




FINANCIAL STATEMENTS

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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:

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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

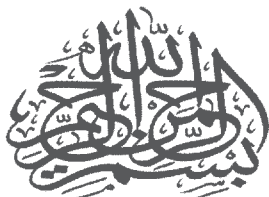
Noraini Che Dan

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").

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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 31.12.2018 RM'000	31.12.2017 RM'000	Bank 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			Distributable Retained earnings RM'000	Total equity RM'000
		Share capital RM'000	Non-distributable Share premium RM'000	Other reserves 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
<i>Finance income and hibah</i>				
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
<i>Other dealing income</i>				
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
<i>Other operating income</i>				
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
<i>Fees and commission</i>				
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
<i>Other income</i>				
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 STATEMENTS

for 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
		<u>293,050</u>	
2017			
Final 2016	5.58	134,167	15 June 2017
Interim 2017	5.41	132,310	20 September 2017
		<u>266,477</u>	

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

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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.

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for 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

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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	RM	RM	RM
	million	million	million	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.

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(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)

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(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.

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(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

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(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				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	–	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			
<i>Credit related exposures</i>			
Direct credit substitutes	487,980	487,980	488,189
Transaction related contingent items	1,015,198	507,599	471,867
Short-term self-liquidating trade related contingencies	247,008	49,402	43,608
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- 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
<i>Derivative Financial Instruments</i>			
Foreign exchange related contracts			
- less than one year	2,869,455	30,653	65,839
Profit rate related contracts			
- less than one year	400,000	1,708	810
- 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.

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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.

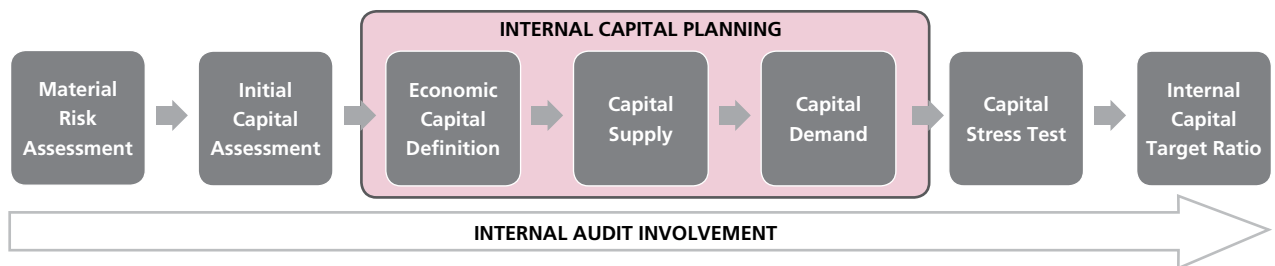
2. CAPITAL ADEQUACY (cont'd)

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 DISCLOSUREas 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.

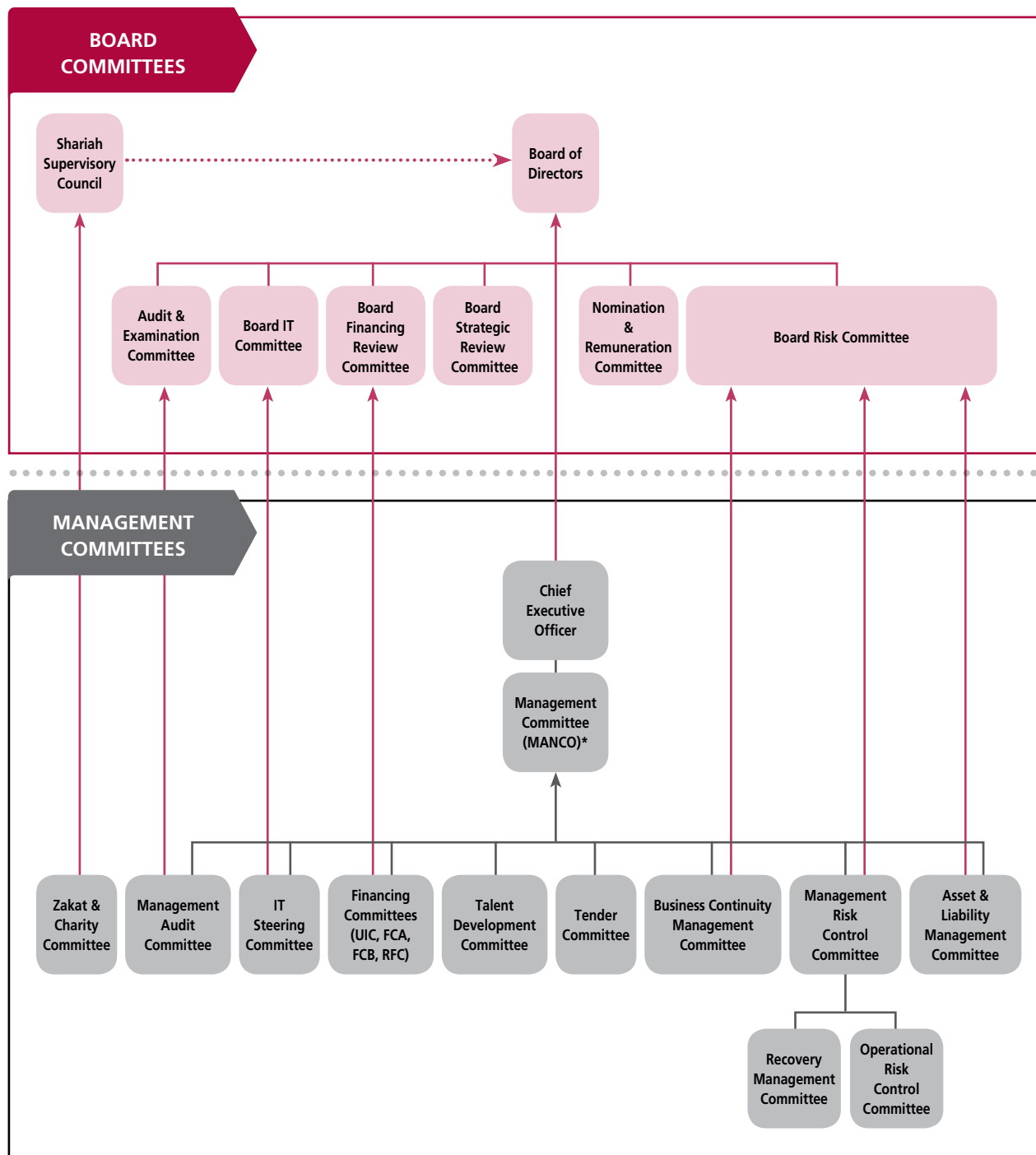
PILLAR 3 DISCLOSURE

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 DISCLOSURE

as 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	31.12.2017
	RM'000	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

	← Individual Assessment Allowance →						
31 December 2018	Impaired	Individual	Net Charge	Amounts	Individual	Collective	Total
RM'000	Financing	Assessment	for the	Written	Assessment	Assessment	Impairment
	at	as at	Financial	Off/Other	as at	at	Allowances
	31.12.2018	1.01.2018	Year	Movements	31.12.2018	31.12.2018	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	Total Risk Weighted Asset
	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	RM'000	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	Total Risk Weighted Asset
	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	RM'000	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										

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(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						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	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	Unrated Unrated
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						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	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	Unrated Unrated
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
	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.

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(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"):

Banks	31 December 2018		31 December 2017	
	-1% Depreciation RM'000	+1% Appreciation RM'000	-1% Depreciation RM'000	+1% Appreciation RM'000
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".

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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 (SCRM) 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				
<ul style="list-style-type: none"> 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%).



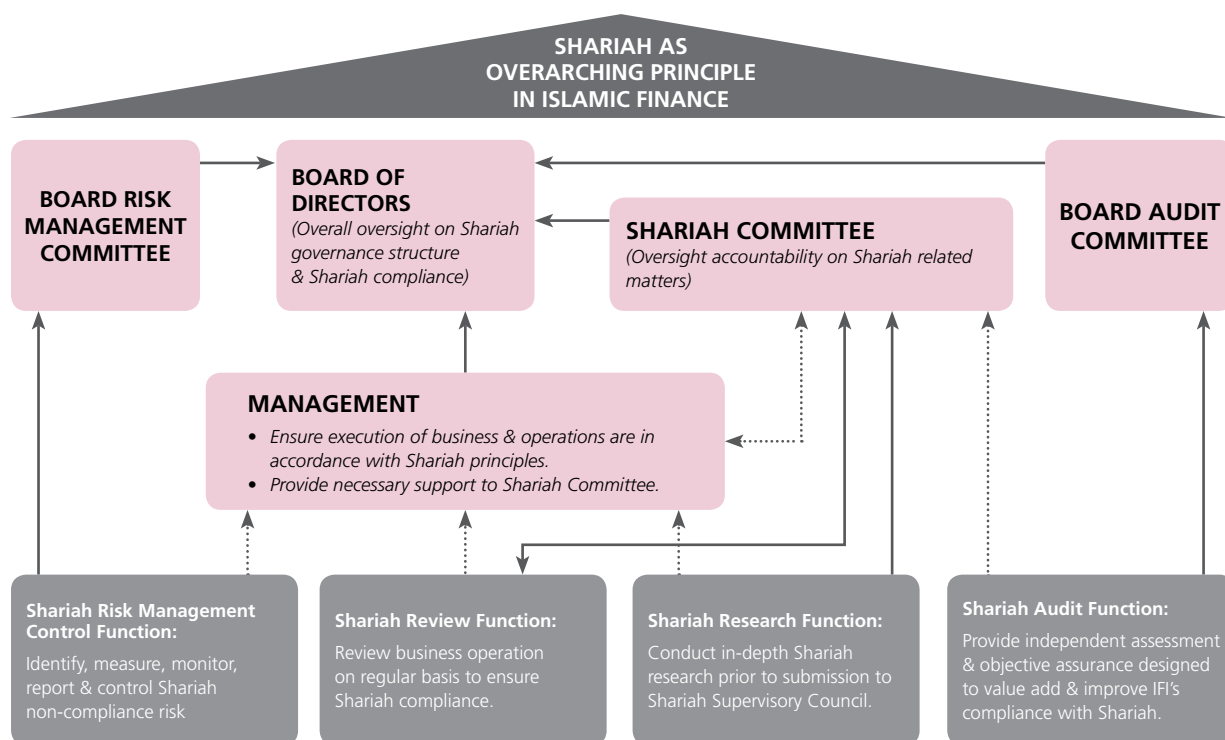
PILLAR 3 DISCLOSURE

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:



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.

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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.

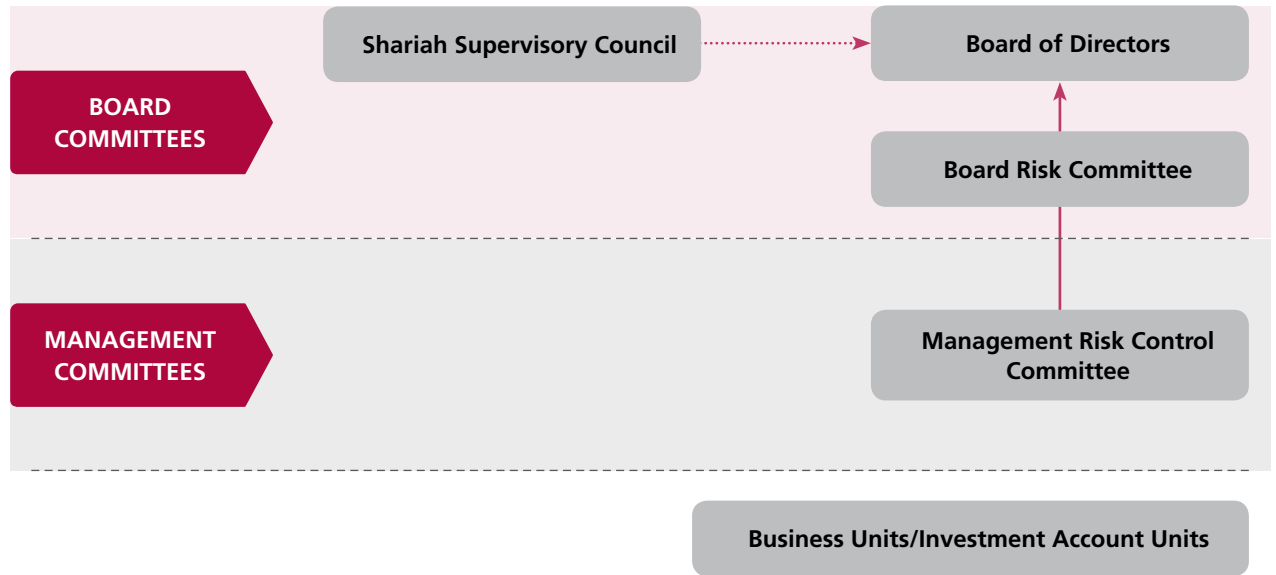
IA product is not capital guaranteed and is not protected by the Perbadanan Insurans Deposit Malaysia (PIDM). The IAH are made informed of the risks associated with IA which include but not limited to the following:

- 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 SENJA

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
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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
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50450 Kuala Lumpur
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Fax : (6) 03 2726 7733

FARIHAN CORPORATION SDN BHD

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All information detailed in this Integrated Annual Report is correct at the time of printing.

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