 approved and documented liquidity contingency management plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications to the Bank.

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**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 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
Securities portfolio	–	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 assets	–	–	–	–	–	1,979,993	1,979,993
Total assets	891,697	5,685,363	2,673,598	753,986	1,044,021	52,890,068	63,938,733
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
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	1,123	6,219	9,413	2,316	449	19,520
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	–	–	–	–	–	760,934	760,934
Total liabilities	17,762,443	10,549,901	10,684,596	6,292,687	4,196,154	9,176,545	58,662,326
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	5,276,407	5,276,407
Net liquidity gap on statement of financial position	(16,870,746)	(4,864,538)	(8,010,998)	(5,538,701)	(3,152,133)	38,437,116	–
Commitments and contingencies	–	3,012,887	2,161,831	2,083,943	4,012,304	2,891,390	14,162,355
Net liquidity gap	(16,870,746)	(7,877,425)	(10,172,829)	(7,622,644)	(7,164,437)	35,545,726	(14,162,355)

40. FINANCIAL RISK MANAGEMENT (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis** (cont'd)

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

Group As at 31 December 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
Assets							
Cash and short-term funds and deposits and placements with financial institutions	921,777	3,263,920	–	–	–	–	4,185,697
Securities portfolio	–	215,221	147,227	351,798	381,008	8,538,354	9,633,608
Derivative financial assets	–	1,658	31,572	15,940	14,657	4,492	68,319
Financing, advances and others	–	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	–	–	–	–	–	1,741,870	1,741,870
Total assets	921,777	4,756,403	2,311,343	797,995	848,680	48,106,716	57,742,914
Liabilities							
Deposits from customers	15,575,021	8,164,490	13,367,794	5,377,330	1,993,598	1,714,677	46,192,910
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	–	4,260,185
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	3,958	29,334	27,218	12,257	1,901	74,668
Recourse obligations on financing sold to Cagamas	–	–	–	–	–	–	–
Subordinated Sukuk Murabahah	–	–	–	–	6,486	1,000,000	1,006,486
Other liabilities	–	130,846	35,636	–	–	1,082,479	1,248,961
Total liabilities	17,569,512	9,010,593	14,604,595	5,784,103	2,015,350	3,799,057	52,783,210
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,959,704	4,959,704
Net liquidity gap on statement of financial position	(16,647,735)	(4,254,190)	(12,293,252)	(4,986,108)	(1,166,670)	39,347,955	–
Commitments and contingencies	–	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
Net liquidity gap	(16,647,735)	(7,441,806)	(14,234,611)	(6,512,148)	(4,437,302)	35,505,440	(13,768,162)

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis** (cont'd)

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

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
Securities portfolio	–	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 assets	–	–	–	–	–	1,990,740	1,990,740
Total assets	886,074	5,680,727	2,673,598	753,658	1,044,021	52,900,815	63,938,893
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
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	1,123	6,219	9,413	2,316	449	19,520
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	–	–	–	–	–	750,367	750,367
Total liabilities	17,769,813	10,550,965	10,686,324	6,295,466	4,196,469	9,166,689	58,665,726
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	5,273,167	5,273,167
Net liquidity gap on statement of financial position	(16,883,739)	(4,870,238)	(8,012,726)	(5,541,808)	(3,152,448)	38,460,959	–
Commitments and contingencies	–	3,012,887	2,161,831	2,083,943	4,012,304	2,891,390	14,162,355
Net liquidity gap	(16,883,739)	(7,883,125)	(10,174,557)	(7,625,751)	(7,164,752)	35,569,569	(14,162,355)

40. FINANCIAL RISK MANAGEMENT (cont'd)**(d) Liquidity risk** (cont'd)**Maturity analysis** (cont'd)

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

Bank As at 31 December 2017	On demand RM'000	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	Over 1 year RM'000	Total RM'000
Assets							
Cash and short-term funds and deposits and placements with financial institutions	921,641	3,263,920	–	–	–	–	4,185,561
Securities portfolio	–	210,417	147,227	351,798	381,008	8,538,354	9,628,804
Derivative financial assets	–	1,658	31,572	15,940	14,657	4,492	68,319
Financing, advances and others	–	1,275,604	2,132,544	430,257	453,015	37,822,000	42,113,420
Other assets	–	–	–	–	–	1,754,136	1,754,136
Total assets	921,641	4,751,599	2,311,343	797,995	848,680	48,118,982	57,750,240
Liabilities							
Deposits from customers	15,584,437	8,166,979	13,370,765	5,377,859	1,994,311	1,714,677	46,209,028
Investment accounts of customers	1,994,491	711,299	1,171,831	379,555	3,009	–	4,260,185
Deposits and placements of banks and other financial institutions	–	–	–	–	–	–	–
Derivative financial liabilities	–	3,958	29,334	27,218	12,257	1,901	74,668
Recourse obligations on financing sold to Cagamas	–	–	–	–	–	–	–
Subordinated Sukuk Murabahah	–	–	–	–	6,486	1,000,000	1,006,486
Other liabilities	–	130,846	35,636	–	–	1,073,885	1,240,367
Total liabilities	17,578,928	9,013,082	14,607,566	5,784,632	2,016,063	3,790,463	52,790,734
Equity							
Equity attributable to equity holders of the Bank	–	–	–	–	–	4,959,506	4,959,506
Net liquidity gap on statement of financial position	(16,657,287)	(4,261,483)	(12,296,223)	(4,986,637)	(1,167,383)	39,369,013	–
Commitments and contingencies	–	3,187,616	1,941,359	1,526,040	3,270,632	3,842,515	13,768,162
Net liquidity gap	(16,657,287)	(7,449,099)	(14,237,582)	(6,512,677)	(4,438,015)	35,526,498	(13,768,162)

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**40. FINANCIAL RISK MANAGEMENT** (cont'd)**(d) Liquidity risk** (cont'd)**Contractual maturity of financial liabilities on an undiscounted basis**

The table below presents 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 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.

40. FINANCIAL RISK MANAGEMENT (cont'd)**(d) Liquidity risk** (cont'd)**Contractual maturity of financial liabilities on an undiscounted basis** (cont'd)

The table below presents 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. (cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

40. FINANCIAL RISK MANAGEMENT (cont'd)

(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.

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

41. 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, FVOCI, held-for-trading, available-for-sale and held-to-maturity

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

Financing, advances and others

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

Deposits from customers and investment accounts of customers

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

Deposits and placements of banks and other financial institutions

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

Bills and acceptance payable

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

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.

Group 31 December 2018 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets at fair value through profit or loss	–	364,959	–	364,959	–	364,959	364,959
Derivative financial assets	–	34,148	–	34,148	–	34,148	34,148
Financial assets at fair value through other comprehensive income	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

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**Fair value hierarchy** (cont'd)

Group 31 December 2017 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets held-for-trading	–	380,925	–	380,925	–	380,925	380,925
Derivative financial assets	–	68,319	–	68,319	–	68,319	68,319
Financial assets available-for-sale	17,612	9,229,771	–	9,247,383	5,300	9,252,683	9,252,683
Financial assets held-to-maturity	–	–	–	–	–	–	–
Financing, advances and others	–	–	–	–	42,299,796	42,299,796	42,113,420
Financial liabilities							
Derivative financial liabilities	–	74,668	–	74,668	–	74,668	74,668
Recourse obligations on financing sold to Cagamas	–	–	–	–	–	–	–
Subordinated Sukuk Murabahah	–	–	–	–	1,050,750	1,050,750	1,006,486
Bank 31 December 2018 RM'000							
Fair value of financial instruments carried at fair value				Total	Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
Level 1	Level 2	Level 3					
Financial assets							
Financial assets at fair value through profit or loss	–	359,533	–	359,533	–	359,533	359,533
Derivative financial assets	–	34,148	–	34,148	–	34,148	34,148
Financial assets at fair value through other comprehensive income	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

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**41. FAIR VALUE OF FINANCIAL INSTRUMENTS** (cont'd)**Fair value hierarchy** (cont'd)

Bank 31 December 2017 RM'000	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value Level 3	Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total			
Financial assets							
Financial assets held-for-trading	–	375,664	–	375,664	–	375,664	375,664
Derivative financial assets	–	68,319	–	68,319	–	68,319	68,319
Financial assets available-for-sale	17,612	9,230,228	–	9,247,840	5,300	9,253,140	9,253,140
Financial assets held-to-maturity	–	–	–	–	–	–	–
Financing, advances and others	–	–	–	–	42,299,796	42,299,796	42,113,420
Financial liabilities							
Derivative financial liabilities	–	74,668	–	74,668	–	74,668	74,668
Recourse obligations on financing sold to Cagamas	–	–	–	–	–	–	–
Subordinated Sukuk Murabahah	–	–	–	–	1,050,750	1,050,750	1,006,486

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/available-for-sale	Valued at cost less impairment	Not applicable	Not applicable

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**(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.

42. LEASE COMMITMENTS

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

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Within one year	17,333	17,333
Between one and five years	95,351	92,475
More than five years	268,624	288,833
	381,308	398,641

The lease commitment above represents lease rentals with the ultimate holding entity.

43. CAPITAL COMMITMENTS

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Property and equipment		
Contracted but not provided for in the financial statements	98,094	88,459

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

44. COMMITMENTS AND CONTINGENCIES

The off-balance sheet and counterparties credit risk for the Group and the Bank are as follows:

31 December 2018	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Nature of item			
Credit related exposures			
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:			
- not exceeding one year	-	-	-
- 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 Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000
	Principal Amount RM'000		Risk Weighted Asset RM'000
Derivative Financial Instruments			
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	162
- one year to less than five years	-	-	-
- five years and above	178,379	1,787	6,419
	3,447,834	34,148	76,913
Total	14,162,355	34,148	1,935,703

44. COMMITMENTS AND CONTINGENCIES (cont'd)

The off-balance sheet and counterparties credit risk for the Group and the Bank are as follows: (cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

45. 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 2 March 2017. The Bank is required to meet minimum Common Equity Tier I (“CET I”), Tier I and Total Capital adequacy ratios of 4.5%, 6.0% and 8.0% respectively in 2018. To ensure that banks build up adequate capital buffer outside period of stress, a Capital Conservation Buffer (“CCB”) of 2.5% above the minimum capital adequacy was introduced by BNM. The CCB is maintained in the form of CET I capital at 1.875% on 1 January 2018 and increases by 0.625% to reach 2.5% on 1 January 2019.

As a result, the minimum regulatory capital adequacy ratios requirement for CET I capital ratio, Tier I capital ratio and Total Capital ratio are 6.375%, 7.875% and 9.875% respectively for year 2018 (2017: 5.750%, 7.250% and 9.250%). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

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

	Group		Bank	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Common Equity Tier I (“CET I”) Capital Ratio	13.317%	12.729%	13.287%	12.701%
Total Capital Ratio	17.767%	16.435%	17.741%	16.411%

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Paid-up share capital	3,012,368	2,869,498	3,012,368	2,869,498
Retained earnings	2,362,476	2,150,402	2,359,060	2,150,345
Other reserves	(98,437)	(60,196)	(98,261)	(60,337)
Less:				
Deferred tax assets	(51,385)	(37,288)	(49,842)	(37,288)
Gain on financial instruments classified as fair value through other comprehensive income	(1,446)	–	(1,446)	–
Regulatory reserve	(10,000)	(64,645)	(10,000)	(64,645)
Investment in subsidiaries	–	–	(15,525)	(15,525)
Total CET I and Tier I Capital	5,213,576	4,857,771	5,196,354	4,842,048
Sukuk Murabahah	1,300,000	1,000,000	1,300,000	1,000,000
Collective assessment allowance and regulatory reserve [^]	441,938	414,193	441,788	414,193
Total Tier II Capital	1,741,938	1,414,193	1,741,788	1,414,193
Total Capital	6,955,514	6,271,964	6,938,142	6,256,241

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

45. CAPITAL ADEQUACY (cont'd)

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

	Group		Bank	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Credit risk	38,963,775	37,442,256	38,951,812	37,437,855
Less: Credit risk absorbed by unrestricted investment accounts	(3,608,741)	(3,034,004)	(3,608,741)	(3,034,004)
	35,355,034	34,408,252	35,343,071	34,403,851
Market risk	422,763	602,089	422,763	586,043
Operational risk	3,370,712	3,152,951	3,342,947	3,132,745
	39,148,509	38,163,292	39,108,781	38,122,639

46. 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 15), holding company and substantial shareholders of the holding company.

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

	Group		Bank	
	Transaction amounts for 2018 RM'000	2017 RM'000	Transaction amounts for 2018 RM'000	2017 RM'000
<i>Ultimate holding entity</i>				
<i>Income</i>				
Wakalah fee	485	2,595	485	2,595
Office rental	74	78	74	78
Fees and commission	17	156	17	156
<i>Expenses</i>				
Income attributable to depositors	76,230	21,170	76,230	21,170
Finance cost on Subordinated Sukuk Murabahah	5,750	5,750	5,750	5,750
Office rental	24,785	23,947	24,785	23,947
Other rental	450	415	450	415
<i>Holding company</i>				
<i>Income</i>				
Office rental	964	1,009	964	1,009
Others	158	200	158	200
<i>Expenses</i>				
Income attributable to depositors	11	7	11	7
Income attributable to investment account holders	13,486	8,294	13,486	8,294

NOTES TO THE FINANCIAL STATEMENTSfor the financial year ended 31 December 2018
(cont'd)**46. RELATED PARTY TRANSACTIONS** (cont'd)

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

	Group		Bank	
	Transaction amounts for 2018 RM'000	2017 RM'000	Transaction amounts for 2018 RM'000	2017 RM'000
<i>Subsidiaries</i>				
<i>Income</i>				
Fees and commission	–	–	6,547	6,725
Office rental	–	–	356	363
Others	–	–	106	168
<i>Expenses</i>				
Fees and commission	–	–	6,937	4,140
Income attributable to depositors	–	–	267	239
<i>Other related companies</i>				
<i>Income</i>				
Income from financing, advances and others	209	101	209	101
Fees and commission income	106	204	106	204
Bancatakaful service fee	27,555	24,592	27,555	24,592
Others	2,748	81	2,745	81
<i>Expenses</i>				
Income attributable to depositors	13,805	13,787	13,805	13,787
Income attributable to investment account holders	1,646	1,559	1,646	1,559
Finance cost on Subordinated Sukuk Murabahah	2,750	2,750	2,750	2,750
Office rental	3,486	3,272	3,486	3,272
Other rental	24	42	24	42
Takaful fee	7,207	6,093	7,207	6,063
<i>Co-operative society in which the employees have interest</i>				
<i>Income</i>				
Income from financing, advances and others	2,373	2,379	2,373	2,379
<i>Expenses</i>				
Income attributable to depositors	4	6	4	6
Other rental	47	463	47	463
Others	179	193	179	193

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

46. RELATED PARTY TRANSACTIONS (cont'd)

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

	Group Net balance outstanding as at		Bank Net balance outstanding as at	
	31.12.2018 RM'000	31.12.2017 RM'000	31.12.2018 RM'000	31.12.2017 RM'000
Ultimate holding entity				
Amount due from				
Other receivables	10	17	10	17
Amount due to				
Deposits from customers	4,020,634	1,505,971	4,020,634	1,505,971
Income payable to depositors	18,104	873	18,104	873
Subordinated Sukuk Murabahah	100,000	100,000	100,000	100,000
Finance cost payable on Subordinated Sukuk Murabahah	1,118	1,118	1,118	1,118
Commitments and contingencies	2,576	2,380	2,576	2,380
Other payables	17	14	17	14
Holding company				
Amount due from				
Other receivables	30	161	30	161
Amount due to				
Deposits from customers	189	414	189	414
Investment account of customers	88,280	240,656	88,280	240,656
Income payable to investment account holders	464	1,160	464	1,160
Other payables	157	219	157	219
Subsidiaries				
Amount due from				
Redeemable non-cumulative preference shares	-	-	2,344	2,011
Others	-	-	297	843
Amount due to				
Deposits from customers	-	-	12,542	12,247
Income payable to depositors	-	-	72	47
Other payables	-	-	10	10

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018
(cont'd)

46. RELATED PARTY TRANSACTIONS (cont'd)

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

	Group		Bank	
	Net balance outstanding as at		Net balance outstanding as at	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Other related companies				
Amount due from				
Financing, advances and others	6,895	782	6,895	782
Other receivables	46	76	46	76
Amount due to				
Deposits from customers	631,207	552,419	631,207	552,419
Investment account of customers	83,786	50,185	83,786	50,185
Income payable to depositors	1,861	1,722	1,861	1,722
Income payable to investment account holders	25	19	25	19
Subordinated Sukuk Murabahah	50,000	50,000	50,000	50,000
Finance cost payable on Subordinated Sukuk Murabahah	121	136	121	136
Commitments and contingencies	11,647	8,152	11,647	8,152
Co-operative society in which the employees have interest				
Amount due from				
Financing, advances and others	42,946	39,351	42,946	39,351
Amount due to				
Deposits from customers	3,000	87	3,000	87
Income payable to depositors	1	–	1	–

47. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Outstanding credit exposures with connected parties	1,490,169	1,243,758
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	3.21%	2.91%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0.001%	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.

48. SUBSEQUENT EVENT

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

PILLAR 3 DISCLOSURE

as at 31 December 2018

OVERVIEW

The Pillar 3 Disclosure for financial year ended 31 December 2018 for Bank Islam Malaysia Berhad (“the Bank”) and its subsidiaries (“the Group”) is governed by Bank Negara Malaysia’s (“BNM”) “Capital Adequacy Framework for Islamic Banks (“CAFIB”) – Disclosure Requirements (“Pillar 3”)”.

The Group adopts the following approaches in determining the capital requirements of Pillar 1 in accordance to BNM’s Guidelines on CAFIB (Basel II – Risk Weighted Assets) since January 2008:

- Credit and Market Risk – the Standardised Approach (“SA”); and
- Operational Risk – the Basic Indicator Approach (“BIA”).

Under the Standardised Approach, standard risk weights are used to assess the capital requirements whilst under the Basic Indicator Approach, the capital requirements are computed based on a fixed percentage over the Group’s average gross income for a fixed number of quarterly periods.

As required under Pillar 2, the Group has also developed an Internal Capital Adequacy Assessment Process (“ICAAP”) framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group’s current and projected demand for capital under expected and stressed conditions. The ICAAP was adopted in 2012 and has been fully implemented in 2013. The ICAAP is updated and approved on an annual basis by the Management Committee, Board Risk Committee (“BRC”) and Board of Directors (“Board”).

BASIS OF DISCLOSURE

The Pillar 3 Disclosure is prepared in accordance to the BNM’s Pillar 3 Disclosure Guidelines issued in July 2010 and the Group’s internal policy on Pillar 3 Disclosure; aim to enhance transparency on the risk management practices and capital adequacy of the Bank and the Group. The disclosures include both qualitative and quantitative disclosures with respect to capital adequacy, credit risk, market risk, liquidity risk, operational risk, management of Investment Account (IA) and key aspects of Shariah governance.

Whilst this document discloses the Group’s assets both in terms of exposures and capital requirements, the information discloses herein may not be directly comparable with the information in the Full-Year Financial Statements 2018 published by the Group.

These disclosures have been reviewed and verified by the Group Internal Auditor and attested by the Chief Executive Officer.

MEDIUM AND LOCATION OF DISCLOSURE

In compliance with BNM and the Group’s Pillar 3 Disclosure requirements, the Pillar 3 Disclosure for the Group is being regularly prepared for two periods: 30 June and 31 December. The Group’s Pillar 3 Disclosure is made available under the Corporate Info section of the Bank’s website at www.bankislam.com.my, attached to its annual and the half-yearly financial reports after the notes to the financial statements.

MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Group’s main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group’s and the Bank’s risk weighted assets.

Group	31.12.2018		31.12.2017	
	Risk Weighted Assets RM’000	Minimum Capital Requirement at 8% RM’000	Risk Weighted Assets RM’000	Minimum Capital Requirement at 8% RM’000
Credit Risk	38,963,775	3,117,102	37,442,256	2,995,380
Less: Credit Risk absorbed by IA	(3,608,741)	(288,699)	(3,034,004)	(242,720)
Market Risk	422,763	33,821	602,089	48,167
Operational Risk	3,370,712	269,657	3,152,951	252,236
Total	39,148,509	3,131,881	38,163,292	3,053,063

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

MINIMUM REGULATORY CAPITAL REQUIREMENTS (cont'd)

The Group's main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group's and the Bank's risk weighted assets. (cont'd)

Bank	31.12.2018		31.12.2017	
	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk	38,951,812	3,116,145	37,437,855	2,995,028
Less: Credit Risk absorbed by IA	(3,608,741)	(288,699)	(3,034,004)	(242,720)
Market Risk	422,763	33,821	586,043	46,883
Operational Risk	3,342,947	267,436	3,132,745	250,620
Total	39,108,781	3,128,703	38,122,639	3,049,811

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's CAFIB.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank (including the offshore banking operations in the Federal Territory of Labuan) and its subsidiaries.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

2. CAPITAL ADEQUACY**2.1 Capital Management**

The Group's primary objective when managing capital is to maintain a strong capital position to support business growth and to maintain investors, depositors, customers and market confidence. In line with this, the Group manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Group, are above the regulatory minimum requirement.

To ensure that the Group has sufficient capital to support all its business and risk taking activities, the Group has implemented a sound capital management process in its management systems and processes. A comprehensive capital management framework has been adopted by the Group as a key enabler for value creation which is important to the long term survival of the Group. This comprehensive capital management process includes thorough risk assessment and risk management techniques that are embedded within the Group's risk governance.

2. CAPITAL ADEQUACY (cont'd)

2.1 Capital Management (cont'd)

The assessment is based on the approved business plan, its estimation of current risks inherent in the Group and the impact of capital stress tests on the Group's capital plan. The Group aims to achieve the following capital management objectives:

- Meeting regulatory capital requirements;
- Ensuring sustainable returns to shareholders;
- Maintaining adequate levels and an optimum mix of different sources of capital to support the underlying risks of its business;
- Ensuring adequate capital to withstand shocks and stress;
- Ensuring sufficient capital to expand its business ventures and inorganic growth; and
- Allocating an appropriate amount of capital to business units to optimise return on capital.

The Group's capital management is guided by the Capital Management Plan, approved by the Board, to ensure the management of capital is consistent and aligned with the Group's Risk Appetite Statement and ICAAP Document Policy.

The Group's capital management processes comprise:

- Capital Structuring – ensuring that the amount of regulatory and statutory capital available is consistent with the Group's growth plan, risk appetite, and desired level of capital adequacy. Capital structuring focuses on selecting appropriate, most cost-effective mix of capital instruments;
- Capital Allocation – ensuring that the capital is employed efficiently across the Group based on risk-adjusted return on capital; and
- Capital Optimisation – seeking an optimal level of capital by facilitating the optimisation of the risk profile of the balance sheet. This will be done through:
 - reshaping of the balance sheet;
 - capital planning, allocation and optimisation; and
 - a sound management of the capital buffer.

As such, the four fundamental components of a sound capital planning process include:

- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view; and
- Management framework for preserving capital.

The Group's Capital Management Plan is updated annually and approved by the Board for implementation at the beginning of each financial year. The capital plan is drawn up to cover at least a three year horizon and takes into account, amongst others, the Group's strategic objectives and business plans, regulatory capital requirements, capital benchmarking against the industry, available supply of capital and capital raising options, performance of business sectors based on a Risk Adjusted Return on Capital ("RAROC") approach as well as ICAAP and stress testing results.

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

2. CAPITAL ADEQUACY (cont'd)

2.1 Capital Management (cont'd)

The Group has fully issued Subordinated Sukuk Murabahah under its Subordinated Sukuk Murabahah Programme of up to RM1.0 Billion in nominal value ("Subordinated Sukuk Murabahah Programme") which was approved by the Securities Commission Malaysia ("SC") on 7 October 2014. On 6 September 2018, the Group successfully lodged with SC under Lodge and Launch Framework a new Sukuk Murabahah Programme of up to RM10.0 billion in nominal value, which allows issuances of Subordinated Sukuk Murabahah and Senior Sukuk Murabahah. The 1st tranche of RM300 million Subordinated Sukuk Murabahah under this programme was issued on 7 November 2018. The purpose of the Subordinated Sukuk Murabahah issuance under both programmes is to enhance the capital adequacy of the Group in line with the requirements under the Basel III capital framework. The Subordinated Sukuk Murabahah under both programmes shall qualify as Tier 2 regulatory capital of the Bank and the Group.

Capital Instrument	Capital Component	Main Features
1) Subordinated Sukuk Murabahah Programme of up to RM1.0 Billion (Programme 1)		
a) Tranche 1: RM300million at 5.75% <ul style="list-style-type: none"> Issued on 22 April 2015 Mature on 22 April 2025 	Tier 2 Capital	<ul style="list-style-type: none"> The tenure of both programmes are as follows: <ol style="list-style-type: none"> Programme 1 – up to (30) years from the date of the first issue under the Subordinated Sukuk Murabahah Programme. Programme 2 – perpetual The tenure of each issuance of the Subordinated Sukuk Murabahah under both programmes are as follows: <ol style="list-style-type: none"> Programme 1 – shall be not less than five (5) years and up to thirty (30) years from the issue date and provided that the Subordinated Sukuk Murabahah mature on or prior to the expiry of the tenure of the Subordinated Sukuk Murabahah Programme. Programme 2 – shall be not less than (5) years from the issue date. Each of the Subordinated Sukuk Murabahah may have a call option to allow the Bank to redeem the relevant tranche of the Subordinated Sukuk Murabahah (in whole or in part) on any periodic profit payment date after a minimum period of (5) years from the issue date of that tranche, subject to the relevant early redemption conditions being satisfied. Unsecured. Subordinated Sukuk Murabahah shall be utilised to finance the Bank's Islamic banking activities, working capital requirements and other corporate purposes and/or, if required, to redeem any outstanding Sukuk Murabahah issued under both programmes. All utilisation shall be Shariah Compliant.
b) Tranche 2: RM400million at 5.50% <ul style="list-style-type: none"> Issued on 15 December 2015 Mature on 15 December 2025 		
c) Tranche 3: RM300million at 5.08% <ul style="list-style-type: none"> Issued on 13 November 2017 Mature on 12 November 2027 		
2) Sukuk Murabahah Programme of up to RM10.0 Billion (Programme 2)		
a) Tranche 1: RM300million at 5.15% <ul style="list-style-type: none"> Type: Subordinated Sukuk Murabahah Issued on 07 November 2018 Mature on 07 November 2028 	Tier 2 Capital	<ul style="list-style-type: none"> Upon the occurrence of a Non-Viability Event, BNM, jointly with PIDM, shall have the option to require the entire or part of the nominal value of the outstanding Subordinated Sukuk Murabahah, and all other amounts owing under the Subordinated Sukuk Murabahah, to be written off. No Conversion into Equity.

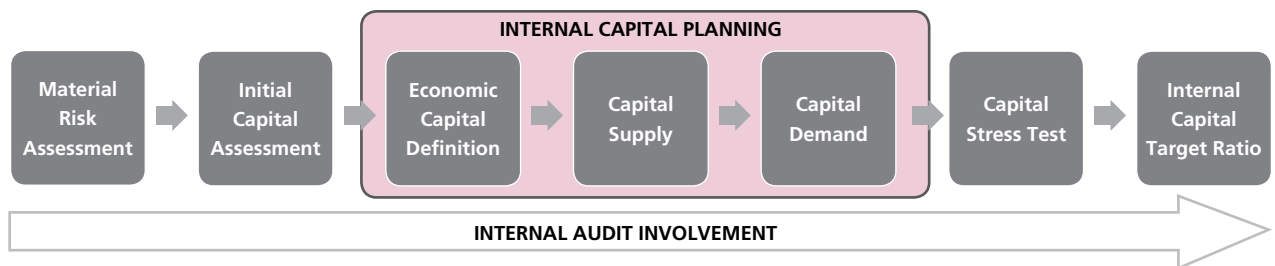
2. CAPITAL ADEQUACY (cont'd)

2.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Group has carried out the internal assessment process on capital as prescribed in BNM's CAFIB - ICAAP ("Pillar 2") to complement its current capital management practices. The first ICAAP Document Policy has been formalised and approved by the Board in March 2013 and is being reviewed on an annual basis. The Group's ICAAP helps to suggest the minimum internal capital requirement for its current and future business strategies and financial plans for the next 3 years via a comprehensive risk assessment process on its portfolio risk exposures, its risk management practices towards its material risks and potential capital planning buffer required in the event of stress.

The Group's ICAAP is conducted on a consolidated basis covering all the Bank's legal entities as suggested by BNM's Pillar 2 Guideline.

The Group's ICAAP methodology can be summarized as follows:



Under ICAAP, the following risk types are identified and measured:

- Risks captured under Pillar 1 (i.e. Credit Risk, Market Risk, and Operational Risk);
- Risk not fully captured under Pillar 1 (e.g. Migration and Residual Risk);
- Risk not covered under Pillar 1 (e.g. Credit Concentration Risk, Rate of Return Risk in the Banking Book, Shariah Compliance Risk, Compliance Risk, and IT Risk).

2.3 Stress Testing

Regular stress testing (including reverse stress testing) is performed to assess the Group's ability to maintain adequate capital under both a normal business cycle and unfavorable economic conditions. The stress testing is embedded within the risk and capital management process of the Group, and is a key function of capital planning and business planning processes.

Stress Testing also plays an important role in:

- Identifying the possible events or future changes in the financial and economic conditions of the country and globally that could potentially have unfavourable effects on the Group's exposures;
- Identifying the different portfolios response to changes in key economic variables (profit rate, foreign exchange rate, GDP, etc);
- Evaluating the Group's ability to withstand such changes, i.e. its capacity in terms of its capital and earnings, to absorb potentially significant losses;
- Analysing the Group's ability to meet the minimum regulatory capital requirement at all times throughout a reasonably severe economic crisis.

In line with the revised Stress Testing Policy Document issued by BNM on 15 June 2017, the Group's stress testing programme has been enhanced and approved by the Board in October 2018. The revised Stress Testing has taken into account all risks deemed material to the Group, namely credit risk, market risk, liquidity risk and operational risk including Shariah compliance risk, and regulatory compliance risk.

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

2. CAPITAL ADEQUACY (cont'd)**2.4 Capital Adequacy Ratios**

The Group is required to comply with the Common Equity Tier 1 ("CET 1") Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio ("TCR") as prescribed by BNM. The Group has been in compliance with all prescribed capital adequacy ratios throughout the period.

Effective 1 January 2016, total capital and capital adequacy ratios of the Group have been computed based on the updated BNM's CAFIB - Capital Components issued on 13 October 2015 and its subsequent updates. The minimum regulatory capital adequacy ratios requirement for CET 1 capital ratio, Tier 1 capital ratio and total capital ratio are 6.375%, 7.875% and 9.875% respectively for year 2018.

The Group's capital adequacy ratios remained strong. The table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2018 determined by the requirements of the CAFIB.

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

(a) The capital adequacy ratios of the Group and of the Bank:

	Group		Bank	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Before effect of IA				
Before deducting proposed dividends				
CET 1 Capital Ratio	12.19%	11.79%	12.16%	11.77%
Tier 1 Capital Ratio	12.19%	11.79%	12.16%	11.77%
Total Capital Ratio	16.37%	15.22%	16.35%	15.20%
After deducting proposed dividends				
CET 1 Capital Ratio	11.84%	11.43%	11.81%	11.40%
Tier 1 Capital Ratio	11.84%	11.43%	11.81%	11.40%
Total Capital Ratio	16.02%	14.86%	15.99%	14.84%
After effect of IA				
Before deducting proposed dividends				
CET 1 Capital Ratio	13.32%	12.73%	13.29%	12.70%
Tier 1 Capital Ratio	13.32%	12.73%	13.29%	12.70%
Total Capital Ratio	17.77%	16.44%	17.74%	16.41%
After deducting proposed dividends				
CET 1 Capital Ratio	12.93%	12.34%	12.90%	12.31%
Tier 1 Capital Ratio	12.93%	12.34%	12.90%	12.31%
Total Capital Ratio	17.38%	16.04%	17.35%	16.02%

2. CAPITAL ADEQUACY (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)**(b) CET I, Tier I and Tier II capital components of the Group and of the Bank:**

	31.12.2018	
	Group RM'000	Bank RM'000
Tier I Capital		
Paid-up share capital	3,012,368	3,012,368
Share Premium	–	–
Retained earnings	2,362,476	2,359,060
Other reserves	(98,437)	(98,261)
Less: Deferred tax assets	(51,385)	(49,842)
Less: 55% of fair value	(1,446)	(1,446)
Less: Regulatory reserve attributable to financing	(10,000)	(10,000)
Less: Investment in subsidiaries	–	(15,525)
Total Common Equity Tier I Capital	5,213,576	5,196,354
Total Additional Tier I Capital	–	–
Total Tier I Capital	5,213,576	5,196,354
Subordinated Sukuk	1,300,000	1,300,000
Collective assessment allowance [^]	441,938	441,788
Total Tier II Capital	1,741,938	1,741,788
Total Capital	6,955,514	6,938,142

[^] Collective assessment allowance on non-impaired financing and regulatory reserve, subject to maximum of 1.25% of total credit risk-weighted assets after deducting IA as Risk Absorbent.

PILLAR 3 DISCLOSURE

as at 31 December 2018

(cont'd)

2. CAPITAL ADEQUACY (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)**(b) CET I, Tier I and Tier II capital components of the Group and of the Bank:** (cont'd)

	31.12.2017	
	Group RM'000	Bank RM'000
Tier I Capital		
Paid-up share capital	2,869,498	2,869,498
Share Premium	-	-
Retained earnings	2,150,402	2,150,345
Other reserves	(60,196)	(60,337)
Less: Deferred tax assets	(37,288)	(37,288)
Less: 55% of fair value	-	-
Less: Regulatory reserve attributable to financing	(64,645)	(64,645)
Less: Investment in subsidiaries	-	(15,525)
Total Common Equity Tier I Capital	4,857,771	4,842,048
Total Additional Tier I Capital	-	-
Total Tier I Capital	4,857,771	4,842,048
Subordinated Sukuk	1,000,000	1,000,000
Collective assessment allowance ^	414,193	414,193
Total Tier II Capital	1,414,193	1,414,193
Total Capital	6,271,964	6,256,241

^ Collective assessment allowance on non-impaired financing and regulatory reserve subject to maximum of 1.25% of total credit risk-weighted assets after deducting IA as Risk Absorbent.

2. CAPITAL ADEQUACY (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows:

(i) Group

31 December 2018 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk- Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	6,690,951	6,690,951	–	–
Public Sector Entities	1,673,208	1,658,820	311,888	24,951
Banks, Developments Financial Institutions (“DFIs”) and Multilateral Development Banks (“MDBs”)	324,860	324,860	66,285	5,303
Corporate	16,710,297	16,518,383	8,357,461	668,597
Regulatory Retail	16,734,824	16,631,502	16,088,922	1,287,114
Residential Mortgages	18,084,774	18,077,681	11,410,280	912,822
Higher Risk Assets	6,052	6,052	9,079	726
Other Assets	2,982,971	2,982,971	566,570	45,326
Defaulted Exposures	500,097	480,390	462,284	36,983
Total for On-Balance Sheet Exposures	63,708,034	63,371,610	37,272,769	2,981,822
Off-Balance Sheet Exposures				
Credit-related Exposures	1,846,740	1,842,970	1,617,130	129,370
Derivative Financial Instruments	76,913	76,913	57,076	4,566
Defaulted Exposures	12,050	12,050	16,800	1,344
Total for Off-Balance Sheet Exposures	1,935,703	1,931,933	1,691,006	135,280
Total On and Off-Balance Sheet Exposures	65,643,737	65,303,543	38,963,775	3,117,102
Less: Credit Risk absorbed by IA			(3,608,741)	(288,699)
	Long Position	Short Position		
Market Risk				
Benchmark Rate Risk	3,978,758	(4,283,739)	(304,981)	27,688
Foreign Exchange Risk	18,408	(395,075)	(376,667)	395,075
Inventory Risk	–	–	–	–
Total Market Risk	3,997,166	(4,678,814)	(681,648)	422,763
Operational Risk			3,370,712	269,657
Total RWA and Capital Requirements			39,148,509	3,131,881

Note: As at 31 December 2018, the Group did not have any exposures under securitisation.

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(i) Group (cont'd)

31 December 2017 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk- Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,741,745	5,741,745	–	–
Public Sector Entities	650,704	644,727	325,612	26,049
Banks, Developments Financial Institutions (“DFIs”) and Multilateral Development Banks (“MDBs”)	98,586	98,586	21,139	1,691
Corporate	16,047,139	15,882,596	7,990,055	639,204
Regulatory Retail	15,629,546	15,519,309	14,941,072	1,195,286
Residential Mortgages	16,165,970	16,160,844	10,172,572	813,806
Higher Risk Assets	9,756	9,756	14,634	1,171
Other Assets	2,679,847	2,679,847	400,362	32,029
Defaulted Exposures	335,133	320,999	323,317	25,865
Total for On-Balance Sheet Exposures	57,358,426	57,058,409	34,188,763	2,735,101
Off-Balance Sheet Exposures				
Credit-related Exposures	4,068,803	3,997,869	3,170,037	253,603
Derivative Financial Instruments	132,147	132,147	51,675	4,134
Defaulted Exposures	24,185	22,400	31,781	2,542
Total for Off-Balance Sheet Exposures	4,225,135	4,152,416	3,253,493	260,279
Total On and Off-Balance Sheet Exposures	61,583,561	61,210,825	37,442,256	2,995,380
Less: Credit Risk absorbed by IA			(3,034,004)	(242,720)
	Long Position	Short Position		
Market Risk				
Benchmark Rate Risk	3,599,755	(3,218,620)	381,135	235,079
Foreign Exchange Risk	23,190	(366,771)	(343,581)	29,342
Inventory Risk	–	–	240	19
Total Market Risk	3,622,945	(3,585,391)	37,794	602,089
Operational Risk			3,152,951	252,236
Total RWA and Capital Requirements			38,163,292	3,053,063

Note: As at 31 December 2017, the Group did not have any exposures under securitisation.

2. CAPITAL ADEQUACY (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(ii) Bank

31 December 2018 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk- Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	6,690,951	6,690,951	–	–
Public Sector Entities	1,673,208	1,658,820	311,888	24,951
Banks, Developments Financial Institutions (“DFIs”) and Multilateral Development Banks (“MDBs”)	319,237	319,237	65,130	5,210
Corporate	16,710,297	16,518,383	8,357,461	668,597
Regulatory Retail	16,734,824	16,631,502	16,088,922	1,287,114
Residential Mortgages	18,084,774	18,077,681	11,410,280	912,822
Higher Risk Assets	6,052	6,052	9,079	726
Other Assets	2,974,787	2,974,787	555,762	44,461
Defaulted Exposures	500,097	480,390	462,284	36,983
Total for On-Balance Sheet Exposures	63,694,227	63,357,803	37,260,806	2,980,864
Off-Balance Sheet Exposures				
Credit-related Exposures	1,846,740	1,842,970	1,617,130	129,370
Derivative Financial Instruments	76,913	76,913	57,076	4,566
Defaulted Exposures	12,050	12,050	16,800	1,344
Total for Off-Balance Sheet Exposures	1,935,703	1,931,933	1,691,006	135,280
Total On and Off-Balance Sheet Exposures	65,629,930	65,289,736	38,951,812	3,116,144
Less: Credit Risk absorbed by IA			(3,608,741)	(288,699)
	Long Position	Short Position		
Market Risk				
Benchmark Rate Risk	3,973,497	(4,283,739)	(310,241)	27,688
Foreign Exchange Risk	18,408	(395,075)	(376,667)	395,075
Inventory Risk	–	–	–	–
Total Market Risk	3,991,905	(4,678,814)	(686,908)	422,763
Operational Risk			3,342,947	267,436
Total RWA and Capital Requirements			39,108,781	3,128,702

Note: As at 31 December 2018, the Bank did not have any exposures under securitisation.

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**2. CAPITAL ADEQUACY** (cont'd)**2.4 Capital Adequacy Ratios** (cont'd)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows: (cont'd)

(ii) Bank (cont'd)

31 December 2017 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk- Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,741,745	5,741,745	–	–
Public Sector Entities	650,704	644,727	325,612	26,049
Banks, Developments Financial Institutions (“DFIs”) and Multilateral Development Banks (“MDBs”)	98,450	98,450	21,111	1,689
Corporate	16,047,139	15,882,596	7,990,055	639,204
Regulatory Retail	15,629,546	15,519,309	14,941,072	1,195,286
Residential Mortgages	16,165,970	16,160,844	10,172,572	813,806
Higher Risk Assets	9,756	9,756	14,634	1,171
Other Assets	2,677,045	2,677,045	395,989	31,679
Defaulted Exposures	335,133	320,999	323,317	25,865
Total for On-Balance Sheet Exposures	57,355,488	57,055,471	34,184,362	2,734,749
Off-Balance Sheet Exposures				
Credit-related Exposures	4,068,803	3,997,869	3,170,037	253,603
Derivative Financial Instruments	132,147	132,147	51,675	4,134
Defaulted Exposures	24,185	22,400	31,781	2,542
Total for Off-Balance Sheet Exposures	4,225,135	4,152,416	3,253,493	260,279
Total On and Off-Balance Sheet Exposures	61,580,623	61,207,887	37,437,855	2,995,028
Less: Credit Risk absorbed by IA			(3,034,004)	(242,720)
	Long Position	Short Position		
Market Risk				
Benchmark Rate Risk	3,594,494	(3,218,620)	375,874	17,523
Foreign Exchange Risk	23,190	(366,771)	(343,581)	29,342
Inventory Risk	–	–	240	19
Total Market Risk	3,617,684	(3,585,391)	32,533	586,043
Operational Risk			3,132,745	250,620
Total RWA and Capital Requirements			38,122,639	3,049,812

Note: As at 31 December 2017, Bank did not have any exposures under securitisation.

3. RISK MANAGEMENT

3.1 Overview

The Group's mission with respect to risk management is to advance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices.

In that regard, the specific objectives of managing risk are to:

- Inculcate a risk-awareness culture throughout the Group;
- Establish a standard approach and methodology in managing credit, market, liquidity, operational and business risks across the Group;
- Clarify functional structures including objectives, roles and responsibilities;
- Implement and use a risk management information system that meets the international standards on confidentiality, integrity and its availability;
- Develop and use tools, such as economic capital, value at risk, and stress testing to support the measurement of risks and enhance risk-based decisions;
- Ensure that risk policies and overall risk appetite are in line with business targets; and
- Ensure that the Group's capital can support current and planned business needs in terms of risk exposures.

3.2 Risk Management Functional and Governance Structure

The Group has aligned its organisational responsibilities with the objective of ensuring a common view of risks across the Group. As a matter of prudence and good governance, the Group's core risk management functions, which report to the Board Risk Committee ("BRC"), are independent and segregated from the business divisions and centralised at head office.

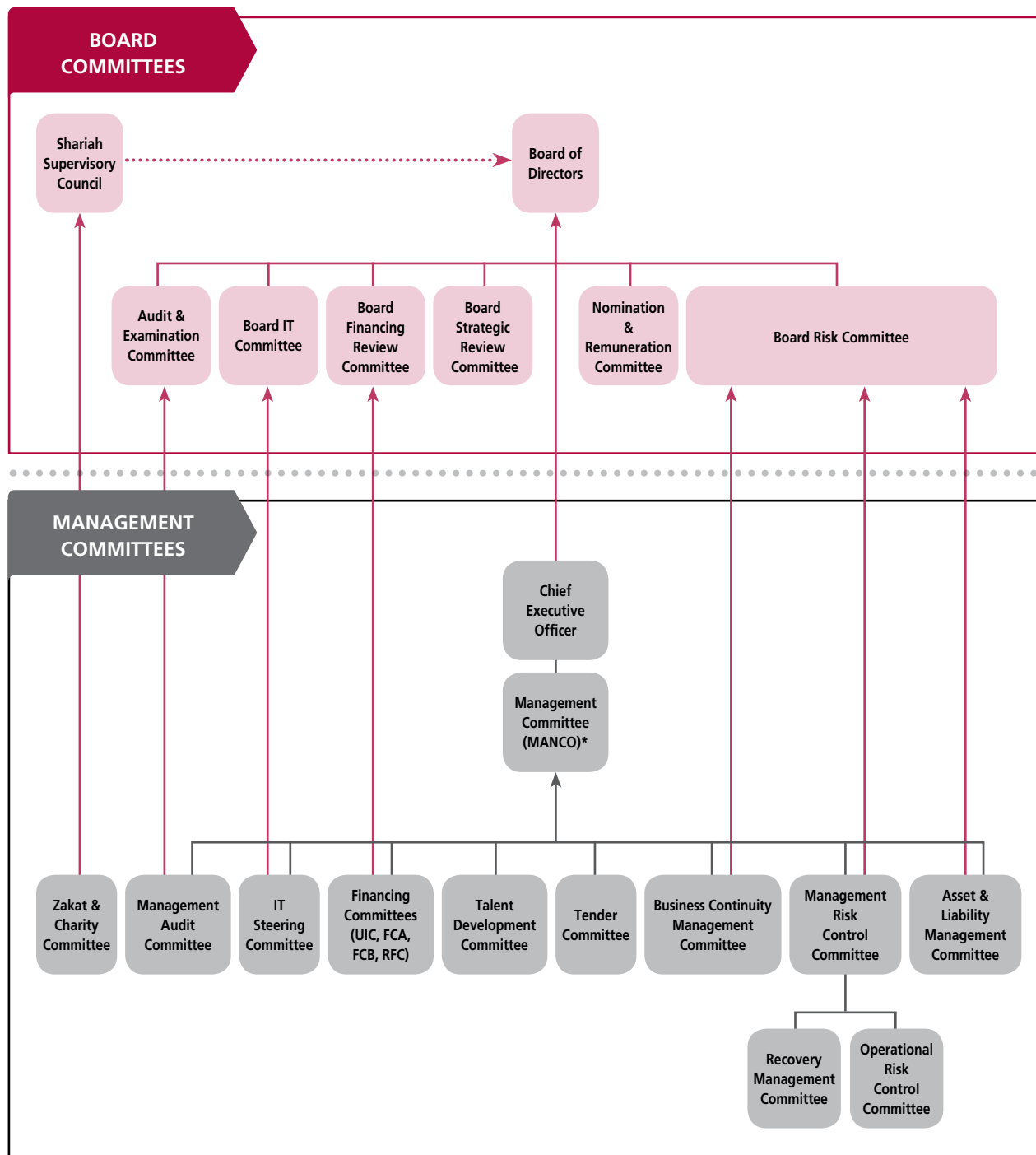
PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

3. RISK MANAGEMENT (cont'd)

3.2 Risk Management Functional and Governance Structure (cont'd)

The following illustrates the Group's governance structure:



* Capital Management is part of Management Committee

3. RISK MANAGEMENT (cont'd)

3.2 Risk Management Functional and Governance Structure (cont'd)

The Group recognises the fact that the essence of banking and financial services is centered on risk taking. The Group therefore:

- Recognises that it has to manage risks effectively to achieve its business targets;
- Reaches an optimum level of risk-return in order to maximise stakeholders' value; and
- Ensures effective and integrated risk management processes that are commensurate with the size and complexity of the current and future operations of the Group within its risk appetite and tolerance.

The Group has established a Risk Appetite Statement Policy that forms an integral part of the Group's strategy and business plans. Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in support of a stated strategy, impacting all businesses from a credit, market and operational risk viewpoint.

4. CREDIT RISK

4.1 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 (collectively referred to as counterparties). The types of credit risks that the Group considers to be material include: Default Risk, Counterparty Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk and Migration Risk.

4.2 Credit Risk Governance

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the Management Risk Control Committee ("MRCC") and/or BRC, guided by the Boards' approved Risk Appetite Statement Policy.

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

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

The Group's credit risk management governance includes the establishment of detailed credit risk policies, guidelines and procedures which document the Group'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.

4.3 Management of Credit Risk

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

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

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

3. RISK MANAGEMENT (cont'd)**4.3 Management of Credit Risk** (cont'd)

The Group monitors its credit exposures either on a portfolio basis or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (a certain part 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.

A detailed limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk concentration to a single customer, sector, product, 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 entities' instruments, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

4.4 Capital Treatment for Credit Risk

The Group adopts the Standardized Approach to compute the credit risk capital requirement under BNM's CAFIB.

4.5 Credit Quality of Gross Financing and Advances

The table below presents the Group's and the Bank's gross financing and advances analysed by credit quality:

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Neither past due nor impaired	45,452,939	41,736,562
Past due but not impaired	591,509	551,097
Impaired	425,937	398,277
	46,470,385	42,685,936
Gross Impaired Financing as a percentage of Gross Financing and Advances	0.92%	0.93%

4. CREDIT RISK (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(a) Neither Past Due Nor Impaired**

Financings classified as neither past due nor impaired are financings of which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment of the financing.

The credit quality of gross financing and advances which are neither past due nor impaired is as follows:

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Excellent to Good	42,095,370	35,144,157
Satisfactory	3,082,143	6,092,349
Fair	275,426	500,056
	45,452,939	41,736,562

Internal rating definition:

- **Excellent to Good:** Sound financial position of the customer with no difficulty in meeting its obligations.
- **Satisfactory:** Adequate safety of the customer meeting its current obligations but more time is required to meet the entire obligations in full.
- **Fair:** High risks on payment obligations. Financial performance may continue to deteriorate.

(b) Past Due But Not Impaired

Financings classified as past due but not impaired are financings of 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.

Analysis of the past due but not impaired financing and advances by aging analysis:

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
By ageing		
Month-in-arrears 1	357,420	362,240
Month-in-arrears 2	234,089	188,857
	591,509	551,097

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(b) Past Due But Not Impaired** (cont'd)

Analysis of the past due but not impaired financing and advances by sector:

	Group and Bank	
	31.12.2018	31.12.2017
	RM'000	RM'000
Primary agriculture	30,905	13
Manufacturing (including agro-based)	1,542	3,892
Wholesale & retail trade, and hotels & restaurants	50,329	3,444
Construction	18,321	9,317
Real estate	23,651	2,861
Transport, storage and communications	–	4,681
Finance, insurance and business activities	619	321
Education, health and others	13,808	6,597
Household sectors	452,334	519,971
	591,509	551,097

(c) Impaired Financing and Advances

A financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

The financing or group of financings is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the financing (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financing or group of financings that can be reliably estimated.

The Group and the Bank first assess individually whether the objective evidence of impairment exists individually for financings which are individually significant, and collectively for financings which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financings with similar credit risk characteristic and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

4. CREDIT RISK (cont'd)

4.5 Credit Quality of Gross Financing and Advances (cont'd)

(c) Impaired Financing and Advances (cont'd)

Impaired financing by assessment type:

	Group and Bank	
	31.12.2018 RM'000	31.12.2017 RM'000
Individually Assessed	251,694	217,209
of which:		
Month-in-Arrears 0	21,789	20,060
Month-in-Arrears 1	6,433	69,204
Month-in-Arrears 2	5,247	3,317
Month-in-Arrears 3 and above	218,225	124,628
Collectively Assessed	174,243	181,068
	425,937	398,277

	← Individual Assessment Allowance →						
31 December 2018 RM'000	Impaired Financing at 31.12.2018	Individual Assessment as at 1.01.2018	Net Charge for the Financial Year	Amounts Written Off/Other Movements	Individual Assessment as at 31.12.2018	Collective Assessment Allowance at 31.12.2018	Total Impairment Allowances for Financing at 31.12.2018
Primary Agriculture	-	-	-	-	-	17,975	17,975
Mining and Quarrying	-	-	-	-	-	677	677
Manufacturing (including Agro-based)	21,426	28,451	3,583	(26,596)	5,438	24,071	29,509
Electricity, Gas and Water	-	-	-	-	-	11,271	11,271
Wholesale & Retail Trade and Restaurants & Hotels	56,665	9,713	18,489	-	28,202	33,003	61,205
Construction	123,007	71,942	36,739	(2,343)	106,338	69,521	175,859
Real Estate	-	-	-	-	-	37,267	37,267
Transport, Storage and Communication	10,936	3,914	(480)	-	3,434	21,737	25,171
Finance, Insurance and Business Services	3,066	1,748	(986)	-	762	50,545	51,307
Education, Health and Others	4,642	1,046	731	-	1,777	16,200	17,977
Household Sectors	206,195	11,328	725	(1,313)	10,740	350,747	361,487
Other Sectors	-	-	-	-	-	-	-
Total	425,937	128,142	58,801	(30,252)	156,691	633,014	789,705

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(c) Impaired Financing and Advances** (cont'd)

31 December 2017 RM'000	← Individual Assessment Allowance →					Collective Assessment Allowance at 31.12.2017	Total Impairment Allowances for Financing at 31.12.2017
	Impaired Financing at 31.12.2017	Individual Assessment as at 1.01.2017	Net Charge for the Financial Year	Amounts Written Off/Other Movements	Individual Assessment as at 31.12.2017		
Primary Agriculture	–	1,059	(1,059)	–	–	4,800	4,800
Mining and Quarrying	–	–	–	–	–	174	174
Manufacturing (including Agro-based)	35,448	24,794	1,962	–	26,756	8,473	35,229
Electricity, Gas and Water	–	–	–	–	–	6,621	6,621
Wholesale & Retail Trade and Restaurants & Hotels	38,433	10,200	2,578	(3,065)	9,713	31,706	41,419
Construction	86,357	3,089	68,853	–	71,942	15,411	87,353
Real Estate	–	–	–	–	–	13,030	13,030
Transport, Storage and Communication	12,604	8,531	(4,617)	–	3,914	14,050	17,964
Finance, Insurance and Business Services	3,799	69,709	2,460	(70,421)	1,748	32,740	34,488
Education, Health and Others	5,106	632	414	–	1,046	11,171	12,217
Household Sectors	216,530	10,184	1,144	–	11,328	307,893	319,221
Other Sectors	–	–	–	–	–	–	–
Total	398,277	128,198	71,735	(73,486)	126,447	446,069	572,516

4. CREDIT RISK (cont'd)**4.5 Credit Quality of Gross Financing and Advances** (cont'd)**(d) Gross Financing and Advances – Exposures by Geographical Areas**

31 December 2018 RM'000	Gross Financing	Of Which:		Individual Allowances	Collective Allowances
		Past Due But Not Impaired Financing	Impaired Financing		
Central Region	22,125,064	289,650	245,531	131,896	366,402
Eastern Region	7,646,307	98,506	101,868	21,153	82,395
Northern Region	6,640,816	106,304	25,349	–	72,181
Southern Region	6,723,490	64,523	31,320	3,567	74,274
East Malaysia Region	3,334,708	32,526	21,869	75	37,762
Grand Total	46,470,385	591,509	425,937	156,691	633,014

31 December 2017 RM'000	Gross Financing	Of Which:		Individual Allowances	Collective Allowances
		Past Due But Not Impaired Financing	Impaired Financing		
Central Region	20,673,380	288,837	223,305	89,877	225,342
Eastern Region	6,860,968	80,312	107,422	35,318	63,540
Northern Region	6,121,471	71,614	28,710	–	70,406
Southern Region	5,908,526	73,970	22,915	1,252	50,833
East Malaysia Region	3,121,591	36,364	15,925	–	35,948
Grand Total	42,685,936	551,097	398,277	126,447	446,069

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures****(a) Geographic Distribution of Credit Exposures****(i) Group**

31 December 2018 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet						
Exposures						
Sovereign/Central Banks	6,690,951	–	–	–	–	6,690,951
Public Sector Entities	1,269,035	158,543	8,754	236,876	–	1,673,208
Banks, Developments						
Financial Institutions and Multilateral Development Banks	312,226	366	–	109	12,159	324,860
Corporate	14,124,048	929,434	914,331	660,719	448,010	17,076,542
Regulatory Retail	6,888,474	3,171,344	2,553,599	2,458,643	1,735,725	16,807,785
Residential Mortgages	7,119,052	3,362,542	3,153,992	3,362,927	1,147,149	18,145,662
Higher Risk Assets	3,177	1,047	294	230	1,307	6,055
Other Assets	2,982,877	–	–	–	94	2,982,971
Total for On-Balance Sheet Exposures	39,389,840	7,623,276	6,630,970	6,719,504	3,344,444	63,708,034
Off-Balance Sheet						
Exposures						
Credit-related Exposures	1,412,859	93,999	52,085	266,307	33,540	1,858,790
Derivative Financial Instruments	76,913	–	–	–	–	76,913
Total for Off-Balance Sheet Exposures	1,489,772	93,999	52,085	266,307	33,540	1,935,703
Total On and Off-Balance Sheet Exposures	40,879,612	7,717,275	6,683,055	6,985,811	3,377,984	65,643,737

4. CREDIT RISK (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(a) Geographic Distribution of Credit Exposures** (cont'd)**(i) Group** (cont'd)

31 December 2017 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet						
Exposures						
Sovereign/Central Banks	5,741,745	–	–	–	–	5,741,745
Public Sector Entities	244,295	170,601	15,687	220,121	–	650,704
Banks, Developments						
Financial Institutions and Multilateral Development Banks	93,662	392	–	122	4,410	98,586
Corporate	13,487,402	797,774	912,213	555,285	519,377	16,272,051
Regulatory Retail	6,643,074	2,895,645	2,356,204	2,248,838	1,543,257	15,687,018
Residential Mortgages	6,489,429	2,963,336	2,829,307	2,880,801	1,055,845	16,218,718
Higher Risk Assets	2,605	2,292	2,812	295	1,753	9,757
Other Assets	2,679,544	–	–	–	303	2,679,847
Total for On-Balance Sheet Exposures	35,381,756	6,830,040	6,116,223	5,905,462	3,124,945	57,358,426
Off-Balance Sheet						
Exposures						
Credit-related Exposures	4,092,988	–	–	–	–	4,092,988
Derivative Financial Instruments	132,147	–	–	–	–	132,147
Total for Off-Balance Sheet Exposures	4,225,135	–	–	–	–	4,225,135
Total On and Off-Balance Sheet Exposures	39,606,891	6,830,040	6,116,223	5,905,462	3,124,945	61,583,561

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(a) Geographic Distribution of Credit Exposures** (cont'd)**(ii) Bank**

31 December 2018 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet						
Exposures						
Sovereign/Central Banks	6,690,951	–	–	–	–	6,690,951
Public Sector Entities	1,269,035	158,543	8,754	236,876	–	1,673,208
Banks, Developments						
Financial Institutions and Multilateral Development Banks	306,603	366	–	109	12,159	319,237
Corporate	14,124,048	929,434	914,331	660,719	448,010	17,076,542
Regulatory Retail	6,888,474	3,171,344	2,553,599	2,458,643	1,735,725	16,807,785
Residential Mortgages	7,119,052	3,362,542	3,153,992	3,362,927	1,147,149	18,145,662
Higher Risk Assets	3,177	1,047	294	230	1,307	6,055
Other Assets	2,974,693	–	–	–	94	2,974,787
Total for On-Balance Sheet Exposures	39,376,033	7,623,276	6,630,970	6,719,504	3,344,444	63,694,227
Off-Balance Sheet						
Exposures						
Credit-related Exposures	1,412,859	93,999	52,085	266,307	33,540	1,858,790
Derivative Financial Instruments	76,913	–	–	–	–	76,913
Total for Off-Balance Sheet Exposures	1,489,772	93,999	52,085	266,307	33,540	1,935,703
Total On and Off-Balance Sheet Exposures	40,865,805	7,717,275	6,683,055	6,985,811	3,377,984	65,629,930

4. CREDIT RISK (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(a) Geographic Distribution of Credit Exposures** (cont'd)**(ii) Bank** (cont'd)

31 December 2017 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet						
Exposures						
Sovereign/Central Banks	5,741,745	–	–	–	–	5,741,745
Public Sector Entities	244,295	170,601	15,687	220,121	–	650,704
Banks, Developments						
Financial Institutions and Multilateral Development Banks	93,526	392	–	122	4,410	98,450
Corporate	13,487,402	797,774	912,213	555,285	519,377	16,272,051
Regulatory Retail	6,643,074	2,895,645	2,356,204	2,248,838	1,543,257	15,687,018
Residential Mortgages	6,489,429	2,963,336	2,829,307	2,880,801	1,055,845	16,218,718
Higher Risk Assets	2,605	2,292	2,812	295	1,753	9,757
Other Assets	2,676,742	–	–	–	303	2,677,045
Total for On-Balance Sheet Exposures	35,378,818	6,830,040	6,116,223	5,905,462	3,124,945	57,355,488
Off-Balance Sheet						
Exposures						
Credit-related Exposures	4,092,988	–	–	–	–	4,092,988
Derivative Financial Instruments	132,147	–	–	–	–	132,147
Total for Off-Balance Sheet Exposures	4,225,135	–	–	–	–	4,225,135
Total On and Off-Balance Sheet Exposures	39,603,953	6,830,040	6,116,223	5,905,462	3,124,945	61,580,623

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(b) Distribution of Credit Exposures by Sector****(i) Group**

31 December 2018 Exposure Class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manu- facturing RM'000	Elec- tricity, Gas and Water RM'000	Wholesale & Retail Restaurant & Hotels RM'000	Con- struction RM'000	Real Estate RM'000	Transport, Storage & Communi- cation RM'000	Finance, Insurance and Business Services RM'000	Edu- cation, Health and Others RM'000	House- hold Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet													
Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,450,005	-	-	2,240,946	6,690,951
Public Sector Entities	-	-	-	-	-	-	163,817	-	1,038,657	454,985	-	15,749	1,673,208
Banks, Developments													
Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	245,709	-	475	78,676	324,860
Corporate	541,219	8,105	805,145	1,843,077	879,286	2,527,404	1,723,332	2,020,459	3,426,733	205,789	70,891	3,025,102	17,076,542
Regulatory Retail	3,152	1,237	19,984	904	49,923	60,190	24,591	9,693	42,154	42,601	16,530,058	23,298	16,807,785
Residential Mortgages	-	316	-	-	-	-	-	-	-	-	18,145,346	-	18,145,662
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	6,055	-	6,055
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,982,971	2,982,971
Total for On-Balance Sheet Exposures	544,371	9,658	825,129	1,843,981	929,209	2,587,594	1,911,740	2,030,152	9,203,258	703,375	34,752,825	8,366,742	63,708,034
Off-Balance Sheet													
Exposures													
Credit-related Exposures	55,151	3,352	119,644	48,053	109,514	271,903	243,047	76,269	94,219	157,009	214,834	465,795	1,858,790
Derivative Financial Instruments	-	-	90	-	16,018	3	-	-	11,495	45,614	-	3,693	76,913
Total for Off-Balance Sheet Exposures	55,151	3,352	119,734	48,053	125,532	271,906	243,047	76,269	105,714	202,623	214,834	469,488	1,935,703
Total On and Off-Balance Sheet Exposures	599,522	13,010	944,863	1,892,034	1,054,741	2,859,500	2,154,787	2,106,421	9,308,972	905,998	34,967,659	8,836,230	65,643,737

4. CREDIT RISK (cont'd)

4.6 Gross Credit Exposures (cont'd)

(b) Distribution of Credit Exposures by Sector (cont'd)

(i) Group (cont'd)

31 December 2017 Exposure Class	Primary Agri- culture RM'000	Mining and Quarrying RM'000	Manu- facturing RM'000	Elec- tricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Con- struction RM'000	Real Estate RM'000	Transport, Storage & Communi- cation RM'000	Finance, Insurance and Business Services RM'000	Edu- cation, Health and Others RM'000	House- hold Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,216,651	-	-	1,525,094	5,741,745
Public Sector Entities	510	-	-	-	-	-	185,977	-	89,647	372,683	1,887	-	650,704
Banks, Developments													
Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	49,937	-	514	48,135	98,586
Corporate	479,966	8,247	968,481	2,302,964	1,114,519	2,681,748	2,079,447	1,627,597	4,246,712	355,718	107,884	298,768	16,272,051
Regulatory Retail	9,563	-	31,574	196	74,731	77,126	28,002	15,132	54,408	41,306	15,353,903	1,077	15,687,018
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	16,218,718	-	16,218,718
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	9,757	-	9,757
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,679,847	2,679,847
Total for On-Balance Sheet Exposures	490,039	8,247	1,000,055	2,303,160	1,189,250	2,758,874	2,293,426	1,642,729	8,657,355	769,707	31,692,663	4,552,921	57,358,426
Off-Balance Sheet Exposures													
Credit-related Exposures	50,900	17,942	205,372	114,774	198,186	867,113	247,216	141,133	621,835	217,200	1,402,445	8,872	4,092,988
Derivative Financial Instruments	-	-	92	-	59,469	78	-	1	21,553	22,701	-	28,253	132,147
Total for Off-Balance Sheet Exposures	50,900	17,942	205,464	114,774	257,655	867,191	247,216	141,134	643,388	239,901	1,402,445	37,125	4,225,135
Total On and Off-Balance Sheet Exposures													
	540,939	26,189	1,205,519	2,417,934	1,446,905	3,626,065	2,540,642	1,783,863	9,300,743	1,009,608	33,095,108	4,590,046	61,583,561

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(b) Distribution of Credit Exposures by Sector** (cont'd)**(ii) Bank**

31 December 2018 Exposure Class	Primary Agri- culture RM'000	Mining and Quarrying RM'000	Manu- facturing RM'000	Elec- tricity, Gas and Water RM'000	Wholesale & Retail Restaurant & Hotels RM'000	Con- struction RM'000	Real Estate RM'000	Transport, Storage & Communi- cation RM'000	Finance, Insurance and Business Services RM'000	Edu- cation, Health and Others RM'000	House- hold Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet													
Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,450,005	-	-	2,240,946	6,690,951
Public Sector Entities	-	-	-	-	-	-	163,817	-	1,038,657	454,985	-	15,749	1,673,208
Banks, Developments													
Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	245,709	-	475	73,053	319,237
Corporate	541,219	8,105	805,145	1,843,077	879,286	2,527,404	1,723,332	2,020,459	3,426,733	205,789	70,891	3,025,102	17,076,542
Regulatory Retail	3,152	1,237	19,984	904	49,923	60,190	24,591	9,693	42,154	42,601	16,530,058	23,298	16,807,785
Residential Mortgages	-	316	-	-	-	-	-	-	-	-	18,145,346	-	18,145,662
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	6,055	-	6,055
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,974,787	2,974,787
Total for On-Balance Sheet Exposures	544,371	9,658	825,129	1,843,981	929,209	2,587,594	1,911,740	2,030,152	9,203,258	703,375	34,752,825	8,352,935	63,694,227
Off-Balance Sheet													
Exposures													
Credit-related Exposures	55,151	3,352	119,644	48,053	109,514	271,903	243,047	76,269	94,219	157,009	214,834	465,795	1,858,790
Derivative Financial Instruments	-	-	90	-	16,018	3	-	-	11,495	45,614	-	3,693	76,913
Total for Off-Balance Sheet Exposures	55,151	3,352	119,734	48,053	125,532	271,906	243,047	76,269	105,714	202,623	214,834	469,488	1,935,703
Total On and Off-Balance Sheet Exposures													
	599,522	13,010	944,863	1,892,034	1,054,741	2,859,500	2,154,787	2,106,421	9,308,972	905,998	34,967,659	8,822,423	65,629,930

4. CREDIT RISK (cont'd)

4.6 Gross Credit Exposures (cont'd)

(b) Distribution of Credit Exposures by Sector (cont'd)

(ii) Bank (cont'd)

31 December 2017 Exposure Class	Primary Agri- culture RM'000	Mining and Quarrying RM'000	Manu- facturing RM'000	Elec- tricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Con- struction RM'000	Real Estate RM'000	Transport, Storage & Communi- cation RM'000	Finance, Insurance and Business Services RM'000	Edu- cation, Health and Others RM'000	House- hold Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	4,216,651	-	-	1,525,094	5,741,745
Public Sector Entities	510	-	-	-	-	-	185,977	-	89,647	372,683	1,887	-	650,704
Banks, Developments													
Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	49,937	-	514	47,999	98,450
Corporate	479,966	8,247	968,481	2,302,964	1,114,519	2,681,748	2,079,447	1,627,597	4,246,712	355,718	107,884	298,768	16,272,051
Regulatory Retail	9,563	-	31,574	196	74,731	77,126	28,002	15,132	54,408	41,306	15,353,903	1,077	15,687,018
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	16,218,718	-	16,218,718
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	9,757	-	9,757
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,677,045	2,677,045
Total for On-Balance Sheet Exposures	490,039	8,247	1,000,055	2,303,160	1,189,250	2,758,874	2,293,426	1,642,729	8,657,355	769,707	31,692,663	4,549,983	57,355,488
Off-Balance Sheet Exposures													
Credit-related Exposures	50,900	17,942	205,372	114,774	198,186	867,113	247,216	141,133	621,835	217,200	1,402,445	8,872	4,092,988
Derivative Financial Instruments	-	-	92	-	59,469	78	-	1	21,553	22,701	-	28,253	132,147
Total for Off-Balance Sheet Exposures	50,900	17,942	205,464	114,774	257,655	867,191	247,216	141,134	643,388	239,901	1,402,445	37,125	4,225,135
Total On and Off-Balance Sheet Exposures	540,939	26,189	1,205,519	2,417,934	1,446,905	3,626,065	2,540,642	1,783,863	9,300,743	1,009,608	33,095,108	4,587,108	61,580,623

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown****(i) Group**

31 December 2018 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	4,021,947	773,057	1,895,947	6,690,951
Public Sector Entities	23,683	810,099	839,426	1,673,208
Banks, Developments Financial Institutions and Multilateral Development Banks	274,942	46,940	2,978	324,860
Corporate	4,418,188	5,692,376	6,965,978	17,076,542
Regulatory Retail	261,922	2,887,671	13,658,192	16,807,785
Residential Mortgages	10,308	124,121	18,011,233	18,145,662
Higher Risk Assets	5	122	5,928	6,055
Other Assets	2,418,217	–	564,754	2,982,971
Total for On-Balance Sheet Exposures	11,429,212	10,334,386	41,944,436	63,708,034
Off-Balance Sheet Exposures				
Credit-related Exposures	697,631	350,823	810,336	1,858,790
Derivative Financial Instruments	67,960	–	8,953	76,913
Total for Off-Balance Sheet Exposures	765,591	350,823	819,289	1,935,703
Total On and Off-Balance Sheet Exposures	12,194,803	10,685,209	42,763,725	65,643,737

4. CREDIT RISK (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(i) Group** (cont'd)

31 December 2017 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,514,011	1,578,434	649,300	5,741,745
Public Sector Entities	35,689	108,949	506,066	650,704
Banks, Developments Financial Institutions and Multilateral Development Banks	48,140	46,781	3,665	98,586
Corporate	4,021,994	4,635,595	7,614,462	16,272,051
Regulatory Retail	244,950	2,701,312	12,740,756	15,687,018
Residential Mortgages	11,033	107,138	16,100,547	16,218,718
Higher Risk Assets	66	31	9,660	9,757
Other Assets	2,503,401	–	176,446	2,679,847
Total for On-Balance Sheet Exposures	10,379,284	9,178,240	37,800,902	57,358,426
Off-Balance Sheet Exposures				
Credit-related Exposures	2,099,737	1,363,471	629,780	4,092,988
Derivative Financial Instruments	115,614	4,000	12,533	132,147
Total for Off-Balance Sheet Exposures	2,215,351	1,367,471	642,313	4,225,135
Total On and Off-Balance Sheet Exposures	12,594,635	10,545,711	38,443,215	61,583,561

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(ii) Bank**

31 December 2018 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	4,021,947	773,057	1,895,947	6,690,951
Public Sector Entities	23,683	810,099	839,426	1,673,208
Banks, Developments Financial Institutions and Multilateral Development Banks	269,319	46,940	2,978	319,237
Corporate	4,418,188	5,692,376	6,965,978	17,076,542
Regulatory Retail	261,922	2,887,671	13,658,192	16,807,785
Residential Mortgages	10,308	124,121	18,011,233	18,145,662
Higher Risk Assets	5	122	5,928	6,055
Other Assets	2,410,033	–	564,754	2,974,787
Total for On-Balance Sheet Exposures	11,415,405	10,334,386	41,944,436	63,694,227
Off-Balance Sheet Exposures				
Credit-related Exposures	697,631	350,823	810,336	1,858,790
Derivative Financial Instruments	67,960	–	8,953	76,913
Total for Off-Balance Sheet Exposures	765,591	350,823	819,289	1,935,703
Total On and Off-Balance Sheet Exposures	12,180,996	10,685,209	42,763,725	65,629,930

4. CREDIT RISK (cont'd)**4.6 Gross Credit Exposures** (cont'd)**(c) Residual Contractual Maturity Breakdown** (cont'd)**(ii) Bank** (cont'd)

31 December 2017 Exposure Class	Up to 1 year RM'000	> 1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	3,514,011	1,578,434	649,300	5,741,745
Public Sector Entities	35,689	108,949	506,066	650,704
Banks, Developments Financial Institutions and Multilateral Development Banks	48,004	46,781	3,665	98,450
Corporate	4,021,994	4,635,595	7,614,462	16,272,051
Regulatory Retail	244,950	2,701,312	12,740,756	15,687,018
Residential Mortgages	11,033	107,138	16,100,547	16,218,718
Higher Risk Assets	66	31	9,660	9,757
Other Assets	2,500,599	–	176,446	2,677,045
Total for On-Balance Sheet Exposures	10,376,346	9,178,240	37,800,902	57,355,488
Off-Balance Sheet Exposures				
Credit-related Exposures	2,099,737	1,363,471	629,780	4,092,988
Derivative Financial Instruments	115,614	4,000	12,533	132,147
Total for Off-Balance Sheet Exposures	2,215,351	1,367,471	642,313	4,225,135
Total On and Off-Balance Sheet Exposures	12,591,697	10,545,711	38,443,215	61,580,623

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

4. CREDIT RISK (cont'd)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in the calculation of credit risk-weighted assets. The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM as per the CAFIB Guideline:

- (a) Standard & Poor's ("S&P")
- (b) Moody's Investors Services ("MOODY'S")
- (c) Fitch Ratings ("FITCH")
- (d) Rating Agency Malaysia Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns and central banks
- (b) Banking institutions
- (c) Corporates

Unrated and Rated Counterparties

As a general rule, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue nor an issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least *pari passu* with the obligation that is rated, as stipulated in the CAFIB Guideline.

Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The below table summarises the rules governing the assignment of risk weights under the Standardised Approach:

Rating Category	S & P	MOODY'S	FITCH	RAM	MARC
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below	C1 and below	C+ and below

4. CREDIT RISK (cont'd)**4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach** (cont'd)

The below table summarises risk weight mapping matrix for each credit quality rating category:

Rating Category	Risk Weights Based on Credit Rating of the Counterparty Exposure Class				
	Sovereign And Central Banks	Corporate	Banking Institutions		
			Maturity > 6 Month	Maturity <= 6 Month	Maturity <= 3 Month
1	0%	20%	20%	20%	
2	20%	50%	50%	20%	
3	50%	100%	50%	20%	
4	100%	100%	100%	50%	20%
5	100%	150%	100%	50%	
6	150%	150%	150%	150%	
Unrated	100%	100%	50%	20%	

Under CAFIB, exposures to and/or guaranteed by the Federal Government of Malaysia and Bank Negara Malaysia are accorded a preferential sovereign risk weight of 0%.

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group:

(i) As at 31 December 2018

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)									Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures After Netting & CRM RM'000	
0%	6,691,158	1,028,088	-	3,452,499	16,019	-	-	2,416,400	13,604,164	-
20%	-	102,060	351,644	3,661,826	1,038	-	-	-	4,116,568	823,314
35%	-	-	-	-	-	5,791,127	-	-	5,791,127	2,026,894
50%	-	477,122	21,878	3,776,521	412,959	4,179,389	-	-	8,867,869	4,433,934
75%	-	-	-	661,420	1,327,668	3,445,209	-	-	5,434,297	4,075,723
100%	-	154,413	-	6,778,701	14,902,673	4,858,378	-	566,570	27,260,735	27,260,735
150%	-	-	-	109,059	47,283	56,625	15,816	-	228,783	343,175
Total Exposures	6,691,158	1,761,683	373,522	18,440,026	16,707,640	18,330,728	15,816	2,982,970	65,303,543	38,963,775
RWA by Exposures	-	413,386	81,268	10,058,980	16,176,036	11,643,811	23,724	566,570	38,963,775	
Average Risk Weight	0.0%	23.5%	21.8%	54.5%	96.8%	63.5%	150.0%	19.0%	59.7%	
Deduction from Capital Base										

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach** (cont'd)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group: (cont'd)

(ii) As at 31 December 2017

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	5,741,857	84,623	–	3,859,637	4,933	–	–	2,279,485	11,970,535	–
20%	–	20,181	397,547	3,018,103	1,617	–	–	–	3,437,448	687,490
35%	–	–	–	–	–	5,095,061	–	–	5,095,061	1,783,271
50%	–	459,210	140,505	3,594,511	430,506	3,522,263	–	–	8,146,995	4,073,498
75%	–	–	–	548,077	2,652,726	3,875,570	–	–	7,076,373	5,307,280
100%	–	221,124	–	7,128,938	13,627,965	3,893,415	–	400,362	25,271,804	25,271,804
150%	–	–	–	105,477	40,252	48,735	18,145	–	212,609	318,913
Total Exposures	5,741,857	785,138	538,052	18,254,743	16,757,999	16,435,044	18,145	2,679,847	61,210,825	37,442,256
RWA by Exposures	–	454,766	149,761	10,099,088	15,893,464	10,417,598	27,217	400,362	37,442,256	
Average Risk Weight	0.0%	57.9%	27.8%	55.3%	94.8%	63.4%	150.0%	14.9%	61.2%	
Deduction from Capital Base										

4. CREDIT RISK (cont'd)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (cont'd)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank:

(i) As at 31 December 2018

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	6,691,158	1,028,088	-	3,452,499	16,019	-	-	2,419,024	13,606,788	-
20%	-	102,060	346,121	3,661,826	1,038	-	-	-	4,111,045	822,209
35%	-	-	-	-	-	5,791,127	-	-	5,791,127	2,026,894
50%	-	477,122	21,778	3,776,521	412,959	4,179,389	-	-	8,867,769	4,433,884
75%	-	-	-	661,420	1,327,668	3,445,209	-	-	5,434,297	4,075,723
100%	-	154,413	-	6,778,701	14,902,673	4,858,378	-	555,762	27,249,927	27,249,927
150%	-	-	-	109,059	47,283	56,625	15,816	-	228,783	343,175
Total Exposures	6,691,158	1,761,683	367,899	18,440,026	16,707,640	18,330,728	15,816	2,974,786	65,289,736	38,951,812
RWA by Exposures	-	413,386	80,113	10,058,980	16,176,036	11,643,811	23,724	555,762	38,951,812	
Average Risk Weight	0.0%	23.5%	21.8%	54.5%	96.8%	63.5%	150.0%	18.7%	59.7%	
Deduction from Capital Base										

(ii) As at 31 December 2017

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs & MDBs RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	5,741,857	84,623	-	3,859,637	4,933	-	-	2,281,056	11,972,106	-
20%	-	20,181	397,411	3,018,103	1,617	-	-	-	3,437,312	687,462
35%	-	-	-	-	-	5,095,061	-	-	5,095,061	1,783,271
50%	-	459,210	140,505	3,594,511	430,506	3,522,263	-	-	8,146,995	4,073,498
75%	-	-	-	548,077	2,652,726	3,875,570	-	-	7,076,373	5,307,280
100%	-	221,124	-	7,128,938	13,627,965	3,893,415	-	395,989	25,267,431	25,267,431
150%	-	-	-	105,477	40,252	48,735	18,145	-	212,609	318,913
Total Exposures	5,741,857	785,138	537,916	18,254,743	16,757,999	16,435,044	18,145	2,677,045	61,207,887	37,437,855
RWA by Exposures	-	454,766	149,733	10,099,088	15,893,464	10,417,598	27,217	395,989	37,437,855	
Average Risk Weight	0.0%	57.9%	27.8%	55.3%	94.8%	63.4%	150.0%	14.8%	61.2%	
Deduction from Capital Base										

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI**

(a) Ratings of Sovereigns and Central Banks by Approved ECAIs

31 December 2018 Exposure Class	Ratings Of Sovereigns And Central Banks by Approved ECAIs						Unrated Unrated Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	S&P Fitch	AAA to AA- AAA to AA-	A+ to A- A+ to A-	BBB+ to BBB- BBB+ to BBB-	BB+ to B- BB+ to B-	CCC+ to D CCC+ to D	
On and Off Balance-Sheet							
Credit Exposures							
Sovereign and Central Banks*			- 6,691,158	-	-	-	-
Total			- 6,691,158	-	-	-	-

31 December 2017 Exposure Class	Ratings Of Sovereigns And Central Banks by Approved ECAIs						Unrated Unrated Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	
	S&P Fitch	AAA to AA- AAA to AA-	A+ to A- A+ to A-	BBB+ to BBB- BBB+ to BBB-	BB+ to B- BB+ to B-	CCC+ to D CCC+ to D	
On and Off Balance-Sheet							
Credit Exposures							
Sovereign and Central Banks*			- 5,741,857	-	-	-	-
Total			- 5,741,857	-	-	-	-

* These exposures refer to exposures to Federal Government of Malaysia and Bank Negara Malaysia which are accorded a preferential sovereign risk weight of 0%.

(b) Ratings of Corporate by Approved ECAIs

31 December 2018 Exposure Class	Ratings of Corporate by Approved ECAIs					Unrated Unrated Unrated Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	
	S&P Fitch RAMs MARC	AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A+ to A- A+ to A- A to A3 A+ to A-	BBB+ to BB- BBB+ to BB- BBB to BB BBB+ to BB-	B+ to D B+ to D B to D B+ to D	
On and Off Balance-Sheet						
Credit Exposures						
Public Sector Entities		102,060	-	-	-	1,659,623
Insurance Cos, Securities Firms & Fund Manager		-	-	-	-	-
Corporate		3,341,257	47,704	47,841	-	15,003,225
Total		3,443,317	47,704	47,841	-	16,662,848

4. CREDIT RISK (cont'd)

4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI (cont'd)

(b) Ratings of Corporate by Approved ECAIs (cont'd)

31 December 2017 Exposure Class	Ratings of Corporate by Approved ECAIs						Unrated
	Moody's S&P Fitch RAMs MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Baa1 to Baa3 BBB+ to BB- BBB+ to BB- BBB to BB BBB+ to BB-	B+ to C B+ to D B+ to D B to D B+ to D	Unrated	
On and Off Balance-Sheet							
Credit Exposures							
Public Sector Entities		20,181	-	-	-	-	764,957
Insurance Cos, Securities Firms & Fund Manager Corporate		-	-	-	-	-	-
		3,184,977	46,059	64,231	-	-	14,959,477
Total		3,205,158	46,059	64,231	-	-	15,724,434

(c) Ratings of Banking Institutions by Approved ECAIs

31 December 2018 Exposure Class	Ratings Of Banking Institutions By Approved ECAIs						Unrated
	Moody's S&P Fitch RAMs MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB-	Ba1+ to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B-	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D	
On and Off Balance-Sheet							
Credit Exposures							
Banks, MDBs, and DFIs		268,464	120	-	-	-	99,315
Total		268,464	120	-	-	-	99,315

31 December 2017 Exposure Class	Ratings Of Banking Institutions By Approved ECAIs						Unrated
	Moody's S&P Fitch RAMs MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB-	Ba1+ to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B-	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D	
On and Off Balance-Sheet							
Credit Exposures							
Banks, MDBs, and DFIs		143,657	144	-	-	-	394,115
Total		143,657	144	-	-	-	394,115

Note: There are no exposures under Short-term ratings for the period under review.

PILLAR 3 DISCLOSURE

as at 31 December 2018

(cont'd)

4. CREDIT RISK (cont'd)

4.9 Credit Risk Mitigation (CRM)

As a first way out, the assessment of credit when granting a financing facility is based on a particular customer's cash flows as the main source of payment and not on the collateral offered. However the acceptance of tangible security as collateral would offer a second way out in the event of business failure thereby improving recovery rates.

The type of collaterals accepted by the Group has an impact on the calculation of the Group's capital adequacy as the quality and type of collateral determine whether the Group is able to obtain capital relief and the extent of such relief. Capital relief is defined as the assignment of a lower or zero risk weight to the counterparty exposure by setting off or reducing the counterparty exposure against the collateral value.

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

- (a) Cash on lien
- (b) Landed property
- (c) Shariah compliant quoted shares and unit trusts
- (d) Malaysian Federal Government Securities
- (e) Rated/Unrated Islamic Securities/Sukuk
- (f) Guarantee

The reliance that can be placed on CRM is carefully assessed in light of issues such as compliance with Shariah rules and principles, legal enforceability, market value and counterparty credit risk of the guarantor. The Group has in place policies and procedures on CRM which govern the determination of eligibility of various collaterals to protect the Group's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

In order to obtain a fair assessment of collateral securing the financing facility, a valuation is performed periodically ranging from weekly to annually, depending on the type, liquidity and volatility of the collateral value.

In mitigating the counterparty credit risks arising from foreign exchange and derivatives transactions, the Group enters 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.

4. CREDIT RISK (cont'd)**4.9 Credit Risk Mitigation (CRM)** (cont'd)

The Group manages its credit risk concentrations by diversifying its portfolios through several measures. The Group monitors credit risk limits via, among others, sector limits, program limits, deviation limits and Single Counterparty Exposure Limits (SCEL). The following tables disclose the extent to which exposures are covered by eligible credit risk mitigants.

Disclosure of Credit Risk Mitigation (CRM):

31 December 2018 Exposure Class	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial and Non-Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	6,690,951	–	–
Public Sector Entities	1,673,208	–	21,972
Banks, DFIs and MDBs	319,237	–	–
Corporates	16,710,297	683,111	760,201
Regulatory Retail	16,734,824	16,571	156,176
Residential Mortgages	18,084,774	461	102,017
Higher Risk Assets	6,052	–	–
Other Assets	2,974,787	–	–
Defaulted Exposures	500,097	70,729	70,910
Total for On-Balance Sheet Exposures	63,694,227	770,872	1,111,276
Off-Balance Sheet Exposures			
Credit-related Exposures	1,846,740	–	22,409
Derivative Financial Instruments	76,913	–	–
Defaulted Exposures	12,050	1,632	–
Total for Off-Balance Sheet Exposures	1,935,703	1,632	22,409
Total On and Off-Balance Sheet Exposures	65,629,930	772,504	1,133,685

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.9 Credit Risk Mitigation (CRM)** (cont'd)

Disclosure of Credit Risk Mitigation (CRM): (cont'd)

31 December 2017 Exposure Class	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial and Non-Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	5,741,745	–	–
Public Sector Entities	650,704	–	6,201
Banks, DFIs and MDBs	98,450	–	–
Corporates	16,047,139	604,534	705,962
Regulatory Retail	15,629,546	6,286	185,180
Residential Mortgages	16,165,970	466	70,725
Higher Risk Assets	9,756	–	–
Other Assets	2,677,045	–	–
Defaulted Exposures	335,133	2,386	60,324
Total for On-Balance Sheet Exposures	57,355,488	613,672	1,028,392
Off-Balance Sheet Exposures			
Credit-related Exposures	4,068,803	27,127	190,925
Derivative Financial Instruments	132,147	–	–
Defaulted Exposures	24,185	–	6,362
Total for Off-Balance Sheet Exposures	4,225,135	27,127	197,287
Total On and Off-Balance Sheet Exposures	61,580,623	640,799	1,225,679

4. CREDIT RISK (cont'd)**4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank**

(i) As at 31 December 2018

Nature of Item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related Exposures				
Direct credit substitutes	487,980		487,980	488,189
Assets sold with recourse	-		-	-
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:				
- not exceeding one year	-		-	-
- exceeding one year	1,627,618		813,809	630,266
Unutilised credit card lines	-		-	-
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 customer's creditworthiness	7,336,717		-	-
	10,714,521		1,858,790	1,633,930
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	2,869,455	30,653	65,839	50,495
Profit rate related contracts				
- less than one year	400,000	1,708	810	162
- one year to less than five years	-	-	-	-
- five years and above	178,379	1,787	10,264	6,419
Equity related contracts				
- less than one year	-	-	-	-
	3,447,834	34,148	76,913	57,076
Total	14,162,355	34,148	1,935,703	1,691,006

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**4. CREDIT RISK** (cont'd)**4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank** (cont'd)

(ii) As at 31 December 2017

Nature of Item	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
Credit related Exposures				
Direct credit substitutes	2,871,511		2,871,511	2,167,427
Assets sold with recourse	–		–	–
Transaction related contingent items	1,066,956		533,478	499,771
Short term self-liquidating trade related contingencies	373,328		74,666	71,836
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	318		64	32
- exceeding one year	1,226,538		613,269	445,326
Unutilised credit card lines	–		–	–
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 customer's creditworthiness	4,402,695		–	–
	9,941,346		4,092,988	3,184,392
Derivative Financial Instruments				
Foreign exchange related contracts				
- less than one year	3,218,824	63,827	112,875	41,796
Profit rate related contracts				
- less than one year	–	–	–	–
- one year to less than five years	400,000	2,132	4,921	984
- five years and above	207,992	2,360	14,351	8,894
Equity related contracts				
- less than one year	–	–	–	–
	3,826,816	68,319	132,147	51,674
Total	13,768,162	68,319	4,225,135	3,236,066

5. MARKET RISK

5.1 Overview

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

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

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

5.2 Market Risk Governance

The management of market risk is principally carried out by using sets of policies and guidelines approved by Asset & Liability Committee ("ALCO") and/or BRC, guided by the Board's approved Risk Appetite Statement Policy.

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

5.3 Management of Market Risk

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

Market Risk Management Department ("MRMD") is an independent risk control function and is responsible for ensuring effective implementation of market risk management policies. MRMD is also responsible for developing the Group's market risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Strict escalation procedures are documented and approved by ALCO and/or BRC. In addition, the market risk exposures and limits are regularly reported to ALCO and BRC.

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

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

5. MARKET RISK (cont'd)**5.3 Management of Market Risk** (cont'd)**(a) Profit rate risk in the non-trading portfolio**

Profit rate risk in the non-trading portfolio is managed and controlled using measurement tools known as earnings-at-risk ("EaR") and economic value of equity ("EVE"). The Group 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 seek to change the profit rate exposure profile to minimise losses and to optimise net revenues. The nature of the hedging and risk mitigation strategies corresponds with the market instruments available. These strategies range from the use of derivative financial instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

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

Bank	31 December 2018 (Decrease)/Increase		31 December 2017 (Decrease)/Increase	
	-100bps RM million	+100bps RM million	-100bps RM million	+100bps RM million
Impact on EaR	(129.46)	129.46	(85.41)	85.41
Impact on EVE	133.41	(133.41)	168.00	(168.00)

(b) Market Risk in the Trading Portfolio

Market risk in the trading portfolio is monitored and managed using Value-at-Risk ("VaR"). It is a technique that estimates the potential losses that could occur as a result of market rates movements over a specified time horizon and to a given level of confidence. The VaR model used by the Group 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 Group incorporates the following features:

- Potential market movements are calculated with reference to data from the past two years;
- Historical market rates 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.

5. MARKET RISK (cont'd)**5.3 Management of Market Risk** (cont'd)**(b) Market Risk in the Trading Portfolio** (cont'd)

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

Bank	As at 31.12.2018	1.1.2018 to 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	As at 31.12.2017	1.1.2017 to 31.12.2017		
	RM million	Average RM million	Maximum RM million	Minimum RM million
Profit Rate Risk	1.74	1.88	3.29	0.59
Foreign Exchange Risk	0.43	0.29	0.86	0.01
Overall	2.17	2.17	3.67	0.62

(c) Foreign Exchange Risk

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

Sensitivity Analysis

The Bank has in place a sensitivity limit for managing the foreign exchange risk. 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"):

	31 December 2018		31 December 2017	
	-1% Depreciation RM'000	+1% Appreciation RM'000	-1% Depreciation RM'000	+1% Appreciation RM'000
Banks				
US Dollar	11,830	(11,830)	9,331	(9,331)
Euro	4,938	(4,938)	5,197	(5,197)
Others	(112)	112	826	(826)

5.4 Capital Treatment for Market Risk

The Group adopts the Standardised Approach to compute the market risk capital requirement under BNM's CAFIB.

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

6. LIQUIDITY RISK

6.1 Overview

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

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

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

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

The Group's liquidity management is primarily carried out in accordance with the BNM's requirements and limits approved by ALCO and/or BRC. These limits and triggers vary, taking account of the depth and liquidity of the market in which the Group operates. The Group 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 Group's liquidity management process includes:

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

6.2 Liquidity Risk Governance

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 Policy.

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

6.3 Management of Liquidity Risk

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

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

6. LIQUIDITY RISK (cont'd)

6.3 Management of Liquidity Risk (cont'd)

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

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

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

7. OPERATIONAL RISK

7.1 Overview

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

It is inherent in all banking products, activities, processes and systems and the effective management of operational risk has always been a fundamental element of a bank's risk management programme.

7.2 Operational Risk Governance

The Group's operational risk management ("ORM") is guided by its ORM Policy, Guideline and Enterprise-Wide Risk Management Policy as well as its Risk Appetite Statement Policy which are designed to provide a sound and well-controlled operational environment within the Group.

The BRC is a committee of Board to oversee the Management's activities in managing risks for the Group, including operational risk. Its roles with regard to ORM include reviewing and recommending ORM Policy, strategies and risk appetite for Board's approval.

MRCC, under the authority delegated by BRC is responsible to perform the oversight functions and to ensure effective management of issues relating to operational risk at strategic level. Operational Risk Control Committee ("ORCC") which is a sub-committee of MRCC is primarily responsible in ensuring effective implementation and maintenance of policies, processes and systems for managing operational risk for the Group.

Notwithstanding the above, the various Business & Support Units ("BU/SU") are responsible for managing operational risk within their respective domains on a day-to-day basis and ensuring that their business & operational activities are carried out within the established ORM policies, guidelines, procedures and limits. To reinforce accountability and ownership of risk & control at BU/SU level, a Risk Controller ("RC") for each BU/SU is appointed and Embedded Risk and Compliance Unit ("ERU") is established at selected BU/SU to assist in driving the risk & control programme for the Group.

Ultimately, all staff of the Group is to ensure they properly discharge their day-to-day responsibilities and are well-equipped with the necessary knowledge including the policies and procedures in executing their job functions. This is in line with our Risk Management Tagline, i.e. "Managing Risk is Everyone's Business".

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

7. OPERATIONAL RISK (cont'd)

7.3 Management of Operational Risk

The Group recognises and emphasises the importance of 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 ORM policies, guidelines, procedures and limits.

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

- a) **1st Line of Defence** – The risk owner or risk taking unit i.e. BU/SU 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 within 1st Line of Defence, the RC is appointed for each BU/SU and ERU is established at selected BU/SU.
- b) **2nd Line of Defence** – The Operational Risk Management Department ("ORMD") is responsible for establishing and maintaining the ORM Policy and its supporting guidelines/manuals, developing methodologies and 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 operational risk issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, ORMD is also responsible to promote risk awareness across the Group.

Shariah Risk Management Department ("SRMD"), Compliance Division and Chief Information Security Officer ("CISO")'s Office complement the role of ORMD as the 2nd Line of Defence. SRM is responsible for managing the Shariah compliance risk ("SCR") by establishing and maintaining appropriate Shariah Compliance Risk Management (SCR) 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, money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programmes as well as conducting trainings that promote awareness creation.

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

- c) **3rd Line of Defence** – Internal Audit provides independent assurance to the Board and senior management on the effectiveness of the ORM process.

7. OPERATIONAL RISK (cont'd)

7.4 ORM Tools & Mitigation Strategies

The Group employs various tools comprising proactive and reactive tools which are in line with the best practices in managing and mitigating its, namely:

OVERVIEW OF ORM TOOLS				
Proactive Tools				Reactive Tool
Key Risk Indicator	Risk Control Self Assessment	Process Risk Mapping	New Product Services Approval Process	Risk Loss Event Management & Reporting
<ul style="list-style-type: none"> A forward looking tool to identify potential risks and to enable counter measures and risk mitigation actions before an incident occurs (early warning system); To assist management to focus on high-risk issues. 	<ul style="list-style-type: none"> To identify and assess operational risks by Risk Owners; The tool creates ownership and increases operational risk awareness. 	<ul style="list-style-type: none"> End to end review of critical banking activities to identify potential risks and ensure appropriate controls are in place and are effective. 	<ul style="list-style-type: none"> To ensure risks are identified and adequate controls are in place prior to launching of new product/ services 	<ul style="list-style-type: none"> Centralised group wide loss database which provides line of business loss reporting overview, tracks frequency of events and facilitates detailed reviews of the incident and its impact.
Risk Analysis & Reporting				

- Analysis and reporting of qualitative and quantitative results from various ORM tools.

In addition, a comprehensive Business Continuity Management (“BCM”) function has been established within the Group to ensure that in the event of material disruptions from internal or external events, critical business functions can be maintained or restored in a timely manner. This ensures minimal adverse impact on customers, staff and products and services. BCM constitutes an essential component of the Group’s risk management process by providing a controlled response to potential operational risk that could have a significant impact on the Group’s critical processes and revenue streams.

As part of the risk transfer strategy, the Group obtains a 3rd party Takaful coverage to cover for the Group’s high impact loss events.

The Group also ensures that the group-wide Operational Risk awareness programme is conducted on an ongoing basis. This training programme includes emphasis on inculcating an operational risk culture among staff, effective implementation of ORM tools, fraud awareness, BCM and other aspects of ORM.

7.5 Capital Treatment for Operational Risk

Operational Risk capital charge is calculated using the BIA as per BNM’s CAFIB. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Group. The RWA amount is computed by multiplying the minimum capital required with a multiplier of 12.5 (reciprocal of 8%).

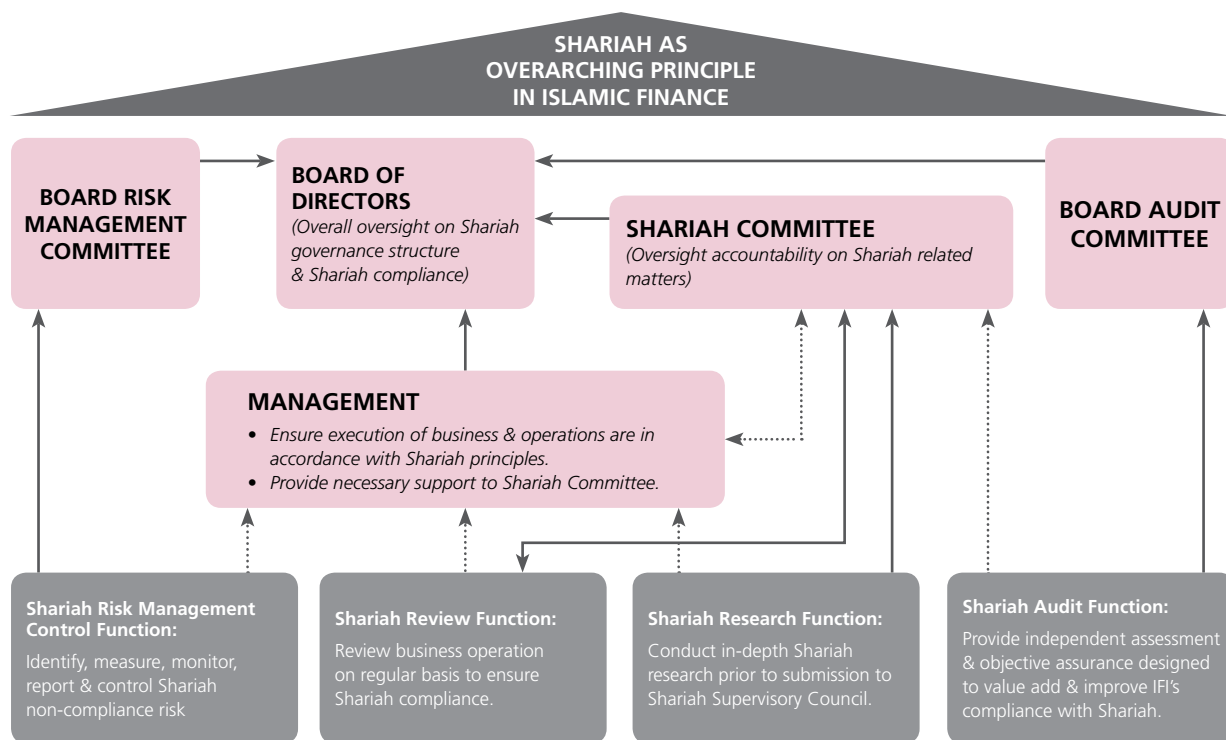
PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

8. SHARIAH GOVERNANCE

8.1 Overview

By virtue of BNM’s Shariah Governance Framework for Islamic Financial Institution (“SGF”), the Group has established a sound and robust Shariah governance framework with emphasis placed on the roles of its key functionalities, which include having in place an effective and responsible Board and Management and an independent Shariah Supervisory Council (“SSC”) that is supported by strong and competent internal Shariah functions. The below diagram depicts the Group’s Shariah governance structure:



324

To date, the Group has in place the Shariah Compliance Policy to communicate its comprehensive Shariah governance framework to ensure the Group’s business activities and behaviors are in compliance with Shariah rules and principles, provisions of the Islamic Financial Services Act (“IFSA”) 2013, BNM’s SGF and its other rules and regulations, and the resolutions of BNM and Securities Commission (“SC”)’s Shariah Advisory Council and the Group’s SSC.

8.2 Shariah Risk Management

The Group’s Shariah risk management is guided by its Shariah Compliance Risk Management (“SCRM”) Guideline which sets out the high-level framework supporting the Shariah Compliance Policy and details out the Shariah risk management processes and tools. The guideline serves to provide a consistent group-wide framework for managing Shariah compliance risk (“SCR”) across the Group.

8. SHARIAH GOVERNANCE (cont'd)

8.2 Shariah Risk Management (cont'd)

In addition to this, the Shariah Non-Compliance Management and Reporting Guideline provides sound mechanism on Shariah non-compliance ("SNC") management and reporting in order to ensure the Group strictly complies with Shariah rules and principles as well as the regulatory requirements. The guideline has been established in line with the mechanism set out by BNM's Operational Risk Reporting Requirement – Operational Risk Integrated Online Network ("ORION") and to ensure compliance to section 28(3) of the IFSA 2013 which requires any SNC event to be immediately reported to BNM. Additionally, pursuant to this guideline, any actual SNC events caused by operational lapses including negligence, breach of policies and lack of due care by staff may be subject to disciplinary action.

Being part of operational risk, the Shariah risk management leverages on the same ORM principles, processes and tools. The responsibility of managing SCR is spearheaded by the Group's Shariah Risk Management Department ("SRMD"). In general, all ORM tools are extended to the process of managing SCR. However, the tools are modified to suit the regulatory requirements on Shariah governance in order to provide a robust and consistent approach in managing SCR.

Extensive and continuous Shariah risk awareness initiatives have been conducted for the Group's staff including Shariah sessions for Risk Controllers. A structured Islamic banking certification programme which includes important modules on Shariah has been offered as an effort to grow our own timber. Meanwhile, a new interactive Shariah training via e-Learning has been launched which is compulsory for all staff to participate every two years as a refresher course. In addition, all new recruits of the Group are required to undergo an orientation programme in which they are exposed to the fundamentals of Shariah applied in Islamic banking business.

8.3 Shariah Non-Compliance ("SNC") Events

An SNC event is a result of the Group's failure to comply with the Shariah rules and principles determined by the relevant Shariah regulatory councils.

Throughout the year 2018, there were eight (8) incidences confirmed by the Shariah Supervisory Council as SNC events with financial loss amounting to RM11,568.13.

The SNC events were due to operational failures and lack of knowledge on related Shariah requirements for products offered. The Group, from time to time, makes efforts to prevent similar Shariah breaches from recurring by issuing reminders, conducting on-going awareness trainings, as well as putting additional controls to ensure compliance with Shariah requirements.

8.4 Shariah Non-Compliant Income

31 December 2018	31 December 2017
RM9,852.53	RM8,374.23

The above amount consists of commissions from Shariah non-compliant merchants of card business, interest received as well as rental purification from the Group's land that is being used to facilitate *bai' inah* based transaction. The income was channeled to charitable causes upon approval by the Shariah Supervisory Council.

PILLAR 3 DISCLOSURE

as at 31 December 2018
(cont'd)

9. INVESTMENT ACCOUNT

9.1 Overview

Islamic Financial Services Act 2013 (“IFSA”) distinguishes investment account (IA) from Islamic deposits, where Shariah contracts to be applied for IA products are non-principal guaranteed, while Shariah contracts for deposit products are principal guaranteed.

In line with the implementation of the IFSA, the Group has developed investment account products based on Mudarabah and Wakalah contracts.

Mudarabah is a contract between a customer as capital provider and the Group as an entrepreneur under which the customer provides capital to be managed by the Group and any profit generated is shared according to a mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the customer provided that such losses are not due to the Group’s misconduct, negligence or breach of specified terms.

Wakalah refers to a contract where a customer, as principal authorizes the Group as his agent to perform a particular task on matters that may be delegated i.e. investment, with or without imposition of a fee. In this context, the Shariah contract applied is Wakalah bi al-istithmar (Wakalah for the purpose of investment).

In terms of offering, the Group currently has the following two categories of IA:

Unrestricted Investment Account (UA)	Restricted Investment Account (RA)
Unrestricted Investment Account refers to a type of investment account whereby the customer/Investment Account Holder (IAH), without specifying any particular restrictions or conditions, provides the Group with the mandate to make the ultimate decision to invest.	Restricted Investment Account (RA) refers to an IA where the IAH provides a specific investment mandate to the Group. The Group also offers RA via Investment Account Platform (IAP) initiated by BNM.

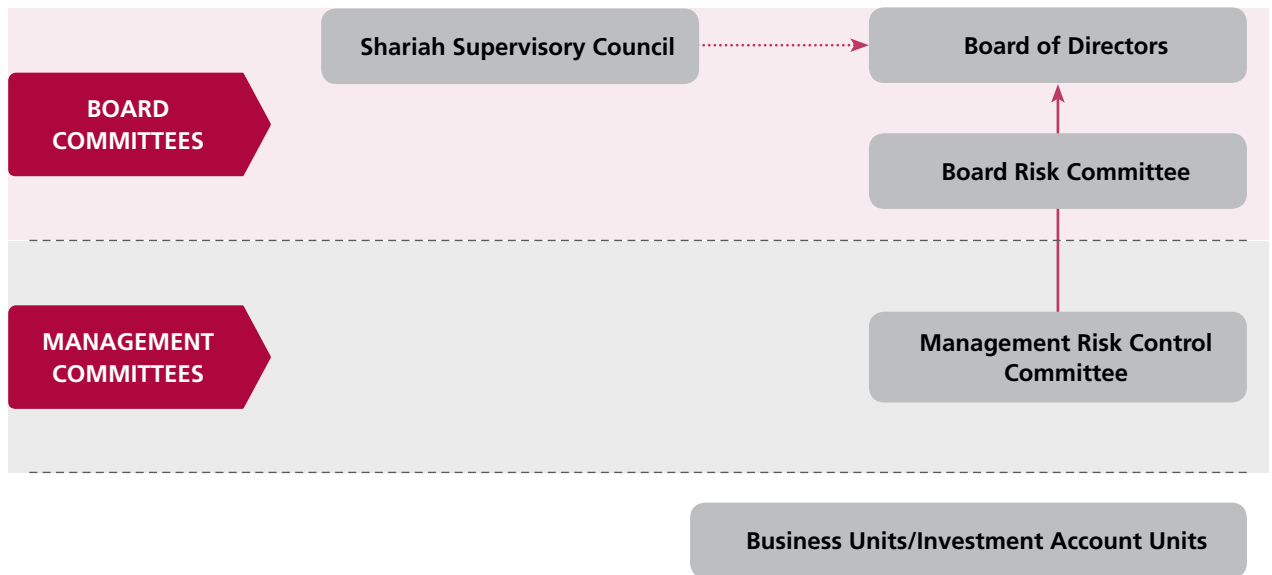
IA product is not capital guaranteed and is not protected by the Perbadanan Insurans Deposit Malaysia (PIDM). The IAH are made informed of the risks associated with IA which include but not limited to the following:

- Market risk – Invested assets are subjected to fluctuations in the market rates. This may negatively impact the overall income performance of the fund.
- Liquidity risk – This risk occurs if withdrawal/redemption exceed total investment.
- Credit risk – This arises when substantial amount of the asset tagged to the fund turns default.
- Operational risk – This risk may arise due to failed internal processes or system.
- Legal risk – Such risk may arise from improper product documentation which may expose the Bank to legal action by IAH.

9. INVESTMENT ACCOUNT (cont'd)

9.2 Governance Structure

To safeguard the IAH's interest, the investment mandate, strategy and parameter are carried out in accordance to the Group's governance set-up. The IA governance structure adopted by the Group is as depicted in the following diagram:



The roles and responsibilities of the above respective committees are as follows:

Committee	Responsibility
Board of Directors (Board)	Responsible to establish an effective governance arrangement to facilitate effective monitoring and control of the overall management and conduct of the IA. The adequacy of the governance arrangement shall commensurate with the nature, scale, complexity and risk profile associated with the conduct of the IA.
Board Risk Committee (BRC)	Assist the Board in performing independent oversight and provide recommendations in respect of the management, operations and performance of the IA as well as to play the role of Board Investment Committee.
Shariah Supervisory Council	Advise and provide clarification on relevant Shariah rulings, decisions or policies on Shariah matters and endorse the terms and conditions stipulated for IA documentation and information published are in compliance with Shariah.
Management Risk Control Committee	Assist BRC in performing independent oversight and provide recommendations in respect of the management, operations and performance of the IA.

PILLAR 3 DISCLOSUREas at 31 December 2018
(cont'd)**9. INVESTMENT ACCOUNT** (cont'd)**9.3 IA Performance**

31 December 2018	RM'000
Gross Exposure: Financing funded by UA	RM5,176,819.33
	%
Return on Assets ("ROA")	5.50%
Average Net Distributable Income	5.29%
Average/Proportion Net Distributable Income Attributable to the IAH	2.02%
Average Profit Sharing Ratio/Return to the IAH	38.15%
	RM'000
Impaired assets/financing funded by UA (bank-wide)	425,937.28
Total allowance for UA	10,045.53
Collective allowance provisions funded by UA	NA
Individual allowance provisions funded by UA	NA

CHIEF EXECUTIVE OFFICER ATTESTATION

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB) Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Bank Islam Malaysia Berhad's Pillar 3 Disclosure report for the financial year ended 31 December 2018 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.

Mohd Muazzam Mohamed

Chief Executive Officer, Bank Islam Malaysia Berhad

DIRECTORY CENTRAL REGION



REGIONAL OFFICE

Level 28, Menara Bank Islam
No 22, Jalan Perak
50450 Kuala Lumpur
Tel : (6) 03 2688 2745
Fax : (6) 03 2688 2725

01

2 & 4, Jalan 6C/7, Seksyen 16
43650 Bandar Baru Bangi
Selangor

02

Tel : (6) 03 8925 8490 / 8491 / 8492
Fax : (6) 03 8925 6168

1st Floor, No 1, Jalan Elektron EU16/E
Seksyen U16, Denai Alam
40160 Shah Alam, Selangor

03

Tel : (6) 03 7831 1395 / 7734 2498 /
(6) 03 7831 3481

330

KUALA LUMPUR

BANDAR TASIK PERMAISURI

Tel : (6) 03 9171 4818 / 5078 / 7245
Fax : (6) 03 9171 7289

BANDAR WAWASAN

Tel : (6) 03 2694 8175 / 8192 / 8244
Fax : (6) 03 2694 8291

BUKIT DAMANSARA

Tel : (6) 03 2092 1064 / 1066 / 1067
Fax : (6) 03 2092 1072

JALAN TUN RAZAK

Tel : (6) 03 2161 1333 / 1340 / 1341
Fax : (6) 03 2161 1360 / 2164 8450

KL SENTRAL

Tel : (6) 03 2274 9878 / 9899
(6) 03 2274 9901 / 6430
Fax : (6) 03 2274 9902 / 4324

KL SENTRAL 2

Tel : (6) 03 2273 3151 / 3152 / 3153
Fax : (6) 03 2273 3154

MEDAN MARA

Tel : (6) 03 2691 9079 / 9082
(6) 03 2691 9086 / 9088
Fax : (6) 03 2692 1890

MENARA BANK ISLAM

Tel : (6) 03 2161 0073 / 0076
(6) 03 2166 0797
Fax : (6) 03 2166 0798

MENARA TM

Tel : (6) 03 2240 2020 / 0296
Fax : (6) 03 2240 2391

KUALA LUMPUR

SEMARAK

Tel : (6) 03 2681 0042 / 0049 / 0057
 Fax : (6) 03 2681 0076

SELAYANG

Tel : (6) 03 6135 2655 / 2934
 Fax : (6) 03 6137 9199

SERI PETALING

Tel : (6) 03 9056 2939 / 2943 / 2969
 Fax : (6) 03 9056 2982

TAMAN MELAWATI

Tel : (6) 03 4107 7800 / 6842 / 6852
 Fax : (6) 03 4107 7181

SELANGOR

AMPANG

Tel : (6) 03 9200 4389 / 4392 / 4497
 Fax : (6) 03 9200 4507

ARA DAMANSARA

Tel : (6) 03 7846 0557 / 1165 / 1347
 Fax : (6) 03 7846 1473

BANDAR BARU BANGI

Tel : (6) 03 8925 8490 / 8491 / 8492
 Fax : (6) 03 8925 6168

BANDAR BOTANIC, KLANG

Tel : (6) 03 3324 7132 / 7623 / 8671
 Fax : (6) 03 3324 8758

TAMAN TUN DR ISMAIL

Tel : (6) 03 7726 5744
 (6) 03 7728 7894 / 5270
 Fax : (6) 03 7722 4539

UIAM, GOMBAK

Tel : (6) 03 6185 3150 / 3262 / 3282
 Fax : (6) 03 6185 3402

UNIVERSITI MALAYA

Tel : (6) 03 7960 8934 / 7429 / 6235
 Fax : (6) 03 7960 4320

WANGSA MAJU

Tel : (6) 03 4142 7733 / 7886 / 8204
 Fax : (6) 03 4142 8209

BANDAR SRI DAMANSARA

Tel : (6) 03 6273 5001 / 5002 / 5003
 Fax : (6) 03 6273 5004

JALAN CHAN SOW LIN

Tel : (6) 03 9223 5001 / 5002 / 5003
 Fax : (6) 03 9223 5004

BANDAR KINRARA

Tel : (6) 03 8079 1601 / 1602 / 1603
 Fax : (6) 03 8079 1604

BANTING

Tel : (6) 03 3187 3772 / 3181 4772
 Fax : (6) 03 3187 3776

BANGI 2

Tel : (6) 03 8912 7708 / 1719 / 0406
 Fax : (6) 03 8912 5971

BUKIT JELUTONG

Tel : (6) 03 7847 3710 / 3711 / 3712
 Fax : (6) 03 7847 3714

CYBERJAYA

Tel : (6) 03 8319 3491 / 3492 / 3493
 Fax : (6) 03 8319 3494

DENAI ALAM

Tel : (6) 03 7734 0726 / 1750 / 1846
 Fax : (6) 03 7734 5602

KAJANG

Tel : (6) 03 8736 0798 / 1773 / 2185
 Fax : (6) 03 8736 2362

KELANA JAYA

Tel : (6) 03 7806 2955 / 2946
 (6) 03 7803 8190
 Fax : (6) 03 7806 1214

DIRECTORY CENTRAL REGION

(cont'd)

SELANGOR

KLANG

Tel : (6) 03 3342 1911 / 1912 / 1913
Fax : (6) 03 3342 1914

KOTA DAMANSARA

Tel : (6) 03 6141 8447 / 8456 / 8465
Fax : (6) 03 6141 8474

PJ NEW TOWN

Tel : (6) 03 7960 4812 / 4813 / 4814
Fax : (6) 03 7860 4815

PUTRA HEIGHTS

Tel : (6) 03 5192 0981 / 1516 / 1532
Fax : (6) 03 5192 1534

RAWANG

Tel : (6) 03 6091 7652 / 7657 / 7661
Fax : (6) 03 6091 7682

SAUJANA UTAMA

Tel : (6) 03 6038 2877 / 3275 / 3308
Fax : (6) 03 6038 3384

WILAYAH PERSEKUTUAN

PUTRAJAYA

Tel : (6) 03 8889 3192 / 3193 / 3194
Fax : (6) 03 8889 3189

IFiC PUTRAJAYA

Tel : (6) 03 8861 3698 / 2824
Fax : (6) 03 8861 2673

SECTION 14, PETALING JAYA

Tel : (6) 03 7957 3131 / 3834
Fax : (6) 03 7957 4141

SECTION 18, SHAH ALAM

Tel : (6) 03 5541 0250 / 0255
Fax : (6) 03 5541 0259

SEMENYIH

Tel : (6) 03 8723 4624 / 4629 / 4630
Fax : (6) 03 8723 4631

SETIA ALAM

Tel : (6) 03 3358 1359 / 8413 / 7347
Fax : (6) 03 3362 3216

SHAH ALAM

Tel : (6) 03 5510 1481 / 1492 / 4509
Fax : (6) 03 5510 1497

SRI GOMBAK

Tel : (6) 03 6185 9655 / 9667 / 9672
Fax : (6) 03 6185 9675

SUBANG JAYA

Tel : (6) 03 8023 2072 / 2087 / 2125
Fax : (6) 03 8023 2140

SUNGAI BESAR

Tel : (6) 03 3224 2886 / 3478
(6) 03 3224 2434 / 2876
Fax : (6) 03 3224 3479

SUNGAI BULOH

Tel : (6) 03 6156 0082 / 0084 / 0086
Fax : (6) 03 6156 0085

TANJUNG KARANG

Tel : (6) 03 3269 1090 / 0090
Fax : (6) 03 3269 1091

UITM SHAH ALAM

Tel : (6) 03 5510 4194 / 4196
Fax : (6) 03 5510 4186

DIRECTORY NORTHERN REGION



REGIONAL OFFICE

01

Ground & First Floor, No 3009
Bangunan KWSP Seberang Jaya
Lebuh Tenggiri 2, 13700 Seberang Jaya
Pulau Pinang
Tel : (6) 04 382 9100
Fax : (6) 04 382 9166

PULAU PINANG

BANDAR BARU PERDA

Tel : (6) 04 540 3150 / 3151 / 3153
Fax : (6) 04 540 3152

BAYAN BARU

Tel : (6) 04 642 5094 / 5095 / 5096 /
(6) 04 642 5097
Fax : (6) 04 642 5098

PERLIS

KANGAR

Tel : (6) 04 970 5525 / 5535
Fax : (6) 04 970 5565

BUTTERWORTH

Tel : (6) 04 331 2357 / 2358
(6) 04 332 1301 / 1317
Fax : (6) 04 331 2360

GEORGETOWN

Tel : (6) 04 262 4724 / 4933 / 5019 /
(6) 04 262 0626
Fax : (6) 04 262 2594

KEPALA BATAS

Tel : (6) 04 575 5517 / 5579 / 3376
Fax : (6) 04 575 3986

DIRECTORY NORTHERN REGION

(cont'd)

KEDAH

ALOR SETAR

Tel : (6) 04 733 5126 / 5136
(6) 04 731 9813
Fax : (6) 04 733 5128

BALING

Tel : (6) 04 470 1678 / 7052
Fax : (6) 04 470 1679

GUAR CHEMPEDAK

Tel : (6) 04 468 0880 / 4827 / 4829 /
(6) 04 468 4830
Fax : (6) 04 468 0884

JITRA

Tel : (6) 04 917 4404 / 1151
Fax : (6) 04 917 4225

KODIANG

Tel : (6) 04 925 0397 / 0100 / 0208
Fax : (6) 04 925 0215

KULIM

Tel : (6) 04 403 3300 / 3003 / 3976
Fax : (6) 04 403 3977

LANGKAWI

Tel : (6) 04 966 2463 / 2464 / 2466 /
(6) 04 966 5191
Fax : (6) 04 966 2469

ALOR SETAR 2 (PERSIARAN SULTAN ADDUL HAMID)

Tel : (6) 04 772 8800 / 5818
(6) 04 771 6575
Fax : (6) 04 772 8100

POKOK SENA

Tel : (6) 04 782 1033 / 1034
Fax : (6) 04 782 1022

SUNGAI LIMAU, YAN

Tel : (6) 04 769 1017
Fax : (6) 04 768.1042

SUNGAI PETANI

Tel : (6) 04 422 0620 / 0621 / 0622
(6) 04 423 8752
Fax : (6) 04 421 3912

SUNGAI PETANI 2

Tel : (6) 04 422 0061 / 0062 / 0063
Fax : (6) 04 422 0064

UNIVERSITI UTARA MALAYSIA

Tel : (6) 04 924 6271 / 6272 / 6273
Fax : (6) 04 924 6270



REGIONAL OFFICE

02

1st Floor, 21 & 23 Jalan Taman Meru
Utama A1, Medan Meru Utama
Meru Raya, 30020 Ipoh
Perak

Tel : (6) 05 527 7701
Fax : (6) 05 527 7706

PERAK

BAGAN SERAI

Tel : (6) 05 721 8509 / 8513 / 8512
Fax : (6) 05 721 8515

IPOH

Tel : (6) 05 255 3866 / 3867 / 3868
Fax : (6) 05 253 5760

MERU RAYA

Tel : (6) 05 527 7701 / 7702 / 7703
Fax : (6) 05 527 7706

PARIT BUNTAR

Tel : (6) 05 716 4493 / 4494
Fax : (6) 05 716 4495

SERI ISKANDAR

Tel : (6) 05 371 6020 / 6021 / 6022
Fax : (6) 05 371 6023

SRI MANJUNG

Tel : (6) 05 688 1227 / 9071
Fax : (6) 05 688 1672

TAIPING

Tel : (6) 05 806 5441 / 5442 / 5443
Fax : (6) 05 806 5436

TANJUNG MALIM

Tel : (6) 05 459 8237 / 5127 / 5125
Fax : (6) 05 459 8241

TELUK INTAN

Tel : (6) 05 622 1700 / 1200 / 1411
Fax : (6) 05 622 1489

DIRECTORY EASTERN REGION



REGIONAL OFFICE

01

No 8033, 2nd Floor
Bandar Satelit Pasir Tumboh
16150 Kota Bharu
Kelantan

Tel : (6) 09 764 3840 / 3850 / 3854
Fax : (6) 09 764 3870

KELANTAN

336

BANDAR BARU TUNJUNG

Tel : (6) 09 743 0190 / 0192 / 0193
Fax : (6) 09 743 0194

GUA MUSANG

Tel : (6) 09 912 2003
Fax : (6) 09 912 1772

JALAN SULTAN IBRAHIM

Tel : (6) 09 743 4020 / 4030 / 4060
Fax : (6) 09 743 3020

KOTA BHARU 2

Tel : (6) 09 741 9222 / 9333 / 9555
(6) 09 743 8825
Fax : (6) 09 743 8826

KUALA KRAI

Tel : (6) 09 966 4627 / 3002 / 3008
Fax : (6) 09 966 4651

KUBANG KERIAN

Tel : (6) 09 764 0058 / 0070 / 0071
Fax : (6) 09 764 0057

MACHANG

Tel : (6) 09 975 2800 / 1490
Fax : (6) 09 975 2900

PASIR MAS

Tel : (6) 09 790 0750 / 0751
Fax : (6) 09 790 0752

PASIR PUTEH

Tel : (6) 09 786 0061 / 0062 / 0063
Fax : (6) 09 786 0068

PASIR TUMBOH

Tel : (6) 09 764 4077
Fax : (6) 09 764 6077

RANTAU PANJANG

Tel : (6) 09 795 0077 / 2768
Fax : (6) 09 795 0088

TANAH MERAH

Tel : (6) 09 955 8341 / 2341
Fax : (6) 09 955 8342

PADANG GARONG

Tel : (6) 09 747 1867 / 9313 / 9317
Fax : (6) 09 747 1902

WAKAF BHARU

Tel : (6) 09 719 8444 / 8445 / 8446
Fax : (6) 09 719 8447



REGIONAL OFFICE

02

2nd Floor, Putra Square Branch
25200 Kuantan
Pahang
Tel : (6) 09 517 3452 / 3491 / 3584
Fax : (6) 09 517 3605

PAHANG

BANDAR MUADZAM SHAH

Tel : (6) 09 452 3175 / 5175 / 5176
Fax : (6) 09 452 3177

JENKA

Tel : (6) 09 466 2890 / 2871 / 4837 /
(6) 09 466 4153
Fax : (6) 09 466 2891

JERANTUT

Tel : (6) 09 266 6120 / 6121 / 9096
(6) 09 266 9380 / 9381
Fax : (6) 09 266 6380

KUALA ROMPIN

Tel : (6) 09 414 6064 / 6065 / 6068
Fax : (6) 09 414 6074

KUANTAN

Tel : (6) 09 513 3366 / 3367 / 3368
Fax : (6) 09 513 3369

PEKAN

Tel : (6) 09 422 8622 / 8922
Fax : (6) 09 422 8818

PUTRA SQUARE

Tel : (6) 09 517 3225 / 3229 / 3231
Fax : (6) 09 517 3235

RAUB

Tel : (6) 09 355 8300 / 8301
Fax : (6) 09 355 8302

TEMERLOH

Tel : (6) 09 296 5301 / 3222 / 1416
Fax : (6) 09 296 5300

DIRECTORY EASTERN REGION

(cont'd)



REGIONAL OFFICE

03

3rd & 4th Floor, Lot 35308, Dataran Austin
Gong Badak, Mukim Kuala Nerus
20200 Kuala Terengganu
Terengganu

Tel : (6) 09 667 2426 / 2427 / 2428
Fax : (6) 09 667 2429

TERENGGANU

338

CHUKAI

Tel : (6) 09 859 9999 / 9977

Fax : (6) 09 858 1675

DUNGUN

Tel : (6) 09 848 5498

(6) 09 845 3302 / 3055

Fax : (6) 09 848 5502

JALAN PADANG HILIRAN

Tel : (6) 09 631 3533 / 8354 / 8355

Fax : (6) 09 631 3633

JERTEH

Tel : (6) 09 697 3388 / 1672 / 1673

Fax : (6) 09 697 1592

KUALA TERENGGANU

Tel : (6) 09 622 4730 / 4744 / 4754 /

(6) 09 622 4780

(6) 09 623 4537

Fax : (6) 09 623 3944

KUALA NERUS

Tel : (6) 09 667 1700 / 1702 / 1703

Fax : (6) 09 667 1705

DIRECTORY SOUTHERN REGION



REGIONAL OFFICE

01

15th Floor, Menara TH
Jalan Ayer Molek, 80000 Johor Bahru
Johor
Tel : (6) 07 225 8800
Fax : (6) 07 225 8901

JOHOR

AERO MALL AIRPORT, JB

Tel : (6) 07 598 5975 / 5977
Fax : (6) 07 598 5978

AUSTIN HEIGHT

Tel : (6) 07 364 3070 / 3081 / 3293
Fax : (6) 07 364 3839

BANDAR PENAWAR

Tel : (6) 07 822 2802 / 2803 / 2804
Fax : (6) 07 822 2806

BATU PAHAT

Tel : (6) 07 431 9350 / 9352 / 8927
Fax : (6) 07 431 9351

IFIC JOHOR BAHRU

Tel : (6) 07 223 7030 / 7031
Fax : (6) 07 223 7032

JOHOR BAHRU

Tel : (6) 07 224 0242 / 0244 / 0272
Fax : (6) 07 224 0243

KLUANG

Tel : (6) 07 772 6423 / 6417 / 6878
Fax : (6) 07 773 2702

KOTA TINGGI

Tel : (6) 07 883 8800 / 5582
(6) 07 882 6205
Fax : (6) 07 882 4485

KULAIJAYA

Tel : (6) 07 663 5204 / 5205 / 5206
Fax : (6) 07 663 3208

MERSING

Tel : (6) 07 799 5076 / 6606 / 6607 /
(6) 07 799 6608
Fax : (6) 07 799 5077

MUAR

Tel : (6) 06 952 8301 / 8302 / 8303
Fax : (6) 06 952 8304

PASIR GUDANG

Tel : (6) 07 252 6671 / 6672 / 6673
Fax : (6) 07 252 6676

PONTIAN

Tel : (6) 07 688 1909 / 2259
(6) 07 686 5666
Fax : (6) 07 688 3660

SEGAMAT

Tel : (6) 07 932 4257 / 2901 / 2862 /
(6) 07 932 2873
Fax : (6) 07 932 4273

TAMAN BUKIT INDAH

Tel : (6) 07 239 5977 / 5978 / 5979
Fax : (6) 07 239 5980

TAMPOI

Tel : (6) 07 234 5228 / 5229 / 8785
Fax : (6) 07 234 5230

DIRECTORY SOUTHERN REGION

(cont'd)



REGIONAL OFFICE

02

JC 526 & 527, Tingkat 1
Jalan Bestari 5, 77200 Jasin
Melaka
Tel : (6) 06 529 4402 / 4403
Fax : (6) 06 529 4370

MELAKA

AYER KEROH

Tel : (6) 06 232 0986 / 1273 / 6559
Fax : (6) 06 232 6561

BANDAR MELAKA

Tel : (6) 06 284 1366 / 1367 / 1368
Fax : (6) 06 284 7257

NEGERI SEMBILAN

KUALA PILAH

Tel : (6) 06 481 4600 / 8482
Fax : (6) 06 481 1431

NILAI

Tel : (6) 06 799 0549 / 0277 / 6124
Fax : (6) 06 799 6217

PORT DICKSON

Tel : (6) 06 647 4330
(6) 06 646 3281
Fax : (6) 06 647 5657

IFiC BANDA KABA

Tel : (6) 06 288 0425 / 0426 / 0427
Fax : (6) 06 288 0428

JASIN

Tel : (6) 06 529 5301 / 5302 / 5303
Fax : (6) 06 529 5312

SENAWANG

Tel : (6) 06 678 2731 / 2732 / 2733
Fax : (6) 06 678 2734

SEREMBAN

Tel : (6) 06 762 9814 / 9815 / 9816 /
(6) 06 762 9817
Fax : (6) 06 763 8391

MASJID TANAH

Tel : (6) 06 384 5108 / 8340 / 8332
Fax : (6) 06 384 5109

TAMPIN

Tel : (6) 06 441 4131 / 4132 / 4133
Fax : (6) 06 441 7479

BANDAR ENSTEK

Tel : (6) 06 799 6484 / 6485 / 6486
Fax : (6) 06 799 6487

DIRECTORY EAST MALAYSIA REGION



REGIONAL OFFICE

01

1st Floor, UMNO Building
Jalan Kemajuan, 88500 Kota Kinabalu
Sabah

Tel : (6) 088 447 114 / 160 / 260
Fax : (6) 088 447 256

SABAH

ALAMESRA

Tel : (6) 088 487 978 / 975 / 976
Fax : (6) 088 487 980

KOTA KINABALU

Tel : (6) 088 447 285 / 306 / 312 / 314
Fax : (6) 088 447 315

WILAYAH PERSEKUTUAN

LABUAN

Tel : (6) 087 419 205 / 424 667
Fax : (6) 087 419 206

LAHAD DATU

Tel : (6) 089 863 255 / 244 / 577
Fax : (6) 089 863 433

SANDAKAN

Tel : (6) 089 214 885 / 942 / 964
Fax : (6) 089 214 977

TAWAU

Tel : (6) 089 778 966 / 758
Fax : (6) 089 779 666

KENINGAU

Tel : (6) 087 342 201 / 202 / 203
Fax : (6) 087 342 204

DIRECTORY EAST MALAYSIA REGION

(cont'd)



REGIONAL OFFICE

02

Lot 423 – 426, Bangunan Aiman
Jalan Kulas Barat, Section 5, 93400 Kuching
Sarawak

Tel : (6) 082 425 118 / 235 419 / 416 215
Fax : (6) 082 233 172 / 234 108 / 235 521

SARAWAK

342

BINTULU

Tel : (6) 086 337 413 / 418 / 493 / 781

Fax : (6) 086 337 401

KOTA SAMARAHAN

Tel : (6) 082 662 616 / 617 / 284 / 285

Fax : (6) 082 662 618

KUCHING

Tel : (6) 082 412 259 / 413 229

(6) 082 414 159 / 417 289

Fax : (6) 082 410 446

MIRI

Tel : (6) 085 415 422 / 424 / 425

Fax : (6) 085 415 421

SIBU

Tel : (6) 084 327 140 / 141 / 142

Fax : (6) 084 327 144

SIMPANG TIGA, KUCHING

Tel : (6) 082 453 716 / 726 / 736

Fax : (6) 082 453 711

AR-RAHNU BRANCHES

ALOR SETAR

Lot 2024, Jalan Langgar
05000 Alor Setar
Kedah
Tel : (6) 04 731 9090
Fax : (6) 04 730 5050

KUBANG KERIAN

PT816, Ground Floor
Jalan Raja Perempuan Zainab II
Bandar Baru Kubang Kerian
16150 Kota Bharu
Kelantan
Tel : (6) 09 767 8090
Fax : (6) 09 764 5090

TANAH MERAH

Lot PT175
Jalan Hospital
17500 Tanah Merah
Kelantan
Tel : (6) 09 955 7090
Fax : (6) 09 955 5090

SUNGAI PETANI

21-B, Jalan Ibrahim
08000 Sungai Petani
Kedah
Tel : (6) 04 421 9090
Fax : (6) 04 421 5050

PASIR MAS

Lot 319, Seksyen 1
Jalan Pasir Pekan
17000 Pasir Mas
Kelantan
Tel : (6) 09 790 8090
Fax : (6) 09 790 3090

KUALA TERENGGANU

MBKT-No 19
Pusat Niaga Paya Keladi
Kampung Paya Keladi
20200 Kuala Terengganu
Terengganu
Tel : (6) 09 626 7090
Fax : (6) 09 623 5050

KOTA BHARU

No 1154 & 1155, Seksyen 11
Lorong Medan MARA
15000 Kota Bharu
Kelantan
Tel : (6) 09 748 9090
Fax : (6) 09 748 9050

PASIR PUTEH

No PT546, Seksyen 2
Jalan Nara
16800 Pasir Puteh
Kelantan
Tel : (6) 09 786 9090
Fax : (6) 09 786 5050

KUANTAN

No G-11, Ground Floor
Mahkota Square
Jalan Mahkota
25000 Kuantan
Pahang
Tel : (6) 09 517 9090
Fax : (6) 09 514 5050

SUBSIDIARIES OF BANK ISLAM MALAYSIA BERHAD

BIMB INVESTMENT MANAGEMENT BERHAD

19th Floor, Menara Bank Islam
No 22, Jalan Perak
50450 Kuala Lumpur
Tel : (6) 03 2161 2524 / 2924
Toll Free : 1800 88 1196
Fax : (6) 03 2161 2464

BANK ISLAM TRUST COMPANY (LABUAN) LTD

Level 5(l), Main Office Tower
Financial Park Complex
Jalan Merdeka
87000 F.T Labuan
Tel : (6) 087 451 806
Fax : (6) 087 451 808

AL-WAKALAH NOMINEES (TEMPATAN) SDN BHD

21st Floor, Menara Bank Islam
No. 22, Jalan Perak
50450 Kuala Lumpur
Tel : (6) 03 2726 7724
Fax : (6) 03 2726 7733

FARIHAN CORPORATION SDN BHD

19th Floor, Menara Bank Islam
No 22, Jalan Perak
50450 Kuala Lumpur
Tel : (6) 03 2782 1333
Fax : (6) 03 2782 1355

All information detailed in this Integrated Annual Report is correct at the time of printing.

BANK ISLAM MALAYSIA BERHAD (98127-X)

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

Tel (6)03 2088 8000 Fax (6)03 2088 8028

www.bankislam.com.my