

Bank Islam Malaysia Berhad (98127-X)
(Incorporated in Malaysia)
Unaudited Interim Financial Statements

Statements of Financial Position as at 30 June 2018

	Note	Group		Bank	
		30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Assets					
Cash and short-term funds	10	2,229,630	4,185,697	2,217,415	4,185,561
Financial assets held-for-trading	11	-	380,925	-	375,664
Financial assets at fair value through profit or loss	12	522,299	-	516,949	-
Derivative financial assets	13	52,590	68,319	52,590	68,319
Financial assets available-for-sale	14	-	9,252,683	-	9,253,140
Financial assets at fair value through other comprehensive income	15	10,176,619	-	10,177,409	-
Financial assets held-to-maturity	16	-	-	-	-
Financing, advances and others	17	43,229,576	42,113,420	43,229,576	42,113,420
Other financial assets at amortised cost	18	58,903	123,503	55,855	121,062
Statutory deposits with Bank Negara Malaysia		1,492,924	1,407,284	1,492,924	1,407,284
Current tax assets		1,758	1,792	1,737	1,737
Deferred tax assets		84,968	37,288	83,425	37,288
Investments in subsidiaries		-	-	15,525	15,525
Property and equipment		183,948	172,003	183,224	171,240
Total assets		58,033,215	57,742,914	58,026,629	57,750,240
Liabilities and equity					
Deposits from customers	19	44,761,069	46,192,910	44,774,749	46,209,028
Investment accounts of customers	20	5,009,181	4,260,185	5,009,181	4,260,185
Derivative financial liabilities	13	31,331	74,668	31,331	74,668
Bills and acceptance payable		45,536	420,258	45,536	420,258
Recourse obligations on financing sold to Cagamas	21	1,501,187	-	1,501,187	-
Subordinated Sukuk Murabahah	22	1,006,036	1,006,486	1,006,036	1,006,486
Other liabilities	23	686,950	782,299	669,113	773,769
Zakat and taxation		53,107	46,404	53,070	46,340
Total liabilities		53,094,397	52,783,210	53,090,203	52,790,734

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	Note	Group		Bank	
		30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Equity					
Share capital		2,869,498	2,869,498	2,869,498	2,869,498
Reserves		2,069,320	2,090,206	2,066,928	2,090,008
Total equity		4,938,818	4,959,704	4,936,426	4,959,506
Total liabilities and equity		58,033,215	57,742,914	58,026,629	57,750,240
Restricted investment accounts managed by the Bank	20	101,039	124,384	101,039	124,384
Total Islamic banking asset owned and managed by the Bank		58,134,254	57,867,298	58,127,668	57,874,624
Commitments and Contingencies	34	15,505,485	13,768,162	15,505,485	13,768,162

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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**Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2018**

Group	Note	3 months ended		6 months ended	
		30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Income derived from investment of depositors' funds	24	623,740	605,820	1,236,293	1,170,366
Income derived from investment account funds	25	62,818	65,480	124,573	120,182
Income derived from investment of shareholders' funds	26	125,289	105,491	235,377	208,995
Net allowance for impairment on financing and advances, net of recoveries	27	(14,758)	(24,813)	(35,921)	(33,596)
Net allowance for impairment on other financial assets		(12)	(243)	86	(243)
Direct expenses		(4,590)	(4,612)	(9,056)	(9,854)
Total distributable income		792,487	747,123	1,551,352	1,455,850
Wakalah fees from restricted investment accounts		333	1,289	333	2,001
Income attributable to depositors	28	(311,464)	(278,756)	(608,338)	(551,795)
Income attributable to investment account holders	29	(22,915)	(29,141)	(45,720)	(52,306)
Total net income		458,441	440,515	897,627	853,750
Personnel expenses	30	(145,779)	(149,637)	(277,518)	(271,201)
Other overhead expenses	31	(105,691)	(105,386)	(192,521)	(195,326)
Finance cost on Subordinated Sukuk Murabahah		(13,465)	(9,786)	(26,901)	(19,464)
Profit before zakat and tax		193,506	175,706	400,687	367,759
Zakat		(3,764)	(2,381)	(7,520)	(4,765)
Tax expense		(51,055)	(43,949)	(104,739)	(97,303)
Profit for the period		138,687	129,376	288,428	265,691
Earnings per share (sen)				11.70	10.91

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Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2018 (continued)

Group	Note	3 months ended		6 months ended	
		30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Profit for the period		<u>138,687</u>	<u>129,376</u>	<u>288,428</u>	<u>265,691</u>
Other comprehensive income/(expense), net of tax:					
Items that are or may be reclassified subsequently to profit or loss					
Currency translation differences in respect of foreign operations		(17,768)	13,603	832	20,336
Movement in fair value reserve (debt securities) :					
Net change in fair value		(26,415)	-	(35,265)	-
Net amount transferred to profit or loss		(339)	-	(1,921)	-
Movement in fair value reserve (equity instrument) :					
Net change in fair value		860	-	(1,957)	-
Net amount transferred to profit or loss		-	-	-	-
Movement in fair value reserve (available-for-sale) :					
Net change in fair value		-	24,472	-	35,826
Net amount transferred to profit or loss		-	(1,315)	-	(2,281)
Income tax credit relating to components of other comprehensive income		6,215	(5,558)	9,395	(8,051)
Other comprehensive income for the period, net of tax		<u>(37,447)</u>	<u>31,202</u>	<u>(28,916)</u>	<u>45,830</u>
Total comprehensive income for the period		<u>101,240</u>	<u>160,578</u>	<u>259,512</u>	<u>311,521</u>

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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**Statements of Profit or Loss and Other Comprehensive Income
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Bank	Note	3 months ended		6 months ended	
		30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Income derived from investment of depositors' funds	24	623,740	605,820	1,236,293	1,170,366
Income derived from investment account funds	25	62,818	65,480	124,573	120,182
Income derived from investment of shareholders' funds	26	115,880	102,663	219,847	203,548
Net allowance for impairment on financing and advances, net of recoveries	27	(14,758)	(24,813)	(35,921)	(33,596)
Reversal of impairment on other financial assets		(12)	(243)	86	(243)
Direct expenses		(4,590)	(4,612)	(9,056)	(9,854)
Total distributable income		783,078	744,295	1,535,822	1,450,403
Wakalah fees from restricted investment accounts		333	1,289	333	2,001
Income attributable to depositors	28	(311,528)	(278,815)	(608,466)	(551,912)
Income attributable to investment account holders	29	(22,915)	(29,141)	(45,720)	(52,306)
Total net income		448,968	437,628	881,969	848,186
Personnel expenses	30	(142,909)	(147,917)	(271,831)	(267,902)
Other overhead expenses	31	(99,631)	(104,591)	(183,598)	(193,819)
Finance cost on Subordinated Sukuk Murabahah		(13,465)	(9,786)	(26,901)	(19,464)
Profit before zakat and tax		192,963	175,334	399,639	367,001
Zakat		(3,750)	(2,376)	(7,500)	(4,752)
Tax expense		(51,020)	(43,930)	(106,239)	(97,272)
Profit for the period		138,193	129,028	285,900	264,977

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**Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2018 (continued)**

Bank	Note	3 months ended		6 months ended	
		30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Profit for the period		<u>138,193</u>	<u>129,028</u>	<u>285,900</u>	<u>264,977</u>
Other comprehensive income/(expense), net of tax:					
Items that are or may be reclassified subsequently to profit or loss					
Currency translation differences in respect of foreign operations		(17,467)	13,629	1,166	20,375
Movement in fair value reserve (debt securities) :					
Net change in fair value		(26,415)	-	(35,265)	-
Net amount transferred to profit or loss		(339)	-	(1,921)	-
Movement in fair value reserve (equity instrument) :					
Net change in fair value		860	-	(1,957)	-
Net amount transferred to profit or loss		-	-	-	-
Movement in fair value reserve (available-for- sale) :					
Net change in fair value		-	24,472	-	35,826
Net amount transferred to profit or loss		-	(1,315)	-	(2,281)
Income tax credit relating to components of other comprehensive income		6,215	(5,558)	9,395	(8,051)
Other comprehensive income for the period, net of tax		<u>(37,146)</u>	<u>31,228</u>	<u>(28,582)</u>	<u>45,869</u>
Total comprehensive income for the period		<u>101,047</u>	<u>160,256</u>	<u>257,318</u>	<u>310,846</u>

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Consolidated Statement of Changes in Equity for the six months ended 30 June 2018

Group	Note	← Attributable to equity holders of the Bank →				Total equity RM'000
		← Non-distributable →		Distributable		
		Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	
At 1 January 2018		2,869,498	-	(60,196)	2,150,402	4,959,704
Adjustment on adoption of MFRS 9 (net of tax)	6	-	-	13,190	(143,408)	(130,218)
Restated total equity at 1 January 2018		2,869,498	-	(47,006)	2,006,994	4,829,486
Profit for the period		-	-	-	288,428	288,428
Currency translation difference in respect of foreign operations		-	-	832	-	832
Fair value reserve – Net change in fair value		-	-	(37,222)	-	(37,222)
– Net amount reclassified to profit or loss		-	-	(1,921)	-	(1,921)
Income tax credit relating to components of other comprehensive income		-	-	9,395	-	9,395
Total comprehensive income for the period		-	-	(28,916)	288,428	259,512
Transfer from regulatory reserve to retained earnings		-	-	(64,645)	64,645	-
Dividends paid on ordinary shares	9	-	-	-	(150,180)	(150,180)
At 30 June 2018		2,869,498	-	(140,567)	2,209,887	4,938,818
At 1 January 2017		2,404,384	264,790	1,193,045	523,247	4,385,466
Profit for the period		-	-	-	265,691	265,691
Currency translation difference in respect of foreign operations		-	-	20,336	-	20,336
Fair value reserve – Net change in fair value		-	-	35,826	-	35,826
– Net amount reclassified to profit or loss		-	-	(2,281)	-	(2,281)
Income tax expense relating to components of other comprehensive income		-	-	(8,051)	-	(8,051)
Total comprehensive income for the period		-	-	45,830	265,691	311,521
Transfer of share premium to share capital		264,790	(264,790)	-	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159	-
Dividends paid on ordinary shares		-	-	-	(134,167)	(134,167)
Issue of shares pursuant to Dividend Reinvestment Plan		134,167	-	-	-	134,167
At 30 June 2017		2,803,341	-	(153,284)	2,046,930	4,696,987

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Statement of Changes in Equity for the six months ended 30 June 2018

Bank	Note	Attributable to equity holders of the Bank			Total equity
		Share capital	Share premium	Other reserves	
		RM'000	RM'000	RM'000	RM'000
At 1 January 2018		2,869,498	-	(60,337)	4,959,506
Adjustment on adoption of MFRS 9 (net of tax)	6	-	-	13,190	(130,218)
Restated total equity at 1 January 2018		2,869,498	-	(47,147)	4,829,288
Profit for the period		-	-	-	285,900
Currency translation difference in respect of foreign operations		-	-	1,166	-
Fair value reserve – Net change in fair value		-	-	(37,222)	-
– Net amount reclassified to profit or loss		-	-	(1,921)	-
Income tax credit relating to components of other comprehensive income		-	-	9,395	-
Total comprehensive income for the period		-	-	(28,582)	257,318
Transfer from regulatory reserve to retained earnings		-	-	(64,645)	64,645
Dividends paid on ordinary shares	9	-	-	-	(150,180)
At 30 June 2018		2,869,498	-	(140,374)	4,936,426
At 1 January 2017		2,404,384	264,790	1,192,822	4,385,955
Profit for the period		-	-	-	264,977
Currency translation difference in respect of foreign operations		-	-	20,375	-
Fair value reserve – Net change in fair value		-	-	35,826	-
– Net amount reclassified to profit or loss		-	-	(2,281)	-
Income tax expense relating to components of other comprehensive income		-	-	(8,051)	-
Total comprehensive income for the period		-	-	45,869	264,977
Transfer of share premium to share capital		264,790	(264,790)	-	-
Transfer of reserve fund to retained earnings		-	-	(1,392,159)	1,392,159
Dividends paid on ordinary shares		-	-	-	(134,167)
Issue of shares pursuant to Dividend Reinvestment Plan		134,167	-	-	-
At 30 June 2017		2,803,341	-	(153,468)	4,696,801

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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Condensed Statements of Cash Flow
for the six months ended 30 June 2018

	Group		Bank	
	6 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and tax	400,687	367,759	399,639	367,001
Adjustment for non-operating and non-cash items	135,335	84,375	135,296	84,241
Operating profit before working capital changes	536,022	452,134	534,935	451,242
Changes in working capital:				
Net changes in operating assets	(1,399,177)	(966,072)	(1,398,570)	(967,220)
Net changes in operating liabilities	304,266	(1,817,917)	292,526	(1,816,247)
Net cash used in operations	(558,889)	(2,331,855)	(571,109)	(2,332,225)
Zakat and tax paid	(102,077)	(94,890)	(101,961)	(94,837)
Tax refund	60	45	-	-
Net cash used in operating activities	(660,906)	(2,426,700)	(673,070)	(2,427,062)
Net cash used in investing activities	(1,118,462)	(58,219)	(1,118,711)	(58,126)
Net cash used in financing activities	(177,531)	(19,571)	(177,531)	(19,571)
Net decrease in cash and cash equivalents	(1,956,899)	(2,504,490)	(1,969,312)	(2,504,759)
Cash and cash equivalents at beginning of the period	4,185,697	4,063,417	4,185,561	4,063,268
Exchange difference on translation	832	20,336	1,166	20,375
Cash and cash equivalents at end of the period	2,229,630	1,579,263	2,217,415	1,578,884
Cash and cash equivalents comprise:				
Cash and short-term funds	2,229,630	1,479,221	2,217,415	1,478,842
Deposits and placements with banks and other financial institutions	-	100,042	-	100,042
	2,229,630	1,579,263	2,217,415	1,578,884

The Unaudited Interim Financial Statements should be read in conjunction with the Audited Financial Statements of the Group and of the Bank for the financial year ended 31 December 2017.

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**Notes to the unaudited interim financial statements
for the six months ended 30 June 2018**

1. Basis of preparation

The unaudited interim financial statements of the Group and of the Bank for the six months ended 30 June 2018 have been prepared in accordance with the applicable requirements of MFRS 134: *Interim Financial Reporting* in Malaysia issued by Malaysian Accounting Standards Board (“MASB”), Financial Reporting for Islamic Banking Institution policy document issued by Bank Negara Malaysia (“BNM”), the provisions of the Companies Act 2016 and Shariah requirements.

The unaudited interim financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial assets at fair value through profit or loss and financial assets through other comprehensive income, which have been measured at fair value.

The unaudited interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017. The explanatory notes attached to the unaudited interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2017.

The significant accounting policies and methods of computation applied in the unaudited interim financial statements are consistent with those adopted in the recent audited financial statements for the financial year ended 31 December 2017, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRS”), interpretation and amendments to MFRSs:

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2017 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2017 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

The adoption of the new standards, amendments to published standards and interpretation does not have impact on the financial results of the Group and the Bank, except for MFRS 9. The principal effects of the changes in accounting policies arising from adoption of MFRS 9 are disclosed in Note 6.

Capital Adequacy Frameworks for Islamic Banks

The Capital Adequacy Frameworks for Islamic Banks in relation to Basel II - Risk-Weighted Assets and Capital Components were updated and reissued by Bank Negara Malaysia (“BNM”) on 2 February 2018 for application with effect from 1 January 2018.

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1. Basis of preparation (continued)

Capital Adequacy Frameworks for Islamic Banks (continued)

The updates focused mainly on the following changes:

- i) Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9;
- ii) Definition of General Provision and its recognition in Tier II capital;
- iii) Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
- iv) Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

2. Auditors' reports on preceding financial period financial statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2017 was not qualified.

3. Seasonal or cyclical factors

The operations of the Bank were not materially affected by any seasonal or cyclical factors in the six months ended 30 June 2018.

4. Unusual items

There were no unusual items in the six months ended 30 June 2018.

5. Changes in accounting estimates

The significant judgements made by management in applying the Group and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of MFRS 9, which are described in Note 6.

6. Changes in accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group and the Bank's consolidated financial statements as at and for the year ended 31 December 2017, except for the impact of adopting MFRS 9 as described below.

The changes in accounting policies are also expected to be reflected in the Group and the Bank's consolidated financial statements as at and for the year ending 31 December 2018.

MFRS 9, *Financial Instruments*

During the current reporting period, the Group and the Bank adopted the MFRS 9 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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6. Changes in accounting policies (continued)

MFRS 9, *Financial Instruments* (continued)

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 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 the 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 to fair value through profit or loss (FVTPL)	(749)
Related tax	(4,165)
Impact at 1 January 2018	<u>13,190</u>
Retained earnings	
Recognition of expected credit losses under MFRS 9	(189,444)
Reclassification of fair value gain from financial assets available-for-sale to FVTPL	749
Related tax	45,287
Impact at 1 January 2018	<u>(143,408)</u>

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification of financial assets and financial liabilities

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 as 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.

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6. Changes in accounting policies (continued)

(i) Classification of financial assets and financial liabilities (continued)

Financial assets are measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and profit. Financial assets are measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows represent solely payments of principal and profit. Financial assets are measured at FVTPL if the assets are held for trading or financial assets that qualify for neither held at amortised cost nor at FVOCI. Equity instruments are normally measured at FVTPL. However, the Group and the Bank have elected irrevocable option at inception to measure changes through FVOCI (without recycling profit or loss upon derecognition).

The impact on classification and measurement to the Bank's financial assets are summarised below on the initial application of MFRS 9 on 1 January 2018.

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	(a)	FVTPL	FVTPL	375,664	375,664
Derivative financial assets		FVTPL	FVTPL	68,319	68,319
Financial assets available-for-sale (debt instruments)	(b)	Available for sale	FVOCI	9,215,834	9,215,489
Financial assets available-for-sale (equity instruments)	(c)	Available for sale	FVOCI	23,369	41,473
Financial assets available-for-sale	(d)	Available for sale	FVTPL	13,937	13,937
Financial assets held-to-maturity	(e)	Held-to-maturity	Amortised cost	-	-

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6. Changes in accounting policies (continued)

(i) Classification of financial assets and financial liabilities (continued)

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					
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

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

- (a) Before the adoption of MFRS 9, certain investment securities were designated as at FVTPL because the Group and the Bank hold related securities at FVTPL and this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under MFRS 9, these assets meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payment of principal and profit on the principal outstanding.
- (b) 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 manages 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 asset.
- (c) Comprise 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 measureable. MFRS 9 has removed this cost exception.
- (d) Comprise investments in unit trust previously classified as available-for-sale 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. These assets have been classified as mandatorily measured at FVTPL under MFRS 9.
- (e) 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.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets

MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an '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.

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 Bank Negara Malaysia.

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 and profit is calculated by applying the effective profit rate to the amortised cost (net of provision) rather than the gross carrying amount.

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.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets (continued)

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.

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.

Impact of the new impairment model

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 results 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	<u>761,615</u>	<u>345</u>	<u>761,960</u>

* Available-for-sale debt securities reclassified as FVOCI at 1 January 2018

7. Sukuk and equity securities

There was no issuance or repayment of Sukuk or share buy-back during the six months ended 30 June 2018.

8. Significant events during the six months ended 30 June 2018

There was no other significant event during the six months ended 30 June 2018.

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9. Dividends

On 4 June 2018, the Bank paid a final dividend of approximately 6.09 sen per ordinary share totalling RM150,180,000 for the financial year ended 31 December 2017.

10. Cash and short-term funds

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Cash and balances with banks and other financial institutions	987,282	921,777	975,067	921,641
Money at call and interbank placements with remaining maturity not exceeding one month	1,242,348	3,263,920	1,242,348	3,263,920
	<u>2,229,630</u>	<u>4,185,697</u>	<u>2,217,415</u>	<u>4,185,561</u>

11. Financial assets held-for-trading

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 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	-	-
	<u>-</u>	<u>380,925</u>	<u>-</u>	<u>375,664</u>

12. Financial assets at fair value through profit and loss

The Group and the Bank had designated or mandatorily measured the following financial assets at fair value through profit or loss:

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government Investment Issues	283,207	-	283,207	-
Sukuk	60,018	-	60,018	-
Unit trust	18,886	-	13,536	-
Bank Negara Negotiable Notes	160,188	-	160,188	-
	<u>522,299</u>	<u>-</u>	<u>516,949</u>	<u>-</u>

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13. 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 held for hedging purposes. The principal or contractual amounts of these instruments reflect 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	30.06.2018		
	Principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000
Forward contracts	3,676,458	48,500	(29,601)
Profit rate swaps	593,388	4,090	(1,730)
	<u>4,269,846</u>	<u>52,590</u>	<u>(31,331)</u>

Group and Bank	31.12.2017		
	Principal amount RM'000	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)
	<u>3,826,816</u>	<u>68,319</u>	<u>(74,668)</u>

14. Financial assets available-for-sale

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
At fair value				
Malaysian Government				
Investment Issues	-	1,525,094	-	1,525,094
Sukuk	-	7,690,740	-	7,690,740
	<u>-</u>	<u>9,215,834</u>	<u>-</u>	<u>9,215,834</u>
At fair value				
Quoted shares				
- outside Malaysia	-	17,612	-	17,612
Quoted unit trust				
- in Malaysia	-	13,937	-	13,937
	<u>-</u>	<u>31,549</u>	<u>-</u>	<u>31,549</u>
At cost				
Unquoted shares in Malaysia [^]	-	23,520	-	23,977
Less: Accumulated impairment loss [^]	-	(18,239)	-	(18,239)
	<u>-</u>	<u>5,281</u>	<u>-</u>	<u>5,738</u>

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14. Financial assets available-for-sale (continued)

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
At cost				
Unquoted shares outside Malaysia	-	329	-	329
Less: Impairment loss	-	(310)	-	(310)
	<u>-</u>	<u>19</u>	<u>-</u>	<u>19</u>
	<u>-</u>	<u>9,252,683</u>	<u>-</u>	<u>9,253,140</u>

^ Movement in unquoted shares and accumulated impairment loss is due to translation difference.

15. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Financial assets at fair value through other comprehensive income:				
(a) Debt securities	10,137,892	-	10,137,892	-
(b) Equity investments	38,727	-	39,517	-
	<u>10,176,619</u>	<u>-</u>	<u>10,177,409</u>	<u>-</u>

(a) Debt investment securities at fair value through other comprehensive income

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Malaysian Government Investment Issues	2,364,299	-	2,364,299	-
Sukuk	7,773,852	-	7,773,852	-
	<u>10,138,151</u>	<u>-</u>	<u>10,138,151</u>	<u>-</u>
Allowance for impairment losses:				
Collective assessment - 12 months ECL	(259)	-	(259)	-
	<u>10,137,892</u>	<u>-</u>	<u>10,137,892</u>	<u>-</u>

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

(a) Debt investment securities at fair value through other comprehensive income (continued)

Movements in allowances for impairment which reflect the ECL model on impairment are as follows:

	Group and Bank 30.06.2018 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 made during the period	(86)
At 30 June 2018	<u>259</u>

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

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Quoted Shares				
- outside Malaysia	<u>15,655</u>	-	<u>15,655</u>	-
Unquoted Shares				
- in Malaysia	<u>23,056</u>	-	<u>23,846</u>	-
- outside Malaysia	<u>16</u>	-	<u>16</u>	-
	<u>23,072</u>	-	<u>23,862</u>	-
	<u>38,727</u>	-	<u>39,517</u>	-

16. Financial assets held-to-maturity

	Group and Bank	
	30.06.2018	31.12.2017
	RM'000	RM'000
At amortised cost		
Unquoted Sukuk in Malaysia	-	6,887
Less: Accumulated impairment loss	-	(6,887)
	<u>-</u>	<u>-</u>

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17. Financing, advances and others

(a) By type and Shariah contract

Group and Bank 30 June 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	-	-	-	2,278	1,264,764	-	-	-	-	1,267,042
Term financing										
House financing	3,937,372	-	-	-	13,124,905	-	-	53,294	-	17,115,571
Syndicated financing	-	-	-	43,279	551,526	-	99,030	-	-	693,835
Leasing financing	-	-	-	-	-	85,642	154	-	-	85,796
Bridging financing	-	-	-	-	-	-	-	70,908	-	70,908
Personal financing	-	-	-	14,206	13,064,354	-	-	-	-	13,078,560
Other term financing	1,311,316	1,201,190	-	7,198	7,323,926	-	-	1,224	-	9,844,854
Staff financing	65,470	8,479	-	-	146,293	-	-	10,551	-	230,793
Credit cards	-	-	-	-	460,176	-	-	-	-	460,176
Trade bills discounted	-	881,217	170,823	-	-	-	-	-	-	1,052,040
Trust receipts	-	5,674	-	-	-	-	-	-	-	5,674
Pawn broking	-	-	-	-	-	-	-	-	74,402	74,402
Investment Account Platform *	-	-	-	-	10,008	-	-	-	-	10,008
	5,314,158	2,096,560	170,823	66,961	35,945,952	85,642	99,184	135,977	74,402	43,989,659

Allowance for impairment on financing, advances and others

- collective assessment allowance - 12 months ECL	(385,305)
- collective assessment allowance - lifetime ECL	(237,123)
- individual assessment allowance - lifetime ECL	(137,655)

Net financing, advances and others

43,229,576

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17. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

Group and Bank	Bai' Bithaman Ajil	Murabahah	Bai' Al-Dayn	Bai' Al-Inah	At-Tawarruq	Ijarah Muntahiah Bit-Tamleek	Ijarah Thumma Al-Bai'	Istisna'	Ar-Rahnu	Total
31 December 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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

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17. Financing, advances and others (continued)

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

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

		Group and Bank	
		30.06.2018	31.12.2017
		RM'000	RM'000
	Note		
House financing			
Unrestricted Investment Accounts	20	3,683,150	3,127,603
Sold to Cagamas with recourse	21	1,501,187	-
		<u>5,184,337</u>	<u>3,127,603</u>
Personal financing			
Unrestricted Investment Accounts	20	<u>1,326,031</u>	<u>1,132,582</u>

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

(b) By type of customer

		Group and Bank	
		30.06.2018	31.12.2017
		RM'000	RM'000
Domestic non-bank financial institutions		1,377,266	1,354,806
Domestic business enterprise		7,021,028	7,015,168
Small and medium industries		874,772	896,444
Government and statutory bodies		584,833	820,586
Individuals		33,528,926	31,986,842
Other domestic entities		17,863	8,195
Foreign entities		584,971	603,895
		<u>43,989,659</u>	<u>42,685,936</u>

(c) By profit rate sensitivity

		Group and Bank	
		30.06.2018	31.12.2017
		RM'000	RM'000
Fixed rate			
House financing		1,114,778	1,168,200
Others		3,319,335	3,560,756
Floating rate			
House financing		16,623,057	15,625,095
Others		22,932,489	22,331,885
		<u>43,989,659</u>	<u>42,685,936</u>

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17. Financing, advances and others (continued)

(d) By remaining contractual maturity

	Group and Bank	
	30.06.2018	31.12.2017
	RM'000	RM'000
Maturity within one year	4,452,768	4,414,217
More than one year to three years	1,516,254	1,087,304
More than three years to five years	3,149,034	2,598,903
More than five years	34,871,603	34,585,512
	43,989,659	42,685,936

(e) By geographical distribution

	Group and Bank	
	30.06.2018	31.12.2017
	RM'000	RM'000
Central Region	20,928,998	20,673,380
Eastern Region	7,199,445	6,860,968
Northern Region	6,309,341	6,121,471
Southern Region	6,304,177	5,908,526
East Malaysia Region	3,247,698	3,121,591
	43,989,659	42,685,936

(f) By sector

	Group and Bank	
	30.06.2018	31.12.2017
	RM'000	RM'000
Primary agriculture	500,097	486,679
Mining and quarrying	10,194	8,080
Manufacturing (including agro-based)	809,346	835,268
Electricity, gas and water	357,218	337,388
Wholesale & retail trade, and hotels & restaurants	1,259,666	1,228,681
Construction	2,199,313	2,176,453
Real estate	1,483,018	1,582,531
Transport, storage and communications	770,835	655,633
Finance, insurance and business activities	2,061,973	2,147,118
Education, health and others	996,341	1,210,056
Household sectors	33,541,658	32,018,049
	43,989,659	42,685,936

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17. Financing, advances and others (continued)

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

	Group and Bank	
	30.06.2018	31.12.2017
	RM’000	RM’000
At 1 January 2018/ 2017	398,277	389,445
Classified as impaired during the period/year	316,371	648,281
Reclassified as not impaired during the period/year	(150,762)	(331,592)
Amount recovered	(46,848)	(92,432)
Amount written off	(89,879)	(209,231)
Exchange differences	-	(6,194)
At 30 June 2018/ 31 December 2017	<u>427,159</u>	<u>398,277</u>
Gross impaired financing as a percentage of gross financing, advances and others	<u>0.97%</u>	<u>0.93%</u>

(h) Impaired financing by geographical distribution

	Group and Bank	
	30.06.2018	31.12.2017
	RM’000	RM’000
Central Region	263,290	223,305
Eastern Region	92,705	107,422
Northern Region	30,290	28,710
Southern Region	24,901	22,915
East Malaysia Region	15,973	15,925
	<u>427,159</u>	<u>398,277</u>

(i) Impaired financing by sector

	Group and Bank	
	30.06.2018	31.12.2017
	RM’000	RM’000
Manufacturing (including agro-based)	16,208	35,448
Wholesale & retail trade, and hotels & restaurants	39,767	38,433
Construction	115,692	86,357
Transport, storage and communications	14,068	12,604
Finance, insurance and business activities	3,157	3,799
Education, health and others	4,529	5,106
Household sectors	233,738	216,530
	<u>427,159</u>	<u>398,277</u>

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17. Financing, advances and others (continued)

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

Group and Bank	← Collective →			Total collective	Individual	Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired			
30.06.2018	RM'000	RM'000	RM'000	RM'000	RM'000	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	7,818	(7,665)	(153)	-	-	-
Transfer to Lifetime ECL not credit impaired	(3,236)	7,951	(4,715)	-	-	-
Transfer to Lifetime ECL credit impaired	(21)	(163)	184	-	-	-
Allowance made during the year	11,945	20,383	88,272	120,600	38,675	159,275
Financial assets that have been derecognised	(19,539)	(16,072)	(34,572)	(70,183)	-	(70,183)
Write-offs	(1,395)	(2,380)	(56,942)	(60,717)	(29,162)	(89,879)
Exchange differences	(745)	-	-	(745)	-	(745)
At 30 June 2018	385,305	141,555	95,568	622,428	137,655	760,083

Group and Bank	31.12.2017
	RM'000
<u>Collective assessment allowance</u>	
At 1 January 2017	554,971
Allowance made during the period/year	34,706
Amount written off	(141,940)
Exchange differences	(1,668)
At 31 December 2017	<u>446,069</u>
<u>Individual assessment allowance</u>	
At 1 January 2017	128,198
Allowance made during the period/year	102,059
Amount recovered	(30,324)
Amount written off	(67,291)
Exchange differences	(6,195)
At 31 December 2017	<u>126,447</u>

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18. Other financial assets at amortised cost

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Sukuk [^]	6,887	-	6,887	-
Other receivables	20,767	90,137	18,650	87,964
Deposit and prepayments	38,023	33,086	36,748	31,968
Related companies*	588	755	932	1,605
	66,265	123,978	63,217	121,537
Less : Accumulated impairment loss:				
Individual assessment				
- Sukuk [^]	(6,887)	-	(6,887)	-
- Other receivables	(475)	(475)	(475)	(475)
	58,903	123,503	55,855	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 16. These assets are classified and measured at amortised cost under MFRS 9.

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19. Deposits from customers

a) By type and Shariah contract

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Saving Deposit				
<i>Wadiah</i>	4,407,228	4,138,519	4,407,228	4,138,519
Demand Deposit				
<i>Wadiah</i>	10,261,022	11,333,608	10,267,884	11,343,024
Term Deposit	29,998,049	30,617,889	30,004,867	30,624,591
Special Investment Deposit				
<i>Mudharabah</i>	6,182	6,182	6,182	6,182
General Investment Deposit				
<i>Mudharabah</i>	306,545	322,561	306,545	322,561
Term Deposit				
<i>Tawarruq</i>	26,496,825	26,728,087	26,503,643	26,734,789
Negotiable Islamic Debt Certificates (NIDC)	3,188,497	3,561,059	3,188,497	3,561,059
Others	94,770	102,894	94,770	102,894
Total Deposits	44,761,069	46,192,910	44,774,749	46,209,028

b) Maturity structure of term deposits are as follows:

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Due within six months	15,801,030	18,565,407	15,807,037	18,571,396
More than six months to one year	8,079,150	8,742,154	8,079,961	8,742,867
More than one year to three years	4,147,460	1,618,691	4,147,460	1,618,691
More than three years to five years	1,970,409	1,691,637	1,970,409	1,691,637
	29,998,049	30,617,889	30,004,867	30,624,591

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19. Deposits from customers (continued)

c) By type of customers

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	7,876,953	14,063,475	7,890,633	14,079,593
Business enterprises	16,857,661	12,406,686	16,857,661	12,406,686
Government and statutory bodies	10,291,157	8,847,454	10,291,157	8,847,454
Individuals	5,179,606	4,810,541	5,179,606	4,810,541
Domestic banking institutions	2,492,177	3,395,740	2,492,177	3,395,740
Others	2,063,515	2,669,014	2,063,515	2,669,014
	<u>44,761,069</u>	<u>46,192,910</u>	<u>44,774,749</u>	<u>46,209,028</u>

20. Investment accounts of customers

(a) By type and Shariah contract

	Note	Group and Bank	
		30.06.2018	31.12.2017
		RM'000	RM'000
Unrestricted investment accounts			
Without maturity			
<i>Mudharabah</i>		2,356,579	1,994,491
With maturity			
<i>Wakalah</i>		2,652,602	2,265,694
		<u>5,009,181</u>	<u>4,260,185</u>
Investment portfolio:			
<i>House financing</i>	17	3,683,150	3,127,603
<i>Personal financing</i>	17	1,326,031	1,132,582
		<u>5,009,181</u>	<u>4,260,185</u>
Restricted investment accounts ("RA") managed by the Bank[^]			
With maturity			
<i>Wakalah</i>		101,039	124,384
Investment portfolio:			
<i>Other term financing</i>		101,039	124,384

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20. Investment accounts of customers (continued)

^ Restricted investment accounts (“RA”) is an arrangement between the Bank and the investment account holders (“IAH”) where the Bank acts as the investment agent to manage and administer the RA and its underlying assets. RA is accounted for as off balance sheet as the Bank has no right and obligation in respect of the assets related to the RA or to the residual cash flows from those assets except for the Wakalah performance incentive fee income generated by the Bank for managing the RA.

Included in RA managed by the Bank is an arrangement between the Bank and its ultimate holding entity with underlying assets amounting to RM101,347,000 (2017: RM123,962,000).

(b) By type of customers

	Group and Bank	
	30.06.2018	31.12.2017
	RM’000	RM’000
Individuals	2,464,604	2,212,239
Government and statutory bodies	215,567	400,709
Business enterprises	483,495	474,464
Non-bank financial institutions	1,770,174	1,077,298
Others	75,341	95,475
	<u>5,009,181</u>	<u>4,260,185</u>

21. 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 17.

22. Subordinated Sukuk Murabahah

	Note	Group and Bank	
		30.06.2018	31.12.2017
		RM’000	RM’000
<i>Issued under the RM1.0 billion Subordinated Sukuk Murabahah Programme</i>			
First tranche, RM300 million			
5.75% due in 2025	(a)	303,308	303,355
Second tranche, RM400 million			
5.50% due in 2025	(b)	400,807	401,085
Third tranche, RM300 million			
5.08% due in 2027	(c)	301,921	302,046
		<u>1,006,036</u>	<u>1,006,486</u>

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22. Subordinated Sukuk Murabahah (continued)

The Bank issued the following tranches of Subordinated Sukuk Murabahah:

- (a) On 22 April 2015, the Bank issued the first tranche of RM300 million in nominal value of Subordinated Sukuk Murabahah which is due on 22 April 2025, with optional redemption on 22 April 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.75% per annum payable semi-annually in arrears.
- (b) On 15 December 2015, the Bank issued the second tranche of RM400 million which is due on 15 December 2025, with optional redemption on 15 December 2020 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.50% per annum payable semi-annually in arrears.
- (c) On 13 November 2017, the Bank issued the third tranche of RM300 million which is due on 12 November 2027, with optional redemption on 12 December 2022 or any periodic payment date thereafter. The Sukuk bears a profit rate of 5.08% per annum payable semi-annually in arrears.

The Subordinated Sukuk Murabahah qualifies as Tier II capital for the computation of the regulatory capital of the Bank in accordance with the Capital Adequacy Framework (Capital Components) for Islamic Banks issued by Bank Negara Malaysia.

23. Other liabilities

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Other payables	611,737	651,703	596,480	644,664
Accruals	75,213	130,596	72,633	129,105
	<u>686,950</u>	<u>782,299</u>	<u>669,113</u>	<u>773,769</u>

24. Income derived from investment of depositors' funds

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Income derived from investment of:				
(i) Saving and demand deposits	192,683	187,568	386,441	369,899
(ii) General investment deposits	4,662	2,560	9,536	11,355
(iii) Term deposits	371,254	367,465	728,534	686,891
(iv) Other deposits	55,141	48,227	111,782	102,221
	<u>623,740</u>	<u>605,820</u>	<u>1,236,293</u>	<u>1,170,366</u>

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

(i) Income derived from investment of saving and demand deposits

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	171,425	151,683	340,278	308,619
Financial assets:				
- fair value through profit and loss	1,251	-	2,514	-
- fair value through other comprehensive income	15,633	-	32,581	-
- other financial assets at amortised cost	87	-	87	-
- held-for-trading	-	1,457	-	2,891
- available-for-sale	-	19,681	-	40,329
- held-to-maturity	-	1,913	-	2,112
Money at call and deposits with financial institutions	4,181	2,557	10,012	5,586
	<u>192,577</u>	<u>177,291</u>	<u>385,472</u>	<u>359,537</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	8	-	260	-
Net gain/(loss) on revaluation of financial assets at fair value through profit or loss	(5)	-	107	-
Net gain/(loss) from sale of financial assets held-for-trading	-	310	-	(1,391)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(201)	-	1,272
	<u>3</u>	<u>109</u>	<u>367</u>	<u>(119)</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	103	-	602	-
Net gain from sale of financial assets available-for-sale	-	321	-	634
Net gain from sale of financial assets held-to-maturity	-	9,847	-	9,847
	<u>103</u>	<u>10,168</u>	<u>602</u>	<u>10,481</u>
	<u>192,683</u>	<u>187,568</u>	<u>386,441</u>	<u>369,899</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>2,488</u>	<u>2,907</u>	<u>5,727</u>	<u>5,533</u>

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

(ii) *Income derived from investment of general investment deposits*

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	4,183	1,996	8,478	9,655
Financial assets:				
- fair value through profit and loss	27	-	56	-
- fair value through other comprehensive income	343	-	729	-
- other financial assets at amortised cost	2	-	2	-
- held-for-trading	-	17	-	81
- available-for-sale	-	227	-	1,120
- held-to-maturity	-	49	-	58
Money at call and deposits with financial institutions	106	(5)	250	156
	<u>4,661</u>	<u>2,284</u>	<u>9,515</u>	<u>11,070</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	-	-	6	-
Net gain/(loss) on revaluation of financial assets at fair value through profit or loss	(1)	-	2	-
Net gain/(loss) from sale of financial assets held-for-trading	-	51	-	(39)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(54)	-	36
	<u>(1)</u>	<u>(3)</u>	<u>8</u>	<u>(3)</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	2	-	13	-
Net gain from sale of financial assets available-for-sale	-	9	-	18
Net gain from sale of financial assets held-to-maturity	-	270	-	270
	<u>2</u>	<u>279</u>	<u>13</u>	<u>288</u>
	<u>4,662</u>	<u>2,560</u>	<u>9,536</u>	<u>11,355</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>55</u>	<u>80</u>	<u>129</u>	<u>198</u>

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

(iii) Income derived from investment of term deposits

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	330,308	298,801	641,657	574,776
Financial assets:				
- fair value through profit and loss	2,411	-	4,738	-
- fair value through other comprehensive income	30,097	-	61,350	-
- other financial assets at amortised cost	164	-	164	-
- held-for-trading	-	2,871	-	5,393
- available-for-sale	-	38,771	-	75,081
- held-to-maturity	-	3,573	-	3,924
Money at call and deposits with financial institutions	8,085	3,774	18,837	7,891
	<u>371,065</u>	<u>347,790</u>	<u>726,746</u>	<u>667,065</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	24	-	488	-
Net gain/(loss) on revaluation of financial assets at fair value through profit or loss	(35)	-	180	-
Net gain/(loss) from sale of financial assets held-for-trading	-	404	-	(2,587)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(196)	-	2,395
	<u>(11)</u>	<u>208</u>	<u>668</u>	<u>(192)</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	200	-	1,120	-
Net gain from sale of financial assets available-for-sale	-	623	-	1,174
Net gain from sale of financial assets held-to-maturity	-	18,844	-	18,844
	<u>200</u>	<u>19,467</u>	<u>1,120</u>	<u>20,018</u>
	<u>371,254</u>	<u>367,465</u>	<u>728,534</u>	<u>686,891</u>
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	<u>4,795</u>	<u>5,306</u>	<u>10,761</u>	<u>9,923</u>

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

(iv) Income derived from investment of other deposits

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	49,057	38,991	98,411	85,464
Financial assets:				
- fair value through profit and loss	358	-	725	-
- fair value through other comprehensive income	4,453	-	9,403	-
- other financial assets at amortised cost	22	-	22	-
- held-for-trading	-	373	-	798
- available-for-sale	-	5,067	-	11,182
- held-to-maturity	-	496	-	555
Money at call and deposits with financial institutions	1,235	603	2,959	1,500
	<u>55,125</u>	<u>45,530</u>	<u>111,520</u>	<u>99,499</u>
<i>Other dealing income</i>				
Net gain from sale of financial assets at fair value through profit or loss	11	-	91	-
Net loss on revaluation of financial assets at fair value through profit or loss	(29)	-	(15)	-
Net gain/(loss) from sale of financial assets held-for-trading	-	122	-	(382)
Net gain/(loss) on revaluation of financial assets held-for-trading	-	(105)	-	331
	<u>(18)</u>	<u>17</u>	<u>76</u>	<u>(51)</u>
<i>Other operating income</i>				
Net gain from sale of financial assets at fair value through other comprehensive income	34	-	186	-
Net gain from sale of financial assets available-for-sale	-	90	-	183
Net gain from sale of financial assets held-to-maturity	-	2,590	-	2,590
	<u>34</u>	<u>2,680</u>	<u>186</u>	<u>2,773</u>
	<u>55,141</u>	<u>48,227</u>	<u>111,782</u>	<u>102,221</u>
<i>of which</i>				
Financing income earned on impaired financing	724	768	1,674	1,545

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25. Income derived from investment account funds

Group and Bank	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Finance income				
Unrestricted investment accounts				
- <i>Mudharabah</i>	30,222	23,107	59,921	45,007
- <i>Wakalah</i>	32,596	42,373	64,652	75,175
	<u>62,818</u>	<u>65,480</u>	<u>124,573</u>	<u>120,182</u>

26. Income derived from investment of shareholders' funds

Group	3 months ended		6 months ended	
	30.06.2018 RM'000	30.06.2017 RM'000	30.06.2018 RM'000	30.06.2017 RM'000
Finance income and hibah				
Financing, advances and others	1,820	1,678	3,604	3,305
Financial assets:				
- fair value through other comprehensive income	48,960	-	87,104	-
- available-for-sale	-	38,123	-	74,251
Money at call and deposits with financial institutions	1	1	2	1
	<u>50,781</u>	<u>39,802</u>	<u>90,710</u>	<u>77,557</u>
Other dealing income				
Net gain from foreign exchange transactions	12,033	15,978	26,793	34,565
Net derivatives gain/(loss)	(152)	(911)	77	(858)
Net gain from sale of financial assets at fair value through profit or loss	14	-	-	-
Net loss on revaluation of financial assets at fair value through profit or loss	-	-	(1)	-
Net gain on revaluation of financial assets held-for-trading	-	-	-	1
	<u>11,895</u>	<u>15,067</u>	<u>26,869</u>	<u>33,708</u>
Other operating income				
Net gain from sale of financial assets available for sale	-	272	-	272
Gross dividend income from:				
- unit trust in Malaysia	44	723	867	1,140
	<u>44</u>	<u>995</u>	<u>867</u>	<u>1,412</u>

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

Group	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<i>Fees and commission</i>				
Fees	50,263	36,943	92,796	74,332
Commission	5,360	8,098	11,609	13,072
Others	6,273	3,919	11,155	7,527
	61,896	48,960	115,560	94,931
<i>Other income</i>				
Net gain/(loss) on disposal of property and equipment	229	-	270	(3)
Rental income	418	607	1,051	1,221
Other income	26	60	50	169
	673	667	1,371	1,387
	125,289	105,491	235,377	208,995
Bank				
	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<i>Finance income and hibah</i>				
Financing, advances and others	1,820	1,678	3,604	3,305
Financial assets:				
- fair value through other comprehensive income	48,960	-	87,104	-
- available-for-sale	-	38,123	-	74,251
Money at call and deposits with financial institutions	1	-	2	-
	50,781	39,801	90,710	77,556
<i>Other dealing income</i>				
Net gain from foreign exchange transactions	12,050	15,978	26,810	34,565
Net derivatives gain/(loss)	(152)	(911)	77	(858)
	11,898	15,067	26,887	33,707
<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	-	680	778	1,055
	-	952	778	1,327

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

Bank	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<i>Fees and commission</i>				
Fees	39,914	32,943	74,576	66,364
Commission	6,698	9,583	14,831	15,748
Others	5,846	3,584	10,544	7,345
	52,458	46,110	99,951	89,457
<i>Other income</i>				
Net gain/(loss) on disposal of property and equipment	229	-	270	(3)
Rental income	511	692	1,235	1,390
Other income	3	41	16	114
	743	733	1,521	1,501
	115,880	102,663	219,847	203,548

27. Allowance for impairment on financing and advances

Group and Bank	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Allowances/(Reversal) for impaired financing, advances and others:				
- Collective assessment allowance	39,594	27,500	50,417	57,446
- Individual assessment allowance	1,713	13,916	38,675	10,461
Bad debts and financing recovered	(26,549)	(16,603)	(53,171)	(34,311)
	14,758	24,813	35,921	33,596

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28. Income attributable to depositors

Group	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah fund	2,463	2,871	4,962	5,886
- Non-Mudharabah fund	301,755	274,620	595,799	544,332
Deposits and placements of banks and other financial institutions				
- Mudharabah fund	43	-	43	-
- Non-Mudharabah fund	78	1,265	409	1,577
Recourse obligation on financing sold to Cagamas	7,125	-	7,125	-
	311,464	278,756	608,338	551,795

Bank	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah fund	2,463	2,871	4,962	5,886
- Non-Mudharabah fund	301,819	274,679	595,927	544,449
Deposits and placements of banks and other financial institutions				
- Mudharabah fund	43	-	43	-
- Non-Mudharabah fund	78	1,265	409	1,577
Recourse obligation on financing sold to Cagamas	7,125	-	7,125	-
	311,528	278,815	608,466	551,912

29. Income attributable to investment account holders

Group and Bank	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Unrestricted investment accounts				
- <i>Mudharabah</i>	1,184	457	2,895	895
- <i>Wakalah</i>	21,731	28,684	42,825	51,411
	22,915	29,141	45,720	52,306

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30. Personnel expenses

Group	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Salaries, allowances and bonuses	118,790	119,486	222,029	213,354
Employees' Provident Fund	14,397	13,725	28,983	27,502
Other staff related costs	12,592	16,426	26,506	30,345
	145,779	149,637	277,518	271,201

Bank	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Salaries, allowances and bonuses	116,561	118,105	217,557	210,726
Employees' Provident Fund	14,089	13,532	28,362	27,130
Other staff related costs	12,259	16,280	25,912	30,046
	142,909	147,917	271,831	267,902

31. Other overhead expenses

Group	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
<i>Promotion</i>				
Credit and debit card expenses	6,631	6,720	15,778	14,612
Commissions	9,052	3,158	14,387	6,188
Advertisement and publicity	2,572	1,723	4,438	2,392
	18,255	11,601	34,603	23,192
<i>Establishment</i>				
Office rental	13,628	13,409	26,556	26,297
Depreciation of property and equipment	12,104	14,385	23,589	29,368
Information technology expenses	15,127	16,552	22,293	24,009
Office maintenance	3,771	2,968	5,980	5,540
Security services	3,280	5,325	6,054	9,189
Utilities	3,445	3,792	6,815	7,264
Takaful	2,035	2,588	4,334	2,394
Rental of equipment	897	1,050	2,313	1,936
Others	241	-	280	281
	54,528	60,069	98,214	106,278

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32. Segmental Reporting on Revenue, Profit and Assets

	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Total RM'000
<u>6 months ended 30 June 2018</u>						
Total Revenue	1,011,411	301,933	261,961	28,152	(6,881)	1,596,576
Net fund based income	467,584	188,576	(11,959)	150,277	-	794,478
Non-fund based income	81,180	18,723	30,471	24,419	(6,753)	148,040
Net income	548,764	207,299	18,512	174,696	(6,753)	942,518
Allowances for impairment	(17,814)	(18,107)	86	-	-	(35,835)
Profit before overheads, zakat & tax	530,950	189,192	18,598	174,696	(6,753)	906,683
Operating expenses						(505,996)
Profit before zakat & tax						400,687
<u>6 months ended 30 June 2017</u>						
Total Revenue	890,260	298,353	301,249	16,348	(4,666)	1,501,544
Net fund based income	419,011	181,730	(13,216)	143,286	-	730,811
Non-fund based income	73,853	16,064	68,338	12,926	(4,549)	166,632
Net income	492,864	197,794	55,122	156,212	(4,549)	897,443
Allowances for impairment	(20,360)	(13,479)	-	-	-	(33,839)
Profit before overheads, zakat & tax	472,504	184,315	55,122	156,212	(4,549)	863,604
Operating expenses						(495,845)
Profit before zakat & tax						367,759

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32. Segmental Reporting on Revenue, Profit and Assets (continued)

	Consumer Banking RM'000	Corporate and Commercial Banking RM'000	Treasury RM'000	Shareholders unit RM'000	Elimination RM'000	Total RM'000
<u>At 30 June 2018</u>						
Segment assets	33,158,455	10,071,121	11,989,296	52,950	(30,839)	55,240,983
Unallocated assets						2,792,232
Total assets						<u>58,033,215</u>
<u>At 31 December 2017</u>						
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						<u>57,742,914</u>

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33. Fair value of Financial Instruments

Fair value hierarchy

MFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Group's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes profit rates swap and structured debt. The sources of input parameters include Bank Negara Malaysia (BNM) indicative yields or counterparty credit risk.
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The table does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values.

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33. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Group 30 June 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	-	522,299	-	522,299	-	522,299	522,299
Derivative financial assets	-	52,590	-	52,590	-	52,590	52,590
Financial assets at fair value through other comprehensive income	15,655	10,137,892	23,072*	10,176,619	-	10,176,619	10,176,619
Financing, advances and others	-	-	-	-	43,371,613	43,371,613	43,229,576
Financial liabilities							
Derivative financial liabilities	-	31,331	-	31,331	-	31,331	31,331
Subordinated Sukuk Murabahah	-	-	-	-	1,045,345	1,045,345	1,006,036
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
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
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

* Comprise non-traded equity investments which are measured at fair value upon adoption of MFRS 9. Before the adoption of MFRS 9, these securities were measured at cost less any impairment loss because their fair value was not considered to be reliably measurable. MFRS 9 has removed this cost exception.

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33. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Bank 30 June 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	-	516,949	-	516,949	-	516,949	516,949
Derivative financial assets	-	52,590	-	52,590	-	52,590	52,590
Financial assets at fair value through other comprehensive income	15,655	10,137,892	23,862*	10,177,409	-	10,177,409	10,177,409
Financing, advances and others	-	-	-	-	43,371,613	43,371,613	43,229,576
Financial liabilities							
Derivative financial liabilities	-	31,331	-	31,331	-	31,331	31,331
Subordinated Sukuk Murabahah	-	-	-	-	1,045,345	1,045,345	1,006,036
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
Subordinated Sukuk Murabahah	-	-	-	-	1,050,750	1,050,750	1,006,486

* Comprise non-traded equity investments which are measured at fair value upon adoption of MFRS 9. Before the adoption of MFRS 9, these securities were measured at cost less any impairment loss because their fair value was not considered to be reliably measurable. MFRS 9 has removed this cost exception.

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33. Fair value of Financial Instruments (continued)

Fair value hierarchy (continued)

Unobservable inputs used in measuring fair value

The following tables show the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

(a) Financial instruments carried at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity investments	Adjusted net asset method	Assets and liabilities of the investee company	Changes on the assets and liabilities would reflect the fair value measurement

(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 that classified as other financial assets at amortised cost, 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, advances and others

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

(iii) Subordinated Sukuk Murabahah

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

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34. Commitment and Contingencies

The commitment and contingencies and their related counterparty credit risk for the Group and Bank are as follows:

As at 30 June 2018	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000	
<i>Credit related exposures</i>				
Direct credit substitutes	483,624	483,624	483,342	
Transaction related contingent items	1,067,070	533,535	498,646	
Short term self-liquidating trade related contingencies	283,780	56,756	55,666	
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- not exceeding one year	-	-	-	
- exceeding one year	1,563,291	781,646	586,693	
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	7,837,874	-	-	
	<u>11,235,639</u>	<u>1,855,561</u>	<u>1,624,347</u>	
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Derivative Financial Instruments</i>				
Foreign exchange related contracts				
- less than one year	3,635,933	48,500	85,877	55,574
- one year to less than five years	40,525	-	2,026	405
Profit rate related contracts				
- less than one year	400,000	2,060	1,801	360
- one year to less than five years	-	-	-	-
- five years and above	193,388	2,030	11,246	6,889
	<u>4,269,846</u>	<u>52,590</u>	<u>100,950</u>	<u>63,228</u>
Total	<u>15,505,485</u>	<u>52,590</u>	<u>1,956,511</u>	<u>1,687,575</u>

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34. Commitment and Contingencies (continued)

The commitment and contingencies and their related counterparty credit risk for the Group and Bank are as follows (continued):

	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
As at 31 December 2017			
<i>Credit related exposures</i>			
Direct credit substitutes	2,871,511	2,871,511	2,167,427
Transaction related contingent items	1,066,956	533,478	499,771
Short term self-liquidating trade related contingencies	373,328	74,666	71,836
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:			
- not exceeding one year	318	64	32
- exceeding one year	1,226,538	613,269	445,326
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	4,402,695	-	-
	9,941,346	4,092,988	3,184,392

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Asset RM'000
<i>Derivative Financial Instruments</i>				
Foreign exchange related contracts				
- less than one year	3,218,824	63,827	112,875	41,796
Profit rate related contracts				
- less than one year	-	-	-	-
- one year to less than five years	400,000	2,132	4,921	984
- five years and above	207,992	2,360	14,351	8,895
	3,826,816	68,319	132,147	51,675
Total	13,768,162	68,319	4,225,135	3,236,067

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35. Capital adequacy

Total capital and capital adequacy ratios of the Bank have been computed based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components and Risk-Weighted Assets). 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	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Common Equity Tier I (CET I) Capital Ratio	13.083%	12.729%	13.052%	12.701%
Total Tier I Capital Ratio	13.083%	12.729%	13.052%	12.701%
Total capital ratio	16.898%	16.435%	16.869%	16.411%

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

	Group		Bank	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Paid-up share capital	2,869,498	2,869,498	2,869,498	2,869,498
Retained earnings	2,209,887	2,150,402	2,207,302	2,150,345
Other reserves	(140,567)	(124,841)	(140,374)	(124,982)
Less: Deferred tax assets	(84,968)	(37,288)	(83,425)	(37,288)
Less: Investment in subsidiaries	-	-	(15,525)	(15,525)
Total CET I and Tier I Capital	<u>4,853,850</u>	<u>4,857,771</u>	<u>4,837,476</u>	<u>4,842,048</u>
Sukuk Murabahah	1,000,000	1,000,000	1,000,000	1,000,000
Collective assessment allowance and regulatory reserve ^	414,968	414,193	414,812	414,193
Total Tier II Capital	<u>1,414,968</u>	<u>1,414,193</u>	<u>1,414,812</u>	<u>1,414,193</u>
Total Capital	<u>6,268,818</u>	<u>6,271,964</u>	<u>6,252,288</u>	<u>6,256,241</u>

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

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35. Capital adequacy (continued)

The breakdown of risk-weighted assets by each major risk category is as follows:

	Group		Bank	
	30.06.2018 RM'000	31.12.2017 RM'000	30.06.2018 RM'000	31.12.2017 RM'000
Credit risk	36,684,620	37,442,256	36,672,130	37,437,855
Less : Credit risk absorbed by unrestricted investment accounts	(3,487,142)	(3,034,004)	(3,487,143)	(3,034,004)
	33,197,478	34,408,252	33,184,987	34,403,851
Market risk	650,235	602,089	650,235	586,043
Operational risk	3,251,341	3,152,951	3,227,613	3,132,745
	37,099,054	38,163,292	37,062,835	38,122,639

36. Performance review for the six months ended 30 June 2018

The Group reported profit before zakat and tax of RM400.7 million or an increase of 9.0% for the six months ended 30 June 2018 compared to the previous corresponding period. The improved performance was mainly attributed to the increase in Base Rate and Base Financing rate by 25 bps effective February 2018, in response to the 25 bps increase in Overnight Policy Rate on 25 January 2018.

Year-on-year net financing assets grew RM2.7 billion or 6.7% to reach RM43.2 billion as at end of June 2018. Correspondingly, fund based income from financing also increased by RM115.0 million or 10.4%.

As at end of June 2018, customer deposits and investment accounts stood at RM49.8 billion with a year-on-year increase of RM1.7 billion or 3.5%. CASA ratio as at end of June 2018 was 32.8% against the Islamic Banking Industry CASA ratio of 23.5% as at end of May 2018.

The Group's gross impaired financing ratio was 0.97% while the net impaired financing ratio was a negative 0.77% as at end of June 2018 compared to 0.93% and a negative 0.41% respectively as at 31 December 2017. The Banking System gross impaired ratio was 1.60% and the net impaired ratio was 0.09% as at end of May 2018.

The key performance ratios as at end of June 2018 also compared favourably against the Banking System ratios as at end of December 2017. The Bank's return on equity and return on assets based on profit before zakat and tax (PBZT) were 15.9% and 1.4% respectively against the Islamic Banking Industry's 15.1% and 1.1% respectively.

37. Prospect for 2018

Post 14th General Election, the concern among investment communities revolves around on the 10 election promises, which among others are the removal of the Goods and Services Tax (GST), reintroduction of targeted fuel subsidy, abolishment of tolled roads and addressing 1MDB's debt problems. While Moody's Investor Service has maintained its rating on Government of Malaysia at A3 with stable outlook, however, policy uncertainty appears to be a concern especially in the context of the GST removal and the reintroduction of fuel subsidies, which are deemed to be credit negative. Foreign funds have been net sellers in both bonds and equities markets – which saw net outflows totalling RM12.9 billion and RM5.6 billion respectively in the month of May 2018.

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37. Prospect for 2018 (continued)

As widely reported, the Government spending is expected to be cautious given the current administration aspiration to reduce the national debt. This would have implication especially to public investment as the Government has already scrapped some mega projects and reduced the scale of some others in a bid to reduce government expenditure. All in all, the economy may grow at a much slower rate of 5.1% in 2018 compared to the initial projection of 5.5%. Private consumption, which accounted for more half of Malaysian economy, will be the primary engine for growth in 2018 due to the expected improvement in sentiments among the consumers amidst a lower inflation rate.

The banking industry is expected to remain resilient amidst continued uncertainty in commodity prices, high cost of living and cautiously optimistic business sentiment. Financing growth for the banking sector is anticipated to be between 5% and 6% as banks continue to defend their asset quality. In addition, usage of technology will intensify in order to improve customer experience and operational efficiency.

Premised on the overarching themes of Value-Based Intermediation (“VBI”), Bank Islam strives to deliver a sustainable performance with a strategic aim to support economic, social and environmental development.

The Bank will focus on optimising its risks and returns, optimising its resources and productivity as well as its franchise value, which is underpinned by a disciplined balance sheet management. This is to sustain net income margin, preserve asset quality and minimise the financial impact arising from the implementation of Malaysian Financial Reporting Standards on Financial Instruments (“MFRS9”) and the upcoming Net Stable Funding Ratio (“NSFR”) requirements. With digital transformation being a new thrust to enriching customer experience and services, Bank Islam has embarked on its digital journey to collaborate with FinTech companies in enhancing its reach and spurring innovation.

The Bank will continue to invest in its people, to build a strong compliance and risk culture as well as enhance its capability and capacity as a key player in Islamic Finance.

38. Subsequent events

There were no material events subsequent to the end of the reporting period that require disclosure or adjustments to the unaudited interim financial statements.

39. Credit Transactions and Exposures with Connected Parties

	Group and Bank	
	30.06.2018	31.12.2017
	RM'000	RM'000
Outstanding credit exposures with connected parties	2,347,560	1,228,469
% of outstanding credit exposures to connected parties as a proportion of total credit exposures	5.34%	2.88%
% of outstanding credit exposures with connected parties which is non-performing or in default	0.001%	0.001%