

BIMB Holdings Berhad (423858-X)
(Incorporated in Malaysia)
and its subsidiaries
Unaudited Interim Financial Statements

Condensed Statement of Financial Position as at 30 September 2018

	Note	Group As at		Company As at	
		30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Assets					
Cash and short-term funds	9	1,836,322	4,807,749	438,911	241,074
Deposits and placements with financial institutions	10	1,128,312	1,159,085	-	-
Financial assets held-for-trading	11	-	607,431	-	-
Financial assets at fair value through profit or loss (FVTPL)	12	2,337,452	-	178,727	-
Derivative financial assets	13	46,371	68,319	-	-
Financial assets available-for-sale	14	-	13,497,437	-	174,546
Financial assets at fair value through other comprehensive income (FVOCI)	15	14,671,229	-	-	-
Financial assets held-to-maturity	16	-	516,524	-	-
Financing, advances and others	17	44,256,513	42,113,420	-	-
Other financial assets at amortised cost	18	357,036	366,992	4,416	1,951
Takaful assets	19	743,637	677,713	-	-
Statutory deposits with Bank Negara Malaysia		1,525,294	1,407,284	-	-
Current tax assets		40,516	34,333	-	20
Deferred tax assets		111,100	72,023	10	10
Investments in subsidiaries		-	-	5,309,095	5,166,225
Property and equipment		410,510	397,624	396	484
Investment properties		10,586	10,868	-	-
Intangible assets		100,684	47,832	-	-
Total assets		67,575,562	65,784,634	5,931,555	5,584,310

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Condensed Statement of Financial Position as at 30 September 2018
(continued)

	Note	Group As at		Company As at	
		30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Liabilities and equity					
Deposits from customers	20	45,294,550	45,870,596	-	-
Investment accounts of customers	21	4,202,559	3,969,344	-	-
Derivative financial liabilities	13	24,444	74,668	-	-
Bills and acceptances payable		234,656	420,258	-	-
Recourse obligation on financing sold to Cagamas	22	1,501,187	-	-	-
Other liabilities	23	1,057,961	1,266,609	2,653	232,598
Takaful liabilities	24	7,315,888	6,962,313	-	-
Sukuk liabilities	25	2,308,161	2,235,862	1,339,190	1,279,512
Zakat and taxation		76,502	66,631	1,123	18
Total liabilities		62,015,908	60,866,281	1,342,966	1,512,128
Equity					
Share capital		4,082,939	3,875,270	4,082,939	3,875,270
Reserves		1,055,707	658,669	505,650	196,912
Equity attributable to owners of the Company		5,138,646	4,533,939	4,588,589	4,072,182
Non-controlling interests		421,008	384,414	-	-
Total equity		5,559,654	4,918,353	4,588,589	4,072,182
Total liabilities and equity		67,575,562	65,784,634	5,931,555	5,584,310
Restricted investment accounts managed by Bank Islam					
	21	89,532	124,384	-	-
Total Islamic banking asset		67,665,094	65,909,018	5,931,555	5,584,310
Commitments and contingencies	41	14,903,103	13,768,162	-	-
Net assets per share attributable to ordinary equity of the Company (RM)					
		3.03	2.77	2.71	2.49

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

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**Condensed Statement of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018**

Group	Note	Quarter 3 months ended		Year-to-date 9 months ended	
		30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Income derived from investment of depositors' funds	27	680,226	579,182	1,916,519	1,749,548
Income derived from investment account funds	28	58,715	61,424	176,613	177,018
Income derived from investment of shareholders' funds	29	123,603	99,965	360,097	307,889
Net income from Takaful business (Net allowance for)/Reversal of impairment on financing and advances, net of recoveries	30	227,145	171,953	627,661	538,895
Reversal of/(Net allowance for) impairment on other financial assets	31	(26,104)	43,791	(62,025)	10,195
Direct expenses		3	-	89	(243)
		(4,276)	(4,379)	(13,332)	(14,233)
Total distributable income		1,059,312	951,936	3,005,622	2,769,069
Wakalah fees from restricted investment accounts		146	212	479	2,213
Income attributable to depositors	32	(322,449)	(272,799)	(926,791)	(820,512)
Income attributable to investment account holders	33	(18,836)	(25,300)	(57,881)	(73,018)
Total net income		718,173	654,049	2,021,429	1,877,752
Personnel expenses	34	(195,228)	(178,553)	(554,672)	(528,982)
Other overhead expenses	35	(193,667)	(176,330)	(561,245)	(531,797)
Finance cost		329,278	299,166	905,512	816,973
		(32,933)	(28,340)	(98,256)	(84,719)
Profit before zakat and tax		296,345	270,826	807,256	732,254
Zakat		(4,083)	(2,972)	(12,002)	(8,104)
Tax expense	B5	(59,882)	(65,008)	(191,904)	(193,881)
Profit for the period		232,380	202,846	603,350	530,269
Attributable to:					
Owners of the Company		198,624	183,434	520,670	470,203
Non-controlling interests		33,756	19,412	82,680	60,066
Profit for the period		232,380	202,846	603,350	530,269
Earnings per share (sen)	B11	11.73	11.20	30.84	28.81

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**Condensed Statement of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018 (continued)**

Group	Quarter		Year-to-date	
	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Profit for the period	232,380	202,846	603,350	530,269
Other comprehensive income, net of tax				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit liabilities	(149)	(78)	(149)	(78)
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation differences in respect of foreign operations	(10,203)	7,214	(12,847)	29,220
Movement in fair value reserve (debt securities):				
Net change in fair value	85,736	-	49,124	-
Net amount transferred to profit or loss	(19,248)	-	(21,450)	-
Movement in fair value reserve (equity instrument):				
Net change in fair value	-	-	(1,957)	-
Net amount transferred to profit or loss	-	-	-	-
Movement in fair value reserve (available for sale):				
Net change in fair value	-	16,287	-	57,149
Net amount transferred to profit or loss	-	(2,992)	-	(6,848)
Income tax credit/expense relating to components of other comprehensive income	(14,881)	(3,182)	(5,486)	(11,233)
Other comprehensive income for the period, net of tax	41,255	17,249	7,235	68,210
Total comprehensive income for the period	273,635	220,095	610,585	598,479
Total comprehensive income attributable to:				
Owners of the Company	238,738	200,957	529,136	535,857
Non-controlling interests	34,897	19,138	81,449	62,622
Total comprehensive income for the period	273,635	220,095	610,585	598,479

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

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**Condensed Statement of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018 (continued)**

Company	Note	Quarter		Year-to-date	
		3 months ended	3 months ended	9 months ended	9 months ended
		30.09.2018	30.09.2017	30.09.2018	30.09.2017
		RM'000	RM'000	RM'000	RM'000
Income derived from investment of shareholders' funds / Total distributable income / Total net income	29	148,649	135,645	381,119	335,121
Personnel expenses	34	(2,364)	(2,237)	(6,896)	(6,771)
Other overhead expenses	35	(1,028)	(1,096)	(3,411)	(3,623)
		<u>145,257</u>	132,312	<u>370,812</u>	324,727
Finance cost		(19,892)	(19,140)	(59,678)	(57,419)
Profit before zakat and tax		<u>125,365</u>	113,172	<u>311,134</u>	267,308
Tax expense	B5	(1,438)	(351)	(2,396)	(1,461)
Profit for the period		<u>123,927</u>	112,821	<u>308,738</u>	265,847
		=====	=====	=====	=====
Attributable to:					
Owners of the Company		<u>123,927</u>	112,821	<u>308,738</u>	265,847
Profit for the period		<u>123,927</u>	112,821	<u>308,738</u>	265,847
		=====	=====	=====	=====

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**Condensed Statement of Profit or Loss and Other Comprehensive Income
for the nine months ended 30 September 2018 (continued)**

Company	Note	Quarter		Year-to-date	
		3 months ended 30.09.2018	3 months ended 30.09.2017	9 months ended 30.09.2018	9 months ended 30.09.2017
		RM'000	RM'000	RM'000	RM'000
Profit for the period		123,927	112,821	308,738	265,847
Other comprehensive income, net of tax					
Items that are or may be reclassified subsequently to profit or loss:					
Movement in fair value reserve (available for sale):					
Net change in fair value		-	59	-	90
Net amount transferred to profit or loss		-	-	-	(45)
Other comprehensive income for the period, net of tax		-	59	-	45
Total comprehensive income for the period		123,927	112,880	308,738	265,892
Total comprehensive income attributable to:					
Owners of the Company		123,927	112,880	308,738	265,892
Total comprehensive income for the period		123,927	112,880	308,738	265,892

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

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Condensed Statement of Changes in Equity for the nine months ended 30 September 2018

Group	← Attributable to owners of the Company →						Total equity RM'000
	Share capital RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	
At 1 January 2017	1,588,680	2,102,611	(115,791)	307,352	3,882,852	334,285	4,217,137
Profit for the period	-	-	-	470,203	470,203	60,066	530,269
Other comprehensive income							
Remeasurement of defined benefit liabilities	-	-	-	(35)	(35)	(43)	(78)
Currency translation differences in respect of foreign operations	-	-	28,051	-	28,051	1,169	29,220
Fair value reserve:							
Net change in fair value	-	-	54,730	-	54,730	2,419	57,149
Net amount reclassified to profit or loss	-	-	(5,859)	-	(5,859)	(989)	(6,848)
Income tax credit relating to components of other comprehensive income	-	-	(11,233)	-	(11,233)	-	(11,233)
Total comprehensive income for the period	-	-	65,689	470,168	535,857	62,622	598,479
Transfer of reserve fund to retained earnings	-	-	(1,124,774)	1,124,774	-	-	-
Dividends paid to non-controlling interest	-	-	-	-	-	(39,528)	(39,528)
Issue of shares pursuant to Dividend							
Reinvestment Plan	183,979	-	-	-	183,979	-	183,979
Transfer of share premium to share capital	2,102,611	(2,102,611)	-	-	-	-	-
Share-based payment transactions	-	-	2,599	-	2,599	1,753	4,352
Long Term Incentive Plan exercised	-	-	(1,702)	-	(1,702)	1,702	-
At 30 September 2017	3,875,270	-	(1,173,979)	1,902,294	4,603,585	360,834	4,964,419

Note 26

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

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Condensed Statement of Changes in Equity for the nine months ended 30 September 2018 (continued)

Group	← Attributable to owners of the Company →				Total RM'000	Non-controlling interests RM'000	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 2018							
- as previously stated	3,875,270	-	(1,099,225)	1,757,894	4,533,939	384,414	4,918,353
- adjustment on adoption of MFRS 9 (net of tax)	-	-	8,412	(141,096)	(132,684)	(1,494)	(134,178)
At 1 January 2018, restated	3,875,270	-	(1,090,813)	1,616,798	4,401,255	382,920	4,784,175
Profit for the period	-	-	-	520,670	520,670	82,680	603,350
Other comprehensive income							
Remeasurement of defined benefit liabilities	-	-	-	(66)	(66)	(83)	(149)
Currency translation differences in respect of foreign operations	-	-	(10,546)	-	(10,546)	(2,301)	(12,847)
Fair value reserve:							
Net change in fair value	-	-	45,901	-	45,901	1,266	47,167
Net amount reclassified to profit or loss	-	-	(21,337)	-	(21,337)	(113)	(21,450)
Income tax credit relating to components of other comprehensive income	-	-	(5,486)	-	(5,486)	-	(5,486)
Total comprehensive income for the period	-	-	8,532	520,604	529,136	81,449	610,585
Transfer from regulatory reserve to retained earnings	-	-	(54,645)	54,645	-	-	-
Dividends paid to non-controlling interest	-	-	-	-	-	(49,739)	(49,739)
Issue of shares pursuant to Dividend Reinvestment Plan	207,669	-	-	-	207,669	-	207,669
Share-based payment transactions	-	-	4,153	-	4,153	2,811	6,964
Long Term Incentive Plan exercised	-	-	(3,567)	-	(3,567)	3,567	-
At 30 September 2018	4,082,939	-	(1,136,340)	2,192,047	5,138,646	421,008	5,559,654

Note 26

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Condensed Statement of Changes in Equity for the nine months ended 30 September 2018 (continued)

Company	← Attributable to owners of the Company →					
	Share capital RM'000	← Non-distributable →			Distributable	
		Share premium RM'000	Warrant reserves RM'000	Fair value reserves RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017	1,588,680	2,102,611	129,300	81	51,259	3,871,931
Profit for the period	-	-	-	-	265,847	265,847
Other comprehensive income						
Fair value reserve:						
Net change in fair value	-	-	-	90	-	90
Net amount reclassified to profit or loss	-	-	-	(45)	-	(45)
Total comprehensive income for the period	-	-	-	45	265,847	265,892
Issue of shares pursuant to Dividend Reinvestment Plan	183,979	-	-	-	-	183,979
Transfer of share premium to share capital	2,102,611	(2,102,611)	-	-	-	-
At 30 September 2017	3,875,270	-	129,300	126	317,106	4,321,802
At 1 January 2018						
- as previously stated	3,875,270	-	129,300	178	67,434	4,072,182
- adjustment on adoption of MFRS 9 (net of tax)	-	-	-	(178)	178	-
At 1 January 2018, restated	3,875,270	-	129,300	-	67,612	4,072,182
Profit for the period	-	-	-	-	308,738	308,738
Issue of shares pursuant to Dividend Reinvestment Plan	207,669	-	-	-	-	207,669
At 30 September 2018	4,082,939	-	129,300	-	376,350	4,588,589

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**Condensed Statement of Cash Flows for the nine months ended 30
September 2018**

	Group		Company	
	9 months ended 30.09.2018	30.09.2017	9 months ended 30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before zakat and tax	807,256	732,254	311,134	267,308
Adjustments for:				
Depreciation of property and equipment	45,459	51,906	144	238
Depreciation of investment property	219	222	-	-
(Gain)/Loss on disposal of property and equipment	(374)	68	-	-
Property and equipment written off	281	47	8	-
Collective assessment allowance	-	64,001	-	-
Individual assessment allowance	-	17,022	-	-
Allowance for impairment loss on other assets	-	243	-	-
Reversal of impairment loss on financial assets at FVOCI	(89)	-	-	-
Allowance for impairment loss on financing, advances and others	142,439	-	-	-
Net gain on sale of financial assets at FVTPL	(5,145)	-	-	-
Net gain on sale of financial assets held-for-trading	-	(251)	-	-
Net gain on sale of financial assets at FVOCI	(21,169)	-	-	-
Net gain on sale of financial assets available-for-sale	-	(4,747)	-	-
Net gain on sale of financial assets held-to-maturity	-	(31,551)	-	-
Fair value loss/(gain) on financial assets at FVTPL	48,637	-	(28)	-
Fair value loss on financial assets held-for-trading	-	12,266	-	-
Net derivative (gain)/loss	(48)	1,121	-	-
Dividends from securities	(5,283)	(5,627)	(4,153)	(3,846)
Dividends from subsidiaries	-	-	(366,783)	(325,463)
Change in actuarial reserves/ unearned contributions reserve	4,777	5,487	-	-
Equity settled share-based payment	6,964	4,352	-	-
Amortisation of intangible assets	15,148	9,199	-	-
Finance cost	98,256	84,719	59,678	57,419
Operating profit/(loss) before working capital changes	1,137,328	940,731	-	(4,344)

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**Condensed Statement of Cash Flows for the nine months ended 30
September 2018 (continued)**

	Group		Company	
	9 months ended	9 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Operating profit/(loss) before working capital changes	1,137,328	940,731	-	(4,344)
Changes in working capital:				
Deposits and placements of banks and other financial institutions	-	(30,000)	-	-
Financing of customers	(2,474,631)	(993,075)	-	-
Statutory deposits with Bank Negara Malaysia	(118,010)	87,370	-	-
Other assets	(38,822)	173,073	(2,465)	(10)
Deposits from customers	(576,046)	(3,924,117)	-	-
Investment accounts of customers	233,215	417,755	-	-
Recourse obligation on financing sold to Cagamas	1,501,187	-	-	-
Other liabilities	302,313	185,166	(662)	(1,098)
Bills and acceptances payable	(185,602)	27,708	-	-
Cash used in operations	(219,068)	(3,115,389)	(3,127)	(5,452)
Zakat paid	(13,176)	(13,440)	-	-
Tax paid	(190,049)	(177,633)	(1,290)	(1,309)
Tax refund	113	45	20	-
Net cash used in operating activities	(422,180)	(3,306,417)	(4,397)	(6,761)
Cash flows from investing activities				
Net proceeds from (purchase)/disposal of securities	(2,344,763)	493,547	-	(33,795)
Purchase of property and equipment	(59,269)	(31,866)	(64)	(134)
Proceeds from disposal of property and equipment	491	555	-	-
Dividends from subsidiaries	-	-	366,783	325,463
Dividends from securities	1,130	1,781	-	-
Subscription of ordinary shares pursuant to Dividend Reinvestment Plan	-	-	(142,870)	(200,324)
Intangible assets	(68,000)	-	-	-
Net cash (used in)/generated from investing activities	(2,470,411)	464,017	223,849	91,210

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**Condensed Statement of Cash Flows for the nine months ended 30
September 2018 (continued)**

	Group		Company	
	9 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Dividends paid	(21,615)	(22,550)	(21,615)	(22,550)
Dividends paid to non-controlling interest	(49,739)	(39,528)	-	-
Payment of coupon on Sukuk	(25,957)	(18,198)	-	-
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Net cash used in financing activities	(97,311)	(80,276)	(21,615)	(22,550)
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Net (decrease)/increase in cash and cash equivalents	(2,989,902)	(2,922,676)	197,837	61,899
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Cash and cash equivalents at beginning of the period	5,966,834	5,655,408	241,074	205,318
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Foreign exchange differences	(12,298)	29,720	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of the period	2,964,634	2,762,452	438,911	267,217
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise:				
Cash and short-term funds	1,836,322	1,559,053	438,911	267,217
Deposits and placements with financial institutions	1,128,312	1,203,399	-	-
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	2,964,634	2,762,452	438,911	267,217
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Explanatory Notes to the Financial Statements for the nine months ended 30 September 2018

1. Basis of preparation

BIMB Holdings Berhad ("BHB") is a public limited liability company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The condensed financial statements of the Group for the nine months ended 30 September 2018 comprise that of the Company and its subsidiaries (together referred to as the Group).

These condensed financial statements were approved for issue by the Board of Directors.

These condensed financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad, Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), Financial Reporting for Islamic Banking Institution policy issued by Bank Negara Malaysia ("BNM"), the provisions of the Companies Act, 2016 and Shariah requirements.

The condensed 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 for the financial year ended 31 December 2017. The explanatory notes attached to the condensed 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 Group since the financial year ended 31 December 2017.

The audited financial statements of the Group for the financial year ended 31 December 2017, are available upon request from the Company's registered office at 31st Floor, Menara Bank Islam, No. 22 Jalan Perak, 50450 Kuala Lumpur.

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1. Basis of preparation (continued)

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:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- 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, 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.

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.

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2. Audit report of preceding financial year ended 31 December 2017

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

3. Seasonality and cyclicity of operations

The operations of the Group were not materially affected by any seasonal or cyclical factors for the nine months ended 30 September 2018.

4. Exceptional or unusual items

There were no items of an exceptional or unusual nature that may affect the assets, liabilities, equity, net income or cash flows of the Group for the nine months ended 30 September 2018.

5. Changes in estimates of amounts reported previously

The significant judgements made by management in applying the Group'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 below 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'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'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 has adopted the MFRS 9 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*.

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6. Changes in accounting policies (continued)

(i) Classification of financial assets and 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 accounting policies related to financial liabilities. However, the standard eliminates the previous MFRS 139 categories of held-for-trading ("HFT"), held-to-maturity ("HTM"), financing and receivables ("FAR") and available for sale ("AFS").

Under MFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost ("AC"), Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value through Profit or Loss ("FVTPL"). The classification of financial assets under MFRS 9 is generally based on the business model in which a financial assets is managed and its contractual cash flow characteristics.

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 has 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 on the initial application of MFRS 9 on 1 January 2018 are summarised below.

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		FAR	AC	4,807,749	4,807,749
Deposits and placements with banks and other financial institutions	(a)	FAR	FVTPL	360,000	351,322
Deposits and placements with banks and other financial institutions		FAR	AC	799,085	799,085

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6. Changes in accounting policies (continued)

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

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					
Financial assets HFT	(b)	FVTPL	FVTPL	607,431	607,431
Derivative financial assets		FVTPL	FVTPL	68,319	68,319
Financial assets AFS					
- Debt securities	(c)	AFS	FVOCI	12,454,199	12,453,854
- Debt securities	(d)	AFS	FVTPL	205,661	205,661
- Equity instruments	(e)	AFS	FVOCI	22,912	41,016
- Equity instruments	(f)	AFS	FVTPL	191,048	191,048
- Unit trusts	(g)	AFS	FVTPL	372,566	372,566
- Institutional Trust Account	(c)	AFS	FVOCI	251,051	250,238
Financial assets HTM	(h)	HTM	FVOCI	434,199	437,715
Financial assets HTM	(i)	HTM	FVTPL	82,325	89,764
Financing, advances and others	(j)	FAR	AC	42,113,420	41,924,321
Other financial assets	(j)	FAR	AC	366,992	366,400
Retakaful assets	(j)	FAR	AC	505,596	505,596
Takaful receivable	(j)	FAR	AC	172,117	170,425

a) Structured deposits classified as financing and receivables under MFRS 139 failed to meet the Solely Payment of Principal and Profit ("SPPI") requirements under MFRS 9. As a result, these instruments were classified as FVTPL from the date of initial application.

b) Before the adoption of MFRS 9, financial assets HFT were designated as 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.

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6. Changes in accounting policies (continued)

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

- c) Islamic debt securities, Malaysian Government Islamic Papers and Institutional Trust Account are held to meet everyday liquidity needs. The Group seeks 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 considers 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. These assets have therefore been classified as financial assets at FVOCI under MFRS 9.
- d) Islamic debt securities categorised as AFS under MFRS 139 that failed to meet the SPPI requirement under MFRS 9 are classified as FVTPL.
- e) Comprise of non-traded equity investments for which the Group has elected to designate at FVOCI under MFRS 9. Accordingly, the assets will remain 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.
- f) Investment in equity securities categorised as AFS under MFRS 139 are managed on fair value basis. These assets have been classified as mandatorily measured at FVTPL under MFRS 9.
- g) Comprise of investments in unit trust & investment-linked funds 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.
- h) Investments in debt securities and Malaysian Government Islamic papers classified as held to maturity under MFRS 139 are classified as FVOCI under MFRS 9.
- i) Investment in debt securities classified as held to maturity under MFRS 139 are classified as FVTPL under MFRS 9.
- j) Financing, advances and others, other financial assets, retakaful assets and takaful receivables classified as financing and receivables under MFRS 139 are now classified as financial asset 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. This considerable judgement about how changes in economic factors affect ECLs which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at AC, 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 financial assets, retakaful assets, takaful receivable and statutory deposits with Bank Negara Malaysia.

At each reporting date, the Group 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 applies 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.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers 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 historical experience, informed credit assessment and including forward-looking information.

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

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 expects to receive).

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

Credit-impaired financial assets

At each reporting date, the Group assesses 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 has determined that the application of MFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

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6. Changes in accounting policies (continued)

(ii) Impairment of financial assets (continued)

Impact of the new impairment model (continued)

	RM'000
Group	
Loss allowance at 31 December 2017 under MFRS 139	580,543
Additional impairment recognised at 1 January 2018	
- Financing, advances and others	189,099
- Islamic debt securities	4,442
- Takaful receivables	1,692
- Institutional Trust Account	813
- Other receivables	527
- Fixed and call deposits	65
Loss allowance at 1 January 2018 under MFRS 9	<u>777,181</u> =====

(iii) Transition upon the adoption of MFRS 9

As permitted by the transitional provisions of MFRS 9, the Group 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
<u>Fair value reserve</u>	
Group	
Remeasurement of equity investment at FVOCI	18,104
Recognition of fair value gain under MFRS 9 for Islamic debt securities at FVOCI	319
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	(7,399)
Related tax	(2,612)
Impact at 1 January 2018	<u>8,412</u> =====

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6. Changes in accounting policies (continued)

(iii) Transition upon the adoption of MFRS 9 (continued)

	Impact of adopting MFRS 9 on opening balance RM'000
<u>Fair value reserve</u>	
Company	
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	(178)
	=====
<u>Retained earnings</u>	
Group	
Recognition of expected credit losses under MFRS 9	(189,835)
Adjustment of the deficits transferred from Takaful funds arising from the initial application of MFRS 9	(3,004)
Recognition of fair value loss from financial assets designated at FVTPL under MFRS 9	(220)
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	7,399
Related tax	44,564

Impact at 1 January 2018	(141,096)
	=====
Company	
Reclassification of fair value gain from financial assets designated at FVTPL under MFRS 9	178
	=====
<u>Non-controlling interest</u>	
Group	
Recognition of fair value gain from financial assets designated at FVTPL under MFRS 9	20
Recognition of fair value gain under MFRS 9 for Islamic debt securities at FVOCI	215
Recognition of expected credit losses under MFRS 9	(263)
Adjustment of the deficits transferred from Takaful funds arising from the initial application of MFRS 9	(2,026)
Related tax	560

Impact at 1 January 2018	(1,494)
	=====

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7. Issuance or repayment of debt and equity securities

On 26 January 2018, the Company increased its issued and paid-up capital from RM1,637,741,014 to RM1,693,566,014 via the issuance of 55,825,000 new ordinary shares for a consideration of RM3.72 each arising from the Dividend Reinvestment Plan.

8. Significant events during the nine months ended 30 September 2018

- **Dividend received**

On 19 January 2018, Syarikat Takaful Malaysia Berhad paid a single tier dividend of 15.00 sen per ordinary share totaling RM73.733 million for the financial year ended 31 December 2017.

On 4 June 2018, Bank Islam paid a final single tier dividend of 6.09 sen per ordinary share totaling RM150.180 million for the financial year ended 31 December 2017.

On 20 September 2018, Bank Islam paid an interim single tier dividend of 5.79 sen per ordinary share totalling RM142.870 million for the six months ended 30 June 2018. The entire final dividend was reinvested for acquisition of 43,960,000 new ordinary shares of Bank Islam at a consideration of RM3.25 per share arising from the Dividend Reinvestment Plan.

9. Cash and short-term funds

	30.09.2018	31.12.2017
	RM'000	RM'000
Group		
Cash and balances with banks and other financial institutions	858,502	971,106
Money at call and interbank placements with remaining maturity not exceeding one month	977,820	3,836,643
	1,836,322	4,807,749
	=====	=====
Company		
Cash and balances with banks and other financial institutions	438,911	241,074
	438,911	241,074
	=====	=====

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10. Deposits and placements with financial institutions

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Licensed banks	1,092,822	1,124,343
Other financial institutions	35,490	34,742
	<u>1,128,312</u>	<u>1,159,085</u>
	=====	=====

11. Financial assets held-for-trading

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
At fair value		
- Malaysian Government Investment Issues	-	355,681
- Shares	-	134,220
- Sukuk	-	111,273
- Unit trusts	-	6,257
	<u>-</u>	<u>607,431</u>
	=====	=====

12. Financial assets at fair value through profit or loss (FVTPL)

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
At fair value		
- Sukuk	492,530	-
- Structured deposits	321,384	-
- Malaysian Government Investment Issues	607,181	-
- Shares	371,974	-
- Unit trusts	434,140	-
- Bank Negara Malaysia Monetary Notes	109,863	-
	<u>2,337,072</u>	<u>-</u>
	-----	-----
At cost		
- Unquoted shares in Malaysia	380	-
	<u>380</u>	<u>-</u>
	-----	-----
	<u>2,337,452</u>	<u>-</u>
	=====	=====

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12. Financial assets at fair value through profit or loss (FVTPL)
(continued)

	Company	
	30.09.2018	31.12.2017
	RM'000	RM'000
At fair value		
- Unit trusts #	178,727	-
	=====	=====

Included unit trusts managed by a subsidiary of the Group of RM172,172,144.

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	Notional	Fair value	
	Amount	Assets	Liabilities
	RM'000	RM'000	RM'000
30.09.2018			
Forward contracts	3,341,396	42,624	(22,719)
Profit rate swaps	585,935	3,747	(1,725)
	3,927,331	46,371	(24,444)
	=====	=====	=====
31.12.2017			
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)
	=====	=====	=====

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

a) Debt investments securities at fair value through other comprehensive income

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Sukuk	11,629,787	-
Malaysian Government Investment Issues	2,396,255	-
Institutional Trust Account	313,762	-
Malaysian Government Islamic Papers	294,511	-
	<u>14,634,315</u>	<u>-</u>
Allowance for impairment:		
- Collective assessment – 12 months expected credit losses (ECL)	(256)	-
	<u>14,634,059</u>	<u>-</u>
	=====	=====

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

	Group
	30.09.2018
	RM'000
12 months ECL	
At 1 January 2018	-
- Effects on adoption of MFRS 9	345
	<u>345</u>
At 1 January 2018, as restated	(89)
Reversal of impairment made during the period	<u>(89)</u>
	<u>256</u>
At 30 September 2018	=====

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

b) Equity investments at fair value through other comprehensive income

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Quoted shares		
- outside Malaysia	14,098	-
	14,098	-
Unquoted shares		
- in Malaysia	23,056	-
- outside Malaysia	16	-
	23,072	-
	37,170	-

16. Financial assets held-to-maturity

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
At amortised cost		
- Malaysian Government Islamic Papers	-	59,994
- Sukuk	-	463,417
Less: Accumulated impairment loss	-	(6,887)
	-	456,530
	-	516,524

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17. Financing, advances and others

(a) By type and Shariah contract

Group	Bai'		Bai	Bai		Ijarah	Ijarah			Total
30 September 2018	Bithaman	Murabahah	Al-Dayn	Al-Inah	At-Tawarruq	Muntahiah	Thumma	Istisna'	Ar-Rahnu	RM'000
	Ajil	RM'000	RM'000	RM'000	RM'000	Bit-Tamleek	Al-Bai	RM'000	RM'000	RM'000
	RM'000					RM'000	RM'000			RM'000
At amortised cost										
Cash line	-	-	-	2,242	1,300,844	-	-	-	-	1,303,086
Term financing										
House financing	3,843,398	-	-	-	13,638,903	-	-	52,080	-	17,534,381
Syndicated financing	-	-	-	42,303	629,744	-	100,566	-	-	772,613
Leasing financing	-	-	-	-	-	81,629	82	-	-	81,711
Bridging financing	-	-	-	-	-	-	-	68,107	-	68,107
Personal financing	-	-	-	11,941	13,450,622	-	-	-	-	13,462,563
Other term financing	1,202,225	1,214,940	-	6,955	7,643,104	-	-	1,208	-	10,068,432
Staff financing	62,934	9,302	-	-	149,396	-	-	10,209	-	231,841
Credit cards	-	-	-	-	464,309	-	-	-	-	464,309
Trade bills discounted	-	801,204	154,831	-	-	-	-	-	-	956,035
Trust receipts	-	7,648	-	-	-	-	-	-	-	7,648
Pawn broking	-	-	-	-	-	-	-	-	75,550	75,550
Investment Account Platform *	-	-	-	-	7,807	-	-	-	-	7,807
	<u>5,108,557</u>	<u>2,033,094</u>	<u>154,831</u>	<u>63,441</u>	<u>37,284,729</u>	<u>81,629</u>	<u>100,648</u>	<u>131,604</u>	<u>75,550</u>	<u>45,034,083</u>
Allowance for impaired financing, advances and others										
- collective assessment – 12 months expected credit losses (ECL)										(389,003)
- collective assessment – Lifetime ECL										(232,830)
- individual assessment – Lifetime ECL										(155,737)
Net financing, advances and others										<u>44,256,513</u>

* This represents a term financing of Bank Islam's participation in Investment Account Platform ("IAP") to finance viable ventures via Restricted Investment Account.

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17. Financing, advances and others (continued)

(a) By type and Shariah contract (continued)

Group	Bai'		Bai	Bai		Ijarah	Ijarah			Total
31 December 2017	Bithaman	Murabahah	Al-Dayn	Al-Inah	At-Tawarruq	Muntahiah	Thumma	Istisna'	Ar-Rahnu	RM'000
	Ajil	RM'000	RM'000	RM'000	RM'000	Bit-Tamleek	Al-Bai	RM'000	RM'000	RM'000
	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
	<u>5,731,253</u>	<u>1,960,925</u>	<u>186,433</u>	<u>97,934</u>	<u>34,280,067</u>	<u>87,945</u>	<u>108,869</u>	<u>145,288</u>	<u>87,222</u>	<u>42,685,936</u>
Allowance for impaired financing, advances and others										
- collective assessment allowance										(446,069)
- individual assessment allowance										(126,447)
Net financing, advances and others										<u>42,113,420</u>

* This represents a term financing of Bank Islam's participation in Investment Account Platform ("IAP") to finance viable ventures via Restricted Investment Account.

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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. The details are as follows:

		Group	
	Note	30.09.2018	31.12.2017
		RM'000	RM'000
House financing			
Unrestricted Investment Accounts	21	3,317,910	2,982,183
Sold to Cagamas with recourse	22	1,501,187	-
		<u>4,819,097</u>	<u>2,982,183</u>
		=====	=====
Personal financing			
Unrestricted Investment Accounts	21	884,649	987,161
		<u>884,649</u>	<u>987,161</u>
		=====	=====

(b) By type of customer

		Group	
		30.09.2018	31.12.2017
		RM'000	RM'000
Domestic non-bank financial institutions		1,418,308	1,354,806
Domestic business enterprise		7,157,020	7,015,168
Small medium industries		973,166	896,444
Government and statutory bodies		603,623	820,586
Individuals		34,255,239	31,986,842
Other domestic entities		24,896	8,195
Foreign entities		601,831	603,895
		<u>45,034,083</u>	<u>42,685,936</u>
		=====	=====

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17. Financing, advances and others (continued)

(c) By profit rate sensitivity

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Fixed rate		
House financing	1,092,603	1,168,200
Others	3,168,536	3,560,756
Floating rate		
House financing	17,049,895	15,625,095
Others	23,723,049	22,331,885
	45,034,083	42,685,936
	=====	=====

(d) By remaining contractual maturity

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Maturity within one year	4,469,116	4,414,217
More than one year to three years	1,423,722	1,087,304
More than three years to five years	3,028,231	2,598,903
More than five years	36,113,014	34,585,512
	45,034,083	42,685,936
	=====	=====

(e) By geographical distribution

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Central Region	21,425,427	20,673,380
Eastern Region	7,412,330	6,860,968
Northern Region	6,398,396	6,121,471
Southern Region	6,474,150	5,908,526
East Malaysia Region	3,323,780	3,121,591
	45,034,083	42,685,936
	=====	=====

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17. Financing, advances and others (continued)

(f) By sector

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Primary agriculture	509,711	486,679
Mining and quarrying	12,991	8,080
Manufacturing (including agro-based)	768,116	835,268
Electricity, gas and water	320,491	337,388
Wholesale & retail trade, and hotels & restaurants	1,214,959	1,228,681
Construction	2,338,900	2,176,453
Real estate	1,639,872	1,582,531
Transport, storage and communications	818,196	655,633
Finance, insurance and business activities	2,165,103	2,147,118
Education, health and others	989,310	1,210,056
Household sectors	34,256,434	32,018,049
	45,034,083	42,685,936
	=====	=====

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

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
At 1 January 2018/2017	398,277	389,445
Classified as impaired during the period/year	487,350	648,281
Reclassified as not impaired during the period/year	(233,553)	(331,592)
Amount recovered	(89,937)	(92,432)
Amount written off	(124,112)	(209,231)
Exchange differences	-	(6,194)
	438,025	398,277
	=====	=====
Gross impaired financing as a percentage of gross financing, advances and others	0.97%	0.93%
	=====	=====

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17. Financing, advances and others (continued)

(h) Impaired financing by geographical distribution

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Central Region	262,366	223,305
Eastern Region	104,143	107,422
Northern Region	28,474	28,710
Southern Region	25,879	22,915
East Malaysia Region	17,163	15,925
	<hr/> 438,025 <hr/>	<hr/> 398,277 <hr/>
	=====	=====

(i) Impaired financing by sector

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Manufacturing (including agro-based)	22,604	35,448
Wholesale & retail trade, and hotels & restaurants	52,917	38,433
Construction	120,451	86,357
Transport, storage and communications	11,173	12,604
Finance, insurance and business activities	3,144	3,799
Education, health and others	4,452	5,106
Household sectors	223,284	216,530
	<hr/> 438,025 <hr/>	<hr/> 398,277 <hr/>
	=====	=====

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17. Financing, advances and others (continued)

j) Movement of allowance for impaired financing

Group	← Collective →			Impairment provision RM'000	Individual assessment allowance RM'000	Total assessment allowance 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
Effect of adopting MFRS 9				187,404	1,695	189,099
Restated as at 1 January 2018	390,478	139,501	103,494	633,473	128,142	761,615
Transfer to 12-month ECL	7,594	(7,435)	(159)	-	-	-
Transfer to Lifetime ECL not credit-impaired	(3,768)	9,891	(6,123)	-	-	-
Transfer to Lifetime ECL credit-impaired	(27)	(2,087)	2,114	-	-	-
Allowance made during the period	39,465	29,671	102,239	171,375	57,819	229,194
Financial assets that have been derecognised	(28,990)	(19,637)	(38,128)	(86,755)	-	(86,755)
Write-offs	(13,361)	(14,312)	(66,199)	(93,872)	(30,224)	(124,096)
Exchange differences	(2,388)	-	-	(2,388)	-	(2,388)
At 30 September 2018	389,003	135,592	97,238	621,833	155,737	777,570

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17. Financing, advances and others (continued)

(j) Movement of allowance for impaired financing (continued)

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

18. Other financial assets at amortised cost

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Clients' and dealers' debit balances	32,071	47,395
Deposits and prepayments	52,334	43,714
Other financing	81,218	78,620
Investment receivables	104,069	97,659
Other receivables	87,819	99,604
Sukuk ^	6,887	-
	<hr/>	<hr/>
	364,398	366,992
Less: Accumulated impairment loss: Individual assessment		
- Sukuk ^	(6,887)	-
- Other receivables	(475)	-
	<hr/>	<hr/>
	357,036	366,992
	=====	=====

^ 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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18. Other financial assets at amortised cost (continued)

	Company	
	30.09.2018	31.12.2017
	RM'000	RM'000
Amount due from subsidiaries	264	320
Deposits and prepayments	372	462
Other receivables	3,780	1,169
	<u>4,416</u>	<u>1,951</u>
	=====	=====

19. Takaful assets

		Group	
	Note	30.09.2018	31.12.2017
		RM'000	RM'000
Retakaful assets:			
- Claims liabilities	24(a)(i)	309,559	254,804
- Contribution liabilities	24(a)(ii)	66,530	71,308
- Actuarial liabilities	24(a)(iii)	163,024	179,484
		<u>539,113</u>	<u>505,596</u>
		-----	-----
Takaful receivables			
- Due contributions		173,116	139,677
- Due from retakaful/co-takaful		36,614	39,728
		<u>209,730</u>	<u>179,405</u>
Less: Allowance for impaired receivables		(5,206)	(7,288)
		<u>204,524</u>	<u>172,117</u>
		-----	-----
		<u>743,637</u>	<u>677,713</u>
		=====	=====

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20. Deposits from customers

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
(a) By type of deposit		
Savings deposits		
<i>Wadiah</i>	4,440,119	4,138,519
Demand deposits		
<i>Wadiah</i>	9,339,827	11,297,399
Term Deposit	31,418,352	30,331,784
Special Investment Deposit <i>Mudharabah</i>	6,252	6,182
General Investment Deposit <i>Mudharabah</i>	297,166	322,388
Term Deposit-i <i>Tawarruq</i>	28,443,092	26,442,155
Negotiable Islamic Debt Certificates ("NIDC")	2,671,842	3,561,059
Others	96,252	102,894
Total Deposits	45,294,550	45,870,596
(b) Maturity structure of term deposits are as follows:		
Due within six months	15,164,023	18,287,237
More than six months to one year	8,968,155	8,734,219
More than one year to three years	5,107,422	1,618,691
More than three years to five years	2,178,752	1,691,637
	31,418,352	30,331,784
(c) By type of customer		
Domestic non-bank financial institutions	8,294,242	13,741,161
Business enterprises	17,870,790	12,406,686
Government and statutory bodies	9,611,261	8,847,454
Individuals	5,288,855	4,810,541
Domestic banking institutions	2,052,841	3,395,740
Others	2,176,561	2,669,014
	45,294,550	45,870,596

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21. Investment accounts of customers

(a) **By type and Shariah contract**

		Group	
	Note	30.09.2018	31.12.2017
		RM'000	RM'000
Unrestricted investment accounts			
Without maturity			
<i>Mudharabah</i>		2,432,717	1,994,491
With maturity			
<i>Wakalah</i>		1,769,842	1,974,853
		4,202,559	3,969,344
		4,202,559	3,969,344
Investment portfolio:			
- <i>House financing</i>	17	3,317,910	2,982,183
- <i>Personal financing</i>	17	884,649	987,161
		4,202,559	3,969,344
		4,202,559	3,969,344
Restricted investment accounts ("RA") managed by Bank Islam[^]			
With maturity			
<i>Wakalah</i>		89,532	124,384
		89,532	124,384
		89,532	124,384

[^] Restricted investment accounts ("RA") is an arrangement between Bank Islam ("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 RM89,144,000 (2017: RM134,022,000).

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21. Investment accounts of customers (continued)

(b) By type of customers

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Individuals	2,517,991	2,212,239
Government and statutory bodies	275,726	400,709
Business enterprises	477,198	474,464
Non-bank financial institutions	877,466	786,457
Others	54,178	95,475
	4,202,559	3,969,344
	=====	=====

22. Recourse obligation 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, Bank Islam ("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.

23. Other liabilities

	30.09.2018	31.12.2017
	RM'000	RM'000
Group		
Accruals and other payables	1,025,685	990,277
Clients' and dealers' credit balances	32,276	47,048
Dividend payable	-	229,284
	1,057,961	1,266,609
	=====	=====
Company		
Accruals and other payables	2,653	3,244
Amount due to subsidiaries	-	70
Dividend payable	-	229,284
	2,653	232,598
	=====	=====

The amount due to subsidiaries is non-trade, unsecured, not subject to financing charge and repayable on demand.

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24. Takaful liabilities

		Group	
	Note	30.09.2018	31.12.2017
		RM'000	RM'000
Takaful contract liabilities	24(a)	7,002,268	6,658,675
Expense reserves	24(b)	251,965	196,655
Takaful payables	24(c)	61,655	106,983
		<hr/>	<hr/>
		7,315,888	6,962,313
		<hr/> <hr/>	<hr/> <hr/>

(a) Takaful contract liabilities

The takaful contract liabilities comprise the following:

		Group	
	Note	30.09.2018	31.12.2017
		RM'000	RM'000
Provision for outstanding claims	24(a)(i)	639,909	545,134
Provision for unearned contributions	24(a)(ii)	372,872	341,975
Participants' fund	24(a)(iii)	5,989,487	5,771,566
		<hr/>	<hr/>
		7,002,268	6,658,675
		<hr/> <hr/>	<hr/> <hr/>

(i) Provision for outstanding claims

The provision for outstanding claims is further analysed as follows:

		30.09.2018	
	Gross	Retakaful	Net
	RM'000	RM'000	RM'000
Group			
Provision for claims reported by participants	292,559	(175,141)	117,418
Provision for IBNR*	347,350	(134,418)	212,932
	<hr/>	<hr/>	<hr/>
Provision for outstanding claims	639,909	(309,559)	330,350
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		Note 19	

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24. Takaful liabilities (continued)

(a) Takaful contract liabilities (continued)

(i) Provision for outstanding claims (continued)

The provision for outstanding claims is further analysed as follows:
(continued)

	Gross RM'000	31.12.2017 Retakaful RM'000	Net RM'000
Group			
Provision for claims reported by participants	253,121	(143,907)	109,214
Provision for IBNR*	292,013	(110,897)	181,116
	-----	-----	-----
Provision for outstanding claims	545,134	(254,804)	290,330
	=====	=====	=====

Note 19

* Incurred-but-not-reported ("IBNR")

Movement of provision for outstanding claims:

	Gross RM'000	Group Retakaful RM'000	Net RM'000
At 1 January 2017	582,184	(261,426)	320,758
Claims incurred during the year	1,011,841	(160,964)	850,877
Adjustment to claims incurred in prior accident years	(10,176)	2,108	(8,068)
Claims paid during the year	(1,005,307)	163,996	(841,311)
(Decrease)/Increase in IBNR	(30,969)	323	(30,646)
Disposal of subsidiary	(1,729)	861	(868)
Effect of movement in exchange rates	(710)	298	(412)
	-----	-----	-----
At 31 December 2017/ 1 January 2018	545,134	(254,804)	290,330
Claims incurred during the period	858,522	(152,169)	706,353
Claims paid during the period	(818,957)	120,858	(698,099)
Increase/(Decrease) in IBNR	55,446	(23,572)	31,874
Acquisition of business	38	-	38
Effect of movement in exchange rates	(274)	128	(146)
	-----	-----	-----
At 30 September 2018	639,909	(309,559)	330,350
	=====	=====	=====

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24. Takaful liabilities (continued)

(a) Takaful contract liabilities (continued)

(ii) Provision for unearned contributions

The provision for unearned contributions is further analysed as follows:

	Gross RM'000	Group Retakaful RM'000	Net RM'000
30.09.2018	372,872 =====	(66,530) =====	306,342 =====
		Note 19	
31.12.2017	341,975 =====	(71,308) =====	270,667 =====
		Note 19	

Movement of provision for unearned contributions:

	Gross RM'000	Group Retakaful RM'000	Net RM'000
At 1 January 2017	316,569	(62,969)	253,600
Contributions written during the year	587,344	(250,490)	336,854
Contributions earned during the year	(554,244)	241,398	(312,846)
Disposal of subsidiary	(6,886)	603	(6,283)
Effect of movement in exchange rates	(808)	150	(658)
	-----	-----	-----
At 31 December 2017/ 1 January 2018	341,975	(71,308)	270,667
Contributions written during the period	539,283	(184,868)	354,415
Contributions earned during the period	(519,854)	189,646	(330,208)
Acquisition of business	11,468	-	11,468
	-----	-----	-----
At 30 September 2018	372,872 =====	(66,530) =====	306,342 =====

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24. Takaful liabilities (continued)

(a) Takaful contract liabilities (continued)

(iii) Participants' fund

Participants' fund balance at end of the reporting period comprises the following:

	Gross	Group	Net
	RM'000	Retakaful	RM'000
		RM'000	RM'000
30.09.2018			
Actuarial liabilities	4,927,986	(163,024)	4,764,962
Unallocated surplus/accumulated surplus	861,293	-	861,293
Fair value reserve	13,721	-	13,721
Net assets value attributable to unitholders	186,487	-	186,487
	<u>5,989,487</u>	<u>(163,024)</u>	<u>5,826,463</u>
	=====	=====	=====
		Note 19	
31.12.2017			
Actuarial liabilities	4,755,894	(179,484)	4,576,410
Unallocated surplus/accumulated surplus	962,329	-	962,329
AFS reserve	(27,468)	-	(27,468)
Translation reserve	(1,565)	-	(1,565)
Net assets value attributable to unitholders	82,376	-	82,376
	<u>5,771,566</u>	<u>(179,484)</u>	<u>5,592,082</u>
	=====	=====	=====
		Note 19	

(b) Expense reserves

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
At 1 January 2018/2017	196,655	159,310
Provision for the period/year, net	52,668	37,897
Effect of movement in exchange rates	2,642	(552)
	<u>251,965</u>	<u>196,655</u>
	=====	=====
At 30 September 2018/31 December 2017		

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24. Takaful liabilities (continued)

(c) Takaful payables

	Group	
	30.09.2018	31.12.2017
	RM'000	RM'000
Due to retakaful companies	35,658	86,409
Due to Intermediaries/Participants	25,997	20,574
	<u>61,655</u>	<u>106,983</u>
	=====	=====

25. Sukuk liabilities

	Group		Company	
Note	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000
Sukuk liabilities	1,339,190	1,279,512	1,339,190	1,279,512
Subordinated Sukuk Murabahah	968,971	956,350	-	-
	<u>2,308,161</u>	<u>2,235,862</u>	<u>1,339,190</u>	<u>1,279,512</u>
	=====	=====	=====	=====

The Sukuk liabilities comprise the following:

- a) The 10-year Islamic securities of RM1.66 billion (2017: RM1.66 billion) in nominal value issued by the Company on 12 December 2013; and
- b) Three (3) Tranches of the Subordinated Sukuk Murabahah amounting to RM1.0 billion (2017: RM1.0 billion) issued by Bank Islam Malaysia Berhad ("the Bank") are as follows:
 - i) 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.
 - ii) 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.
 - iii) 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.

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25. Sukuk liabilities (continued)

The Sukuk liabilities comprise the following: (continued)

- b) 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 Sukuk Liabilities to cash flows arising from financing activities is as follows:

	At 1.1.2018 RM'000	Net changes from financing cash flows			Finance cost for the period RM'000	At 30.09.2018 RM'000
		Issuance	Finance cost paid	Total		
		RM'000	RM'000	RM'000		
Group						
Sukuk Liabilities	1,279,512	-	-	-	59,678	1,339,190
Sukuk Murabahah	956,350	-	(25,957)	(25,957)	38,578	968,971
	2,235,862	-	(25,957)	(25,957)	98,256	2,308,161

26. Other reserves

	Group	
	30.09.2018 RM'000	30.09.2017 RM'000
Capital reserve	6,863	6,863
Warrant reserve	129,300	129,300
Statutory reserve	-	-
Fair value reserve	16,534	(4,963)
Translation reserve	(107,161)	(110,940)
Regulatory reserve	10,000	-
Long Term Incentive Plan (LTIP) reserve	7,871	5,508
	<u>63,407</u>	<u>25,768</u>
Acquisition reserve	(1,199,747)	(1,199,747)
	<u>(1,136,340)</u>	<u>(1,173,979)</u>
	=====	=====

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26. Other reserves (continued)

Group	Capital reserve RM'000	Statutory reserve RM'000	Warrant reserve RM'000	Fair value reserve RM'000	Translation reserve RM'000	Regulatory reserve RM'000	LTIP reserve RM'000	Total RM'000
At 1 January 2017	6,863	1,124,774	129,300	(42,601)	(138,991)	-	4,611	1,083,956
Foreign exchange translation differences	-	-	-	-	28,051	-	-	28,051
Fair value reserve:								
Net change in fair value	-	-	-	54,730	-	-	-	54,730
Net amount reclassified to profit or loss	-	-	-	(5,859)	-	-	-	(5,859)
Income tax credit relating to components of other comprehensive income	-	-	-	(11,233)	-	-	-	(11,233)
Transfer of reserve fund to retained earnings	-	(1,124,774)	-	-	-	-	-	(1,124,774)
Share-based payment transactions	-	-	-	-	-	-	2,599	2,599
LTIP exercised	-	-	-	-	-	-	(1,702)	(1,702)
At 30 September 2017	6,863	-	129,300	(4,963)	(110,940)	-	5,508	25,768
At 1 January 2018	6,863	-	129,300	(10,956)	(96,615)	64,645	7,285	100,522
- Adjustment on adoption of MFRS 9	-	-	-	8,412	-	-	-	8,412
At 1 January 2018, restated	6,863	-	129,300	(2,544)	(96,615)	64,645	7,285	108,934
Foreign exchange translation differences	-	-	-	-	(10,546)	-	-	(10,546)
Fair value reserve:								
Net change in fair value	-	-	-	45,901	-	-	-	45,901
Net amount reclassified to profit or loss	-	-	-	(21,337)	-	-	-	(21,337)
Income tax credit relating to components of other comprehensive income	-	-	-	(5,486)	-	-	-	(5,486)
Transfer from regulatory reserve to retained earnings	-	-	-	-	-	(54,645)	-	(54,645)
Share-based payment transactions	-	-	-	-	-	-	4,153	4,153
LTIP exercised	-	-	-	-	-	-	(3,567)	(3,567)
At 30 September 2018	6,863	-	129,300	16,534	(107,161)	10,000	7,871	63,407

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27. Income derived from investment of depositors' funds

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) General investment deposits	4,942	5,830	14,478	17,185
(ii) Term deposit-i	423,839	340,341	1,152,373	1,027,232
(iii) Saving and demand deposits	208,273	183,049	594,714	552,948
(iv) Other deposits	43,172	49,962	154,954	152,183
	680,226	579,182	1,916,519	1,749,548
	=====	=====	=====	=====

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

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

Group	Quarter		Year-to-date	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	4,304	5,057	12,782	14,712
Financial assets:				
- At FVTPL	33	-	89	-
- At FVOCI	362	-	1,091	-
- Other financial assets at amortised cost	-	-	2	-
- Held-for-trading	-	36	-	117
- Available-for-sale	-	629	-	1,749
- Held-to-maturity	-	-	-	58
Money at call and deposit with financial institutions	84	56	334	212
	4,783	5,778	14,298	16,848
Other dealing income				
Net gain from sale of financial assets at FVTPL	26	-	32	-
Net gain on revaluation of financial assets at FVTPL	6	-	8	-
Net gain/(loss) from sale of financial assets held-for-trading	-	32	-	(7)
Net (loss)/gain on revaluation of financial assets held-for-trading	-	(1)	-	35
	32	31	40	28
Other operating income				
Net gain from sale of financial assets at FVOCI	127	-	140	-
Net gain from sale of financial assets available-for-sale	-	21	-	39
Net gain from sale of financial assets held-to-maturity	-	-	-	270
	127	21	140	309
	4,942	5,830	14,478	17,185
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	62	67	191	265

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

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

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	365,234	290,566	1,006,891	865,342
Financial assets:				
- At FVTPL	3,078	-	7,816	-
- At FVOCI	34,037	-	95,387	-
- Other financial assets at amortised cost	-	-	164	-
- Held-for-trading	-	2,311	-	7,704
- Available-for-sale	-	40,821	-	115,902
- Held-to-maturity	-	-	-	3,924
Money at call and deposit with financial institutions	6,544	2,804	25,381	10,695
	408,893	336,502	1,135,639	1,003,567
Other dealing income				
Net gain from sale of financial assets at FVTPL	2,455	-	2,943	-
Net gain on revaluation of financial assets at FVTPL	450	-	630	-
Net gain/(loss) from sale of financial assets held-for-trading	-	2,428	-	(159)
Net (loss)/gain on revaluation of financial assets held-for-trading	-	(41)	-	2,354
	2,905	2,387	3,573	2,195
Other operating income				
Net gain from sale of financial assets at FVOCI	12,041	-	13,161	-
Net gain from sale of financial assets available-for-sale	-	1,452	-	2,626
Net gain from sale of financial assets held-to-maturity	-	-	-	18,844
	12,041	1,452	13,161	21,470
	423,839	340,341	1,152,373	1,027,232
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	5,827	4,662	16,588	14,585

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

(iii) **Income derived from investment of saving and demand deposits**

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	179,481	156,237	519,759	464,856
Financial assets:				
- At FVTPL	1,507	-	4,021	-
- At FVOCI	16,752	-	49,333	-
- Other financial assets at amortised cost	-	-	87	-
- Held-for-trading	-	1,247	-	4,138
- Available-for-sale	-	22,033	-	62,362
- Held-to-maturity	-	-	-	2,112
Money at call and deposit with financial institutions	3,205	1,519	13,217	7,105
	200,945	181,036	586,417	540,573
Other dealing income				
Net gain from sale of financial assets at FVTPL	1,209	-	1,469	-
Net gain on revaluation of financial assets at FVTPL	244	-	351	-
Net gain/(loss) from sale of financial assets held-for-trading	-	1,272	-	(119)
Net (loss)/gain on revaluation of financial assets held-for-trading	-	(35)	-	1,237
	1,453	1,237	1,820	1,118
Other operating income				
Net gain from sale of financial assets at FVOCI	5,875	-	6,477	-
Net gain from sale of financial assets available-for-sale	-	776	-	1,410
Net gain from sale of financial assets held-to-maturity	-	-	-	9,847
	5,875	776	6,477	11,257
	208,273	183,049	594,714	552,948
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	2,853	2,455	8,580	7,988

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

(iv) **Income derived from investment of other deposits**

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	37,213	42,639	135,624	128,103
Financial assets:				
- At FVTPL	312	-	1,037	-
- At FVOCI	3,477	-	12,880	-
- Other financial assets at amortised cost	-	-	22	-
- Held-for-trading	-	340	-	1,138
- Available-for-sale	-	6,002	-	17,184
- Held-to-maturity	-	-	-	555
Money at call and deposit with financial institutions	661	404	3,620	1,904
	41,663	49,385	153,183	148,884
Other dealing income				
Net gain from sale of financial assets at FVTPL	248	-	339	-
Net gain on revaluation of financial assets at FVTPL	56	-	41	-
Net gain/(loss) from sale of financial assets held-for-trading	-	379	-	(3)
Net (loss)/gain on revaluation of financial assets held-for-trading	-	(19)	-	312
	304	360	380	309
Other operating income				
Net gain from sale of financial assets at FVOCI	1,205	-	1,391	-
Net gain from sale of financial assets available-for-sale	-	217	-	400
Net gain from sale of financial assets held-to-maturity	-	-	-	2,590
	1,205	217	1,391	2,990
	43,172	49,962	154,954	152,183
<i>of which</i>				
<i>Financing income earned on impaired financing</i>	591	698	2,265	2,243

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28. Income derived from investment account funds

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income				
Unrestricted investment accounts				
- <i>Mudharabah</i>	29,905	23,862	89,826	68,869
- <i>Wakalah</i>	28,810	37,562	86,787	108,149
	<u>58,715</u>	<u>61,424</u>	<u>176,613</u>	<u>177,018</u>
	=====	=====	=====	=====

29. Income derived from investment of shareholders' funds

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Financing, advances and others	1,859	1,748	5,463	5,053
Financial assets at FVOCI	46,452	-	133,556	-
Financial assets available-for-sale	-	28,824	-	103,075
Money at call and deposits with financial institutions	5,175	2,768	12,622	8,133
	<u>53,486</u>	<u>33,340</u>	<u>151,641</u>	<u>116,261</u>
	-----	-----	-----	-----
Other dealing income				
Net gain from foreign exchange transactions	18,698	14,845	45,491	49,410
Net gain from sale of financial assets at FVTPL	-	-	362	-
Net gain/(loss) on revaluation of financial assets at FVTPL	115	-	(311)	-
Net gain from sale of financial assets held-for-trading	-	11	-	539
Net gain/(loss) on revaluation of financial assets held-for-trading	-	116	-	(182)
Net derivatives (loss)/gain	(29)	(263)	48	(1,121)
	<u>18,784</u>	<u>14,709</u>	<u>45,590</u>	<u>48,646</u>
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29. Income derived from investment of shareholders' funds (continued)

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Other operating income				
Net gain from sale of financial assets available-for-sale	-	-	-	272
Gross dividend income:				
- Quoted in Malaysia	-	2	17	43
- Unit trust in Malaysia	1,475	1,949	5,266	5,584
Fees and commission	49,339	49,623	156,139	135,845
Net gain/(loss) on disposal of property and equipment	104	(65)	374	(68)
Rental income	362	343	964	1,068
Others	53	64	106	238
	<u>51,333</u>	<u>51,916</u>	<u>162,866</u>	<u>142,982</u>
	<u>123,603</u>	<u>99,965</u>	<u>360,097</u>	<u>307,889</u>

Company	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Money at call and deposits with financial institutions	4,309	1,983	10,151	5,806
	<u>4,309</u>	<u>1,983</u>	<u>10,151</u>	<u>5,806</u>
Other dealing income				
Net gain on revaluation of financial assets at FVTPL	115	-	28	-
	<u>115</u>	<u>-</u>	<u>28</u>	<u>-</u>
Other operating income				
Gross dividend income:				
- Unit trust in Malaysia	1,354	1,351	4,153	3,846
Gross dividend income from subsidiary companies	142,870	132,310	366,783	325,463
Others	1	1	4	6
	<u>144,225</u>	<u>133,662</u>	<u>370,940</u>	<u>329,315</u>
	<u>148,649</u>	<u>135,645</u>	<u>381,119</u>	<u>335,121</u>

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30. Net income from Takaful business

Group	Quarter		Year-to-date	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net earned contributions				
Gross earned contributions	612,024	441,646	1,625,144	1,357,661
Contribution ceded to retakaful	(93,565)	(69,291)	(248,803)	(211,692)
	518,459	372,355	1,376,341	1,145,969
Other income				
Administration income	27,160	28,137	60,455	56,227
Investment income	79,376	72,404	226,425	215,345
Realised gains and losses	-	6,567	2,292	24,966
Fair value gains and losses	12,221	(15,639)	(49,356)	(16,022)
Other operating income	(423)	2,295	1,784	4,786
	118,334	93,764	241,600	285,302
Net benefits and claims				
Gross benefits and claims paid	(271,437)	(233,269)	(818,934)	(739,891)
Claims ceded to retakaful	38,094	30,406	120,858	89,925
Gross change to contract liabilities	(31,088)	7,696	(95,011)	(12,722)
Change to contract liabilities ceded to takaful	12,876	3,596	54,883	26,370
	(251,555)	(191,571)	(738,204)	(636,318)
Expense reserves	(16,993)	(5,871)	(52,668)	(31,558)
Income from takaful business	368,245	268,677	827,069	763,395
Profits attributable to participants/ takaful operator	(141,100)	(96,724)	(199,408)	(224,500)
Net income from takaful business	227,145	171,953	627,661	538,895

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31. Net allowance for/(Reversal of) impairment on financing and advances

Group	Quarter		Year-to-date	
	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Allowance for impaired financing, advances and others				
- collective assessment – 12 months expected credit losses (ECL)	13,508	-	10,475	-
- collective assessment – lifetime ECL	20,695	-	74,145	-
- individual assessment – lifetime ECL	19,144	-	57,819	-
- collective assessment allowance	-	6,555	-	64,001
- individual assessment allowance	-	6,561	-	17,022
Bad debts and financing recovered	(27,243)	(56,907)	(80,414)	(91,218)
	26,104	(43,791)	62,025	(10,195)
	=====	=====	=====	=====

32. Income attributable to depositors

Group	Quarter		Year-to-date	
	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah Fund	2,394	2,899	7,356	8,785
- Non-Mudharabah Fund	302,285	269,153	894,088	809,403
Deposits and placements of banks and other financial institutions				
- Mudharabah Fund	(43)	-	-	-
- Non-Mudharabah Fund	-	747	409	2,324
Recourse obligation on financing sold to Cagamas	17,813	-	24,938	-
	322,449	272,799	926,791	820,512
	=====	=====	=====	=====

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33. Income attributable to investment account holders

Group	Quarter		Year-to-date	
	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Unrestricted investment accounts				
- <i>Mudharabah</i>	1,268	480	4,163	1,375
- <i>Wakalah</i>	17,568	24,820	53,718	71,643
	18,836	25,300	57,881	73,018
	=====	=====	=====	=====

34. Personnel expenses

Group	Quarter		Year-to-date	
	3 months ended		9 months ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	158,192	144,451	446,747	420,954
Employees' Provident Fund	19,542	18,286	57,514	54,635
Directors remuneration	1,953	1,599	7,474	7,084
Others	15,541	14,217	42,937	46,309
	195,228	178,553	554,672	528,982
	=====	=====	=====	=====
Company				
Salaries and wages	1,729	1,650	4,513	4,344
Employees' Provident Fund	152	161	470	484
Directors remuneration	315	268	1,443	1,470
Others	168	158	470	473
	2,364	2,237	6,896	6,771
	=====	=====	=====	=====

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35. Other overhead expenses

Group	Quarter		Year-to-date	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<i>Promotion</i>				
Advertisement and publicity	36,818	20,173	92,065	70,403
Credit and debit card expenses	7,755	7,256	23,533	21,868
Commission	52,540	33,560	139,597	100,836
	97,113	60,989	255,195	193,107
<i>Establishment</i>				
Depreciation of property and equipment	15,460	16,202	45,459	51,906
Depreciation of investment property	73	74	219	222
Information technology expenses	12,152	17,857	34,496	41,914
Office rental	14,877	15,266	43,218	44,003
Office maintenance	6,585	5,094	20,058	15,967
Utilities	5,523	4,885	15,172	15,117
Security services	1,612	3,005	7,728	12,259
Rental equipment	1,612	1,310	4,809	3,996
Takaful and insurance	95	1,197	924	3,470
Others	241	236	931	905
	58,230	65,126	173,014	189,759
<i>General expenses</i>				
Professional fees	10,879	8,723	35,466	29,058
Outsourcing fees	4,746	4,860	12,222	14,551
Travelling & transport	2,506	2,199	7,218	8,630
Office supplies	2,415	3,013	7,186	8,240
Subscription fees	1,268	964	3,104	3,128
Auditors' remuneration	505	914	1,545	2,193
Processing charges	167	144	469	366
Others	15,838	29,398	65,826	82,765
	38,324	50,215	133,036	148,931
	193,667	176,330	561,245	531,797

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35. Other overhead expenses (continued)

Company	Quarter		Year-to-date	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Promotion				
Advertisement and publicity	114	250	187	363
	<u>114</u>	<u>250</u>	<u>187</u>	<u>363</u>
	-----	-----	-----	-----
Establishment				
Office rental	266	255	822	766
Depreciation of property and equipment	22	80	144	238
Information technology expenses	51	19	102	67
Rental equipment	21	26	68	75
Office maintenance	3	10	8	23
Utilities	6	6	19	20
Takaful and insurance	19	28	75	84
	<u>388</u>	<u>424</u>	<u>1,238</u>	<u>1,273</u>
	-----	-----	-----	-----
General expenses				
Auditors' remuneration	24	42	126	127
Professional fees	35	115	144	422
Office supplies	17	20	38	58
Travelling & transport	32	21	41	24
Subscription fees	3	-	7	2
Others	415	224	1,630	1,354
	<u>526</u>	<u>422</u>	<u>1,986</u>	<u>1,987</u>
	-----	-----	-----	-----
	<u>1,028</u>	<u>1,096</u>	<u>3,411</u>	<u>3,623</u>
	=====	=====	=====	=====

36. Operating segment information

The Group comprises of the following main business segments:

Banking	Islamic banking and provision of related services.
Takaful	Underwriting of family and general Islamic insurance ("Takaful").
Others	Investment holding, ijarah financing, stockbroking and unit trust.

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36. Operating segment information (continued)

Quarter ended 30 September 2018	Banking RM'000	Takaful RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<i>Business segments</i>					
Segment result					
Revenue from external customers	858,121	227,145	4,569	-	1,089,835
Inter-segment revenue	8,131	5,847	147,621	(161,599)	-
Total revenue	866,252	232,992	152,190	(161,599)	1,089,835
Net income from operations (before allowance for impairment on financing and other assets)					
Operating overheads	517,774	232,992	152,190	(154,406)	748,550
	(252,909)	(144,337)	(6,768)	10,843	(393,171)
Operating results	264,865	88,655	145,422	(143,563)	355,379
Allowance for impairment	(26,101)	-	-	-	(26,101)
Finance cost	(13,734)	-	(19,892)	693	(32,933)
Profit before zakat and taxation	225,030	88,655	125,530	(142,870)	296,345

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36. Operating segment information (continued)

Quarter ended 30 September 2017	Banking	Takaful	Others	Elimination	Consolidated
<i>Business segments</i>	RM'000	RM'000	RM'000	RM'000	RM'000
Segment result					
Revenue from external customers	736,229	171,953	4,554	-	912,736
Inter-segment revenue	4,809	4,904	134,843	(144,556)	-
Total revenue	741,038	176,857	139,397	(144,556)	912,736
Net income from operations (before allowance for impairment on financing and other assets)	438,520	176,857	139,397	(140,137)	614,637
Operating overheads	(248,925)	(110,854)	(6,617)	7,134	(359,262)
Operating results	189,595	66,003	132,780	(133,003)	255,375
Allowance for impairment	43,791	-	-	-	43,791
Finance cost	(9,893)	-	(19,140)	693	(28,340)
Profit before zakat and taxation	223,493	66,003	113,640	(132,310)	270,826

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36. Operating segment information (continued)

Year-to-date 9 months ended 30 September 2018	Banking RM'000	Takaful RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<i>Business segments</i>					
Segment result					
Revenue from external customers	2,439,665	627,661	14,043	-	3,081,369
Inter-segment revenue	23,163	16,094	378,399	(417,656)	-
Total revenue	2,462,828	643,755	392,442	(417,656)	3,081,369
Net income from operations (before allowance for impairment on financing and other assets)					
Operating overheads	1,460,292	643,755	392,442	(399,792)	2,096,697
	(732,004)	(407,078)	(21,119)	30,952	(1,129,249)
Operating results	728,288	236,677	371,323	(368,840)	967,448
Allowance for impairment	(61,936)	-	-	-	(61,936)
Finance cost	(40,635)	-	(59,678)	2,057	(98,256)
Profit before zakat and taxation	625,717	236,677	311,645	(366,783)	807,256
Segment assets	59,086,383	8,601,982	6,133,860	(6,246,663)	67,575,562
Segment liabilities	53,941,958	7,583,497	1,377,021	(886,568)	62,015,908

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36. Operating segment information (continued)

Year-to-date 9 months ended 30 September 2017	Banking	Takaful	Others	Elimination	Consolidated
<i>Business segments</i>	RM'000	RM'000	RM'000	RM'000	RM'000
Segment result					
Revenue from external customers	2,223,301	538,895	13,367	-	2,775,563
Inter-segment revenue	19,281	11,653	332,890	(363,824)	-
Total revenue	2,242,582	550,548	346,257	(363,824)	2,775,563
Net income from operations (before allowance for impairment on financing and other assets)	1,335,963	550,548	346,257	(350,735)	1,882,033
Operating overheads	(725,306)	(352,955)	(19,966)	23,215	(1,075,012)
Operating results	610,657	197,593	326,291	(327,520)	807,021
Allowance for impairment	9,952	-	-	-	9,952
Finance cost	(29,357)	-	(57,419)	2,057	(84,719)
Profit before zakat and taxation	591,252	197,593	268,872	(325,463)	732,254
Segment assets	52,401,176	7,985,053	5,883,605	(5,842,260)	60,427,574
Segment liabilities	47,578,779	7,107,315	1,395,160	(618,099)	55,463,155

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37. Valuation of property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

38. Changes in composition of the Group

As announced to Bursa Securities on 3 November 2017, a Conditional Shares Sale and Purchase Agreement ("CSPA") between PT Syarikat Takaful Indonesia ("STI"), PT Asuransi Takaful Keluarga ("ATK") and Koperasi Karyawan Takaful ("Kopkar") ("Sellers"), and Koperasi Simpan Pinjam Jasa ("KOSPIN"), M Andy Arslan Djunaid SE and Bahroji ("Purchasers") was entered into on 27 October 2017, for the disposal of the entire equity interest in PT Asuransi Takaful Umum ("ATU") held by STI, ATK and Kopkar.

As announced to Bursa Securities on 10 January 2018, the disposal of ATU has been completed on 28 December 2017 and effectively, ATU ceased to be a subsidiary of Takaful Malaysia.

Other than the above, there is no change in the composition of the Group for the current financial period under review.

39. 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 adopted 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.

There has been no transfer between Level 1 and 2 fair values during the nine months ended 30 September 2018.

- 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 value and carrying amounts shown in the statement of financial position.

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39. Fair value of financial instruments (continued)

Fair value information

30.09.2018 RM'000 Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Financial assets										
Financial assets at FVTPL	787,481	1,549,971	-	2,337,452	-	-	-	-	2,337,452	2,337,452
Derivative financial assets	-	46,371	-	46,371	-	-	-	-	46,371	46,371
Financial assets at FVOCI	85,723	14,248,672	336,834	14,671,229	-	-	-	-	14,671,229	14,671,229
Financing, advances and others	-	-	-	-	-	-	45,175,550	45,175,550	45,175,550	44,256,513
Total assets	873,204	15,845,014	336,834	17,055,052	-	-	45,175,550	45,175,550	62,230,602	61,311,565
Financial liabilities										
Derivative financial liabilities	-	24,444	-	24,444	-	-	-	-	24,444	24,444
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	-	1,520,625	1,520,625	1,520,625	1,501,187
Sukuk liabilities	-	-	-	-	-	-	2,340,681	2,340,681	2,340,681	2,308,161
Total liabilities	-	24,444	-	24,444	-	-	3,861,306	3,861,306	3,885,750	3,833,792
30.09.2018 Company										
Financial assets										
Financial assets at FVTPL	178,727	-	-	178,727	-	-	-	-	178,727	178,727
Total assets	178,727	-	-	178,727	-	-	-	-	178,727	178,727
Financial liabilities										
Sukuk liabilities	-	-	-	-	-	-	1,339,190	1,339,190	1,339,190	1,339,190
Total liabilities	-	-	-	-	-	-	1,339,190	1,339,190	1,339,190	1,339,190

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39. Fair value of financial instruments (continued)

Fair value information (continued)

31.12.2017 RM'000 Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
Financial assets										
Financial assets held-for-trading	194,644	412,787	-	607,431	-	-	-	-	607,431	607,431
Derivative financial assets	-	68,319	-	68,319	-	-	-	-	68,319	68,319
Financial assets available-for-sale	531,204	12,709,502	251,051	13,491,757	-	-	5,300	5,300	13,497,057	13,497,437
Financial assets held-to-maturity	-	-	-	-	86,379	437,715	-	524,094	524,094	516,524
Financing, advances and others	-	-	-	-	-	-	42,299,796	42,299,796	42,299,796	42,113,420
Total assets	725,848	13,190,608	251,051	14,167,507	86,379	437,715	42,305,096	42,829,190	56,996,697	56,803,131
Financial liabilities										
Derivative financial liabilities	-	74,668	-	74,668	-	-	-	-	74,668	74,668
Sukuk liabilities	-	-	-	-	-	-	2,280,126	2,280,126	2,280,126	2,235,862
Total liabilities	-	74,668	-	74,668	-	-	2,280,126	2,280,126	2,354,794	2,310,530
31.12.2017 Company										
Financial assets										
Financial assets available-for-sale	174,546	-	-	174,546	-	-	-	-	174,546	174,546
Total assets	174,546	-	-	174,546	-	-	-	-	174,546	174,546
Financial liabilities										
Sukuk liabilities	-	-	-	-	-	-	1,279,512	1,279,512	1,279,512	1,279,512
Total liabilities	-	-	-	-	-	-	1,279,512	1,279,512	1,279,512	1,279,512

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39. Fair value of financial instruments (continued)

The following table presents the changes in Level 3 instruments for the nine months ended 30 September 2018 for the Group:

	Group RM'000
At 1 January 2017	160,112
Purchases	101,539
Maturities	(21,539)
Gains	10,939
	<hr/>
At 31 December 2017, as previously stated	251,051
Adjustment on adoption of MFRS 9 (net of tax)	22,259
	<hr/>
Adjusted balances at 1 January 2018	273,310
Purchases	48,000
Gains recognised in profit or loss	
- Investment income - realised	9,614
Gains recognised in other comprehensive income	
- Net change in fair value (unrealised)	5,910
	<hr/>
At 30 September 2018	336,834
	<hr/> <hr/>

The following table shows 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
Institutional trust account	Discounted cash flows using market profit rate for a similar instrument at the measurement date	4.58% (2017: 4.58%)	The estimated fair value would increase (decrease) if the discount rate were (lower) higher.

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39. Fair value of financial instruments (continued)

(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 are 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 of borrowings with similar risk profiles.

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40. Off balance sheet financial instruments by value of contracts classified by remaining period to maturity/net re-pricing date (whichever earlier)

Group Items	30.09.2018					
	Principal Amount RM'000	up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000
Foreign exchange related contracts						
- forwards	1,154,199	35,626	303,659	407,428	407,486	-
- swaps	1,806,913	1,008,535	184,013	250,236	323,604	40,525
- spot	380,284	380,284	-	-	-	-
Total	3,341,396	1,424,445	487,672	657,664	731,090	40,525

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amount subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at 30 September 2018, the amount of contracts which were not hedged and, hence, exposed to market risk was RM832.62 million (31 December 2017: RM602.09 million).

Credit risk

Credit risk arises from the possibility that a counter-party may be unable to meet the terms of a contract in which the Bank has a gain position. This amount will increase or decrease over the life of the contracts, maturity dates and rates or prices. As at 30 September 2018, the credit risk measured in terms of the cost to replace the profitable contracts was RM98.16 million (31 December 2017: RM132.15 million).

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41. Commitments and contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These exclude all contracts cleared in the normal course of the takaful business.

The off-balance sheet and counterparties credit risk for Bank Islam is as follows:

As at 30.09.2018	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	477,552		477,552	477,496
Transaction related contingent items	1,007,919		503,959	468,709
Short term self-liquidating trade related contingencies	289,275		57,855	56,342
Other commitments, such as formal standby facilities and credit lines with original maturity of:				
- not exceeding one year	-		-	-
- exceeding one year	1,572,822		786,411	594,538
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 borrower's creditworthiness	7,628,204		-	-
	10,975,772		1,825,777	1,597,085
Derivative Financial Instruments				
Foreign exchange related contracts				
- Less than one year	3,341,396	42,624	85,718	67,445
Profit rate related contracts				
- Less than one year	400,000	1,847	1,702	340
- One year to less than five years	-	-	-	-
- Five years and above	185,935	1,900	10,735	6,596
	3,927,331	46,371	98,155	74,381
	14,903,103	46,371	1,923,932	1,671,466

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41. Commitments and contingencies (continued)

The off-balance sheet and counterparties credit risk for Bank Islam is as follows:
(continued)

As at 31.12.2017	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
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 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 borrower's creditworthiness	4,402,695		-	-
	<u>9,941,346</u>		<u>4,092,988</u>	<u>3,184,392</u>
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	8,895
	<u>3,826,816</u>	<u>68,319</u>	<u>132,147</u>	<u>51,675</u>
	<u>13,768,162</u>	<u>68,319</u>	<u>4,225,135</u>	<u>3,236,067</u>

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42. Contingent liability

On 19 July 2018, the Ministry of Finance (MOF) issued a letter to Association of Banks in Malaysia (ABM) on the tax treatment on the adoption of MFRS 9 and clarified that no tax deduction is allowed for collective assessment (CA) impairment allowances. Only individual assessment (IA) impairment allowances and specific provision (excluding portion relating to future/expected credit losses) are allowable as tax deduction.

This is a departure from the tax treatment for allowances under MFRS 139 whereby both collective and individual impairment allowances are allowable as tax deduction.

Subsequently, on 13 August 2018, the ABM issued an appeal letter to MOF justifying that MFRS 9 is an enhancement to MFRS 139 and same tax treatment should be accorded under MFRS 9 for consistency, and continuity. This is to ensure that Malaysian banks remain competitive in the global environment.

As at 30 September 2018, the Group has not taken into account the impact of no tax deduction for CA as the matter is still in the appeal process.

43. Capital adequacy

Total capital and capital adequacy ratios of Bank Islam ("the Bank") have been computed based on BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued on 2 February 2018. 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 Bank Negara Malaysia. The CCB is maintained in the form of CET I capital at 1.875% on 1 January 2018 and progressively increases by 0.625% each year to reach 3.125% on 1 January 2020.

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: 5.75%, 7.25% and 9.25%). 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 Bank are set out below:

	30.09.2018	31.12.2017
	%	%
Common Equity Tier I ("CET I") Capital Ratio	12.681	12.729
Total Tier I Capital Ratio	12.681	12.729
Total Capital Ratio	16.389	16.435

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43. Capital adequacy (continued)

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

	30.09.2018	31.12.2017
	RM'000	RM'000
Paid-up share capital	3,012,368	2,869,498
Retained earnings	2,057,017	2,150,402
Other reserves	(92,666)	(60,196)
<u>Less:</u>		
Deferred tax assets	(71,690)	(37,288)
Gain on financial instruments classified as fair value through other comprehensive income	(4,675)	-
Regulatory reserve	(10,000)	(64,645)
Total CET I and Tier I Capital	4,890,354	4,857,771
Sukuk Murabahah	1,000,000	1,000,000
Collective assessment allowance [^]	430,079	414,193
Total Tier II Capital	1,430,079	1,414,193
Total Capital	6,320,433	6,271,964

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

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

	30.09.2018	31.12.2017
	RM'000	RM'000
Credit risk	37,635,183	37,442,256
Less: Credit risk absorbed by unrestricted investment accounts	(3,228,851)	(3,034,004)
	34,406,332	34,408,252
Market risk	832,623	602,089
Operational risk	3,326,931	3,152,951
	38,565,886	38,163,292

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Explanatory notes pursuant to Appendix 9B of the listing requirements of Bursa Malaysia Securities Berhad

B1. Performance review for the nine months ended 30 September 2018

	Individual Period		Variance		Cumulative Period		Variance	
	Current Year Quarter	Preceding Year Corresponding Quarter			Current Year To-date	Preceding Year Corresponding Period		
	30.09.2018	30.09.2017	Amount	%	30.09.2018	30.09.2017	Amount	%
RM'000								
Revenue	1,089,835	912,736	177,099	19.40	3,081,369	2,775,563	305,806	11.02
Operating Profit	355,379	255,375	100,004	39.16	967,448	807,021	160,427	19.88
Profit Before Zakat and Taxation	296,345	270,826	25,519	9.42	807,256	732,254	75,002	10.24
Profit After Zakat and Taxation	232,380	202,846	29,534	14.56	603,350	530,269	73,081	13.78
Profit Attributable to Equity Holders of the Parent	198,624	183,434	15,190	8.28	520,670	470,203	50,467	10.73

Table 1: Financial review for current quarter and financial year to date

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Year-to date vs. Previous Year-to-date

BIMB Holdings Berhad ("BHB") Group reported Profit Before Zakat and Taxation ("PBZT") for the nine months ended 30 September 2018 of RM807.3 million, representing an increase of 10.2% or RM75.0 million as compared to the corresponding period in 2017 of RM732.3 million.

At the operating profit level, the Group's operating profit of RM967.4 million was higher by RM160.4 million or 19.9% compared to the corresponding period in 2017 of RM807.0 million.

The net profit attributable to shareholders increased by 10.7% or RM50.5 million to RM520.7 million as compared to the corresponding period in 2017.

BHB registered an annualised Return on Equity ("ROE") of 15.1% (after tax and zakat). Consequently, net assets per share has also improved to RM3.03 as at 30 September 2018 compared to RM2.77 as at 31 December 2017.

The Group's performance is mainly dependent on its two main operating subsidiaries, namely, Bank Islam Malaysia Berhad Group ("Bank Islam" or "the Bank") and Syarikat Takaful Malaysia Keluarga Berhad Group ("Takaful Malaysia").

Bank Islam Malaysia Berhad

For the nine months ended 30 September 2018, Bank Islam achieved PBZT of RM625.7 million, an increase of RM34.4 million or 5.8% over the PBZT of the corresponding period last year of RM591.3 million. The increase in PBZT was mainly due to higher total income.

The Bank's total income for the nine months ended 30 September 2018 was higher by RM220.2 million compared to the corresponding period last year, mainly due to higher fund based income of RM214.5 million, which was mainly attributed to 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. It is also attributed to the year-on-year growth in net financing assets of RM4.2 billion or 10.4% to reach RM44.3 billion as at end September 2018 from RM40.1 billion as at end September 2017. The increase in total income was also contributed by higher non-fund based income by RM5.7 million for the nine months ended 30 September 2018 compared to the corresponding period last year.

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Year-to date vs. Previous Year-to-date

Bank Islam Malaysia Berhad (continued)

The increase in total income was partly offset with higher income attributable to depositors and investment account holders ("IATD") by RM95.9 million which was in line with the increase in deposit rates in response to the increase in OPR and higher average volume of deposits and investment accounts.

Total overheads were higher by RM6.7 million or 0.9% over the corresponding period last year mainly due to higher personnel expenses.

Meanwhile, the increase in finance cost by RM11.3 million or 38.4% over the corresponding period last year was mainly due to increase in Subordinated Sukuk Murabahah following the issuance of the third tranche of RM300 million on 13 November 2017.

For the nine months ended 30 September 2018, the Bank recorded net allowance charged for impairment on financing and advances of RM62.0 million compared to RM10.2 million recovered in the corresponding period last year. The increase in net allowance charged was mainly contributed by higher net allowance charged for impairment on financing amounted to RM61.4 million and lower bad debts recovered by RM10.8 million.

The Bank's total assets stood at RM59.1 billion as at 30 September 2018, a year-on-year increase by RM6.7 billion from RM52.4 billion reported as at 30 September 2017 which mainly contributed by the increase in net financing and investment in securities by RM4.2 billion and RM1.7 billion respectively.

As at end of September 2018, customer deposits and investment accounts stood at RM50.3 billion with a year-on-year increase by RM4.2 billion or 9.1%.

Total gross impaired financing as at 30 September 2018 was RM438.0 million compared to RM436.4 million as at 30 September 2017.

Syarikat Takaful Malaysia Keluarga Berhad

For the nine months period, Takaful Malaysia recorded PBZT of RM234.2 million, an increase of 18.5% as compared to RM197.6 million in the same period last year. The improvement in profit was mainly attributable to higher net Wakalah fee income arising from our business growth in the Family and General Takaful business, partially offset by fair value losses.

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Year-to date vs. Previous Year-to-date (continued)

Syarikat Takaful Malaysia Keluarga Berhad (continued)

Takaful Malaysia recorded operating revenue of RM1,937.6 million for the nine months ended 30 September 2018, an increase of 19.5% or RM316.2 million as compared to the same period last year. The increase was mainly attributable to higher sales generated by both Family Takaful and General Takaful business.

Family Takaful business generated gross earned contributions of RM1,110.9 million for the nine months ended 30 September 2018, an increase of 17.2% as compared to RM948.0 million in the corresponding period last year. The increase is mainly attributable to higher sales from credit-related products.

The net benefits and claims for Family Takaful business increased by 12.6% to RM585.2 million in the nine months ended 30 September 2018 from RM519.6 million in the same period last year. This was mainly due to higher death and medical claims.

Investment income for the Family Takaful business increased by 4.6% to RM186.8 million as compared to RM178.6 million in the corresponding period last year, mainly due to higher profit from Islamic debts securities.

For the nine months ended 30 September 2018, Family Takaful recorded fair value losses of RM43.4 million, increased by RM25.5 million as compared to the same period last year. The higher losses were mainly due to the equity market performance.

General Takaful business generated gross earned contributions of RM519.7 million for the nine months ended 30 September 2018, an increase of 25.8% as compared to RM413.1 million in the corresponding period last year. The growth was mainly from fire and motor classes.

The net benefits and claims for General Takaful business increased by 29.1% to RM159.4 million in the nine months ended 30 September 2018 from RM123.5 million in the same period of the preceding year, mainly due to increase in claims relating to fire and motor classes.

The investment income for the nine months ended 30 September 2018 was RM21.1 million, decreased by 4.1%, as compared to the investment income in the same period of the preceding year of RM22.0 million, mainly due to lower profit from Islamic debts securities and dividend income.

For the nine months ended 30 September 2018, General Takaful recorded fair value losses of RM2.2 million, an increase of RM2.2 million as compared to the same period last year. The higher losses were mainly due to the equity market performance.

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Quarter vs. Previous Year Corresponding Quarter

For the third quarter ended 30 September 2018 (Q3 2018), the Group registered PBZT of RM296.3 million, an improvement of 9.4% or RM25.5 million as compared to the previous year corresponding quarter of RM270.8 million (Q3 2017).

At the operating profit level, the Group's operating profit for the Q3 2018 of RM355.4 million was higher by RM100.0 million or 39.2% compared to the Q3 2017 of RM255.4 million.

Net profit attributable to shareholders grew by 8.3% or RM15.2 million over the same period to RM198.6 million.

Bank Islam Malaysia Berhad

For the third quarter ended 30 September 2018 (Q3 2018), Bank Islam achieved PBZT of RM225.0 million, an increase of RM1.5 million or 0.7% compared to the corresponding quarter last year (Q3 2017) of RM223.5 million. The increase in PBZT was mainly due to higher total income.

The Bank's total income for the Q3 2018 was higher by RM125.2 million compared to corresponding quarter last year, mainly due to higher fund based income of RM100.9 million, which was mainly attributed to 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. It is also attributed to the year-on-year growth in net financing assets of RM4.2 billion or 10.4% to reach RM44.3 billion as at end September 2018 from RM40.1 billion as at end September 2017. The increase in total income was also contributed by higher non-fund based income by RM24.3 million for the Q3 2018 compared to the corresponding quarter last year.

The increase in total income was partly offset with higher IATD by RM46.0 million which was in line with the increase in deposit rates in response to the increase in OPR and higher average volume of deposits and investment accounts.

Total overheads were higher by RM4.0 million or 1.6% over the corresponding quarter last year mainly due to higher personnel expenses.

Meanwhile, the increase in finance cost by RM3.8 million or 38.8% over the corresponding quarter last year was mainly due to increase in Subordinated Sukuk Murabahah following the issuance of the third tranche of RM300 million on 13 November 2017.

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Quarter vs. Previous Year Corresponding Quarter (continued)

Bank Islam Malaysia Berhad (continued)

For Q3 2018, the Bank recorded net allowance charged for impairment on financing and advances of RM26.1 million compared to RM43.8 million recovered in the corresponding quarter last year. The increase in net allowance charged was mainly contributed by higher net allowance charged for impairment on financing amounted to RM40.2 million and lower bad debts recovered by RM29.7 million.

Syarikat Takaful Malaysia Keluarga Berhad

For the third quarter ended 30 September 2018 (Q3 2018), Takaful Malaysia recorded PBZT of RM87.8 million, increased by 33.0% as compared to RM66.0 million in the same period last year (Q3 2017). The increase in profit was mainly attributable to increase in net wakalah fee income.

For Q3 2018 under review, Takaful Malaysia generated Operating Revenue of RM649.0 million as compared to RM476.2 million in Q3 2017. The increase was mainly attributable to higher sales generated by Family and General Takaful business.

For Q3 2018 under review, Family Takaful business recorded gross earned contributions of RM436.7 million as compared to RM303.0 million in Q3 2017. The increase is mainly attributable to higher sales from credit-related products.

Family Takaful business recorded net benefits and claims of RM204.7 million, an increase of 37.5% as compared to Q3 2017. The increase was mainly due to higher death and medical claims.

For Q3 2018 under review, Family Takaful business recorded investment income of RM65.4 million, as compared to RM59.5 million in Q3 2017, mainly due to higher profit from Islamic debts securities and dividend income.

Family Takaful recorded fair value gains of RM10.8 million, an increase of RM26.1 million as compared to fair value losses of RM15.3 million in Q3 2017. The gains were mainly due to the improved equity market performance.

For Q3 2018 under review, General Takaful business generated gross earned contributions of RM177.1 million, increased by 26.2%, as compared to RM140.3 million in Q3 2017. The growth was mainly from fire and motor classes.

General Takaful business recorded net benefits and claims of RM48.8 million for Q3 2018 under review, an increase of 9.9% as compared to Q3 2017. The increase was mainly due to increase in claims relating to fire and motor classes.

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B1. Performance review for the nine months ended 30 September 2018
(continued)

Current Quarter vs. Previous Year Corresponding Quarter (continued)

Syarikat Takaful Malaysia Keluarga Berhad (continued)

Investment income for the General Takaful business was RM7.3 million, as compared to RM7.1 million in Q3 2017, mainly due to higher profit from Islamic debts securities.

B2. Comparison with the preceding quarter's results for the three months performance (Third Quarter 2018 vs. Second Quarter 2018)

	Current Quarter	Immediate Preceding Quarter	Variance	
	30.09.2018	30.06.2018	Amount	%
RM'000				
Revenue	1,089,835	992,172	97,663	9.84
Operating Profit	355,379	284,739	70,640	24.81
Profit Before Zakat and Taxation	296,345	237,297	59,048	24.88
Profit After Zakat and Taxation	232,380	170,392	61,988	36.38
Profit Attributable to Equity Holders of the Parent	198,624	149,911	48,713	32.49

Table 2: Financial review for current quarter compared with immediate preceding quarter

For the third quarter ended 30 September 2018 (Q3 2018), the BHB Group reported PBZT of RM296.3 million against a PBZT of RM237.3 million achieved for the immediate preceding quarter ended 30 June 2018 (Q2 2018), an increase of RM59.0 million or 24.9%.

At the operating profit level, the Group's operating profit for Q3 2018 of RM355.4 million was higher by RM70.7 million or 24.8% compared to Q2 2018 of RM284.7 million.

Bank Islam Malaysia Berhad

For the Q3 2018, the Bank achieved a PBZT of RM225.0 million, an increase of RM31.5 million or 16.3% over the PBZT of the immediate preceding quarter (Q2 2018) of RM193.5 million. The increase in PBZT was mainly due to higher total income.

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B2. Comparison with the preceding quarter's results for the three months performance (Third Quarter 2018 vs. Second Quarter 2018) (continued)

Bank Islam Malaysia Berhad (continued)

The Bank's total income for the Q3 was higher by RM54.1 million compared to Q2 2018, mainly due to higher fund based income of RM31.0 million and non-fund based income of RM23.1 million.

The increase in total income was partly offset with higher IATD by RM14.1 million compared to Q2 2018, mainly due to the higher average volume of deposits, investments accounts and recourse obligations on financing sold to Cagamas.

Lower overheads by RM3.2 million compared to immediate preceding quarter was mainly due to lower admin and general expenses by RM2.3 million.

Meanwhile, the Bank recorded net allowance charged for impairment on financing and advances of RM26.1 million for Q3 2018 compared to RM14.8 million in the immediate preceding quarter, higher by RM11.3 million which was mainly contributed by higher individual assessment allowance.

Syarikat Takaful Malaysia Keluarga Berhad

For Q3 2018, Takaful Malaysia registered PBZT of RM87.8 million, higher by 43.0% as compared to Q2 2018 of RM61.4 million. The increase in profit was mainly attributable to higher net wakalah fee income.

For Q3 2018, Takaful Malaysia generated Operating Revenue of RM649.0 million as compared to RM542.4 million in Q2 2018. The increase is mainly attributable to higher sales generated from Family Takaful and General Takaful business.

Family Takaful business recorded gross earned contributions of RM436.7 million, an increase of 24.7% as compared to RM350.2 million in Q2 2018. The increase was mainly attributable to higher sales from credit-related products.

For Q3 2018, Family Takaful business recorded net benefits and claims of RM204.7 million, an increase of 20.6% as compared to Q2 2018. The increase was mainly due to higher death claims.

Family Takaful business recorded investment income of RM65.4 million, an increase of 6.0% as compared to RM61.7 million in Q2 2018. The increase was mainly attributable to higher profit from Islamic debts securities.

For Q3 2018, General Takaful business generated gross earned contributions of RM177.1 million, an increase of 10.5%, as compared to RM160.3 million in Q2 2018. The increase was mainly attributable to fire and motor classes.

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B2. Comparison with the preceding quarter's results for the three months performance (Third Quarter 2018 vs. Second Quarter 2018) (continued)

Syarikat Takaful Malaysia Keluarga Berhad (continued)

For Q3 2018, General Takaful business recorded net benefits and claims of RM48.8 million, a decrease of 18.0% as compared to Q2 2018. The decrease was mainly due to lower claims relating to motor and commercial classes.

General Takaful business recorded investment income of RM7.3 million for Q3 2018, an increase of 7.4%, as compared to RM6.8 million in the immediate preceding quarter, mainly attributable to higher profit from Islamic debts securities.

B3. Prospects for 2018

Bank Islam Malaysia Berhad

The extent of uncertainties of trade friction between the US and the rest of the world is expected to slow global trade as businesses would have to face increase in operating costs. Consequently, Malaysia's exports is anticipated to grow at a much slower rate this year. Businesses are envisaged to be mindful of their capital expenditure as demand outlook appears to be increasingly challenging. Government spending is expected to be in cautious as the current administration aspires to reduce the debt level. This would have implications especially to public investment as the government has already taken various measures to reduce expenditure. These factors led to slower economic growth of 4.5% year-on-year in Q2 2018 (Q1 2018: 5.4%), lower than the initial estimates of 5.2%. This raises concern on the growth prospects for the second half of 2018.

Amidst the challenging economic outlook, 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.

The Bank will focus on optimising its risks and returns, 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 MFRS 9 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 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.

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B3. Prospects for 2018 (continued)

Syarikat Takaful Malaysia Keluarga Berhad

Takaful Malaysia in 2018 will remain focused on sustaining its position as the market leader in the Family Takaful business whilst expanding its market share in the General Takaful business to establish a strong foothold in the industry. Takaful Malaysia will continue to enhance its digital capability to increase its product and service accessibility to the consumers by intensifying its online marketing initiatives. Takaful Malaysia will also embark on multiple digital initiatives to further develop ‘customer centric’ value propositions to remain competitive in the industry. Takaful Malaysia will carry out its key initiatives, including an active management strategy as well as prudent investment and underwriting activities to deliver sustainable results for its shareholders and promote financial security to its customers. Takaful Malaysia will amplify its brand presence and continue with the Cash Back offered to its customers for selected products in the event of no claims during the coverage period. Takaful Malaysia will continue to emphasize the four core areas of customer reach, operational agility, cost competitiveness and stakeholder confidence to firmly establish Takaful Malaysia as the preferred choice for insurance amongst the consumers.

B4. Variance from profit forecast and profit guarantee

The Group neither made any profit forecast nor issued any profit guarantee.

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B5. Tax expense

Major components of tax expense

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Current tax expense	71,378	62,226	204,291	186,988
Over provision in prior years	(7,621)	(6,689)	(7,836)	(6,723)
Deferred tax expense:				
Origination and reversal of temporary differences	(3,875)	9,471	(3,029)	13,616
Over provision in prior years	-	-	(1,522)	-
	59,882	65,008	191,904	193,881

A reconciliation of effective tax expense for the Group is as follows:

Profit before tax	296,345	270,826	807,256	732,254
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	71,122	64,999	193,741	175,741
Non-deductible expenses	15,590	19,978	51,356	53,752
Non-deductible Sukuk's finance cost	4,774	4,594	14,323	13,781
Non-taxable income	(21,633)	(20,874)	(60,188)	(47,222)
	69,853	68,697	199,232	196,052
Derecognition of deferred tax assets	(2,350)	3,000	2,030	4,552
	67,503	71,697	201,262	200,604
Over provision in prior years	(7,621)	(6,689)	(7,836)	(6,723)
Over provision of deferred tax	-	-	(1,522)	-
Tax expense	59,882	65,008	191,904	193,881

The Inland Revenue Board ("IRB") had, on 8 September 2017, issued to Takaful Malaysia notices of additional assessment (i.e. Form JA) for the years of assessment ("YA") 2012, 2013, and 2014. The additional tax payable by Takaful Malaysia under the above-mentioned notices is RM12,561,630.50. As a result of the above, IRB had also treated the tax returns made by Takaful Malaysia for the above years of assessment as incorrect, and imposed a penalty of RM6,200,802.97 to Takaful Malaysia.

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B5. Tax expense (continued)

Takaful Malaysia has paid the additional tax on 4 October 2017 and submitted an appeal (Form Q) to Special Commissioner of Income Tax against the notice of assessment on 5 October 2017.

Takaful Malaysia is of the view that there are strong justifications for its appeal against certain matters raised by IRB and have treated the related tax payment of RM16,741,000 as tax recoverable.

The case has fixed for hearing on 1st and 2nd September 2021.

Major components of tax expense

Company	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Current tax expense	1,444	351	2,402	1,461
Over provision in prior years	(6)	-	(6)	-
	-----	-----	-----	-----
	1,438	351	2,396	1,461
	=====	=====	=====	=====

A reconciliation of effective tax expense for the Company is as follows:

Profit before tax	125,365	113,172	311,134	267,308
	=====	=====	=====	=====
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	30,087	27,161	74,672	64,154
Non-deductible expenses	1,224	674	2,438	2,560
Non-deductible Sukuk's finance cost	4,774	4,594	14,323	13,781
Non-taxable income	(34,641)	(32,078)	(89,031)	(79,034)
	-----	-----	-----	-----
	1,444	351	2,402	1,461
Over provision in prior years	(6)	-	(6)	-
	-----	-----	-----	-----
Tax expense	1,438	351	2,396	1,461
	=====	=====	=====	=====

B6. Status of corporate proposals

There has been no new corporate proposal since the date of the last quarterly report.

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B7. Status of utilisation of proceeds raised from corporate proposals

The proceeds raised from the issuances of all debt securities in prior years have been used for working capital, general banking and other corporate purposes, as intended.

B8. Deposits and placements of financial institutions and debt securities and borrowings

	Group	
	30.09.2018	30.09.2017
	RM'000	RM'000
Deposits from customers		
Mudharabah and Tawarruq term deposits and Negotiable Islamic Debt Certificates		
- One year or less (short-term)	26,621,500	26,372,130
- More than one year (medium/long-term)	4,796,852	1,252,401
	31,418,352	27,624,531
Current accounts	9,339,827	9,502,735
Savings accounts	4,440,119	4,341,045
Others	96,252	99,325
Total deposits	45,294,550	41,567,636
Investment accounts of customers		
- One year or less (short-term)	4,202,559	3,991,626
	4,202,559	3,991,626

RM'000	As at 3 rd quarter ended 30.09.2018		
	Long term	Short term	Total borrowings
Secured			
- Recourse obligation on financing sold to Cagamas	1,500,000	1,187	1,501,187
Unsecured	2,269,202	38,959	2,308,161
- Sukuk liabilities	1,319,202	19,988	1,339,190
- Subordinated Sukuk Murabahah	950,000	18,971	968,971

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B8. Deposits and placements of financial institutions and debt securities and borrowings (continued)

RM'000	As at 3 rd quarter ended 30.09.2017		
	Long term	Short term	Total borrowings
Secured	-	-	-
- Recourse obligation on financing sold to Cagamas	-	-	-
Unsecured	1,914,994	33,278	1,948,272
- Sukuk liabilities	1,264,994	19,920	1,284,914
- Subordinated Sukuk Murabahah	650,000	13,358	663,358

The borrowings comprise the following:

- a) The 10-year Islamic securities of RM1.66 billion (2017: RM1.66 billion) in nominal value issued by the Company on 12 December 2013; and
- b) Three (3) Tranches of the Subordinated Sukuk Murabahah amounting to RM1.0 billion (September 2017: RM700 million) issued by Bank Islam Malaysia Berhad are as follows:
 - i) 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.
 - ii) 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.
 - iii) 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.
- c) On 25 May 2018, the Bank has entered into recourse obligation on financing sold to Cagamas amounting to RM1.5 billion. Under the agreement, the Bank undertakes to administer the identified house financing on behalf of Cagamas and to buy back any house 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 sold with recourse to the Bank are not de-recognised until recourse period has expired and the risks and rewards of the financing have been fully transferred.

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B9. Material litigation

Save as disclosed below, there were no changes in material litigation, including the status of pending material litigations since the last annual balance sheet date of 31 December 2017.

- (a) In 2007, Alam Maritim Resources Sdn Bhd ("Issuer") vide its Information Memorandum dated 25 June 2007 undertook a fund raising exercise via the issuance of Islamic securities of up to RM600 million comprising Sukuk Ijarah MTN of RM500 million and Murabahah Commercial Papers / Murabahah Medium Term Notes of RM100 million. Later, the Issuer appointed Trustees Malaysia Berhad ("Defendant") as the Trustee. Pursuant to a Trust Deed dated 18 June 2007 ("Trust Deed"), the Defendant is entrusted to hold the benefit of the Sukuk Ijarah MTN Facility and all amounts received for each Sukukholder based on the terms and conditions of the Trust Deed.

Bank Islam subscribed RM20 million of the Sukuk Ijarah MTN. The said Sukuk Ijarah MTN matured and was due for payment on 6 July 2017 ("Maturity Date"). However, the Defendant failed to pay the Sukuk Ijarah MTN upon Maturity Date.

Pursuant to the above, Bank Islam filed a civil suit against the Defendant on 4 December 2017 claiming for the proportionate amount of RM16,870,000.00 (from the total available amount in the collection account). On 8 January 2018, the Defendant has made an application to include Malayan Banking Berhad ("Second Defendant"), Syarikat Takaful Malaysia Berhad ("Third Defendant"), Amanahraya Trustees Berhad ("Forth Defendant"), Amanahraya Berhad ("Fifth Defendant") and CIMB Group Nominees (Tempatan) Sdn Bhd ("Sixth Defendant") as co-defendants.

On 30 August 2018, the High Court has decided in favour of Bank Islam. On 7 September 2018, the Second, Third and Fifth Defendants (except for the Defendant, Forth and Sixth Defendants) have filed an application for stay of execution which is pending hearing on 9 November 2018.

B10. Dividend

- (a) On 25 January 2018, the Company had paid a dividend of 14.00 sen per ordinary share totalling RM229.3 million in respect of the financial year ended 31 December 2017. From the total dividend amount, approximately 9.1% or RM21.6 million was distributed as cash dividend whilst the remaining 90.9% amounting to RM207.7 million was reinvested to subscribe for 55,825,000 new ordinary shares at a consideration of RM3.72 each arising from the Dividend Reinvestment Plan.

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B10. Dividend (continued)

- (b) i) An interim single tier dividend of 15.50 sen per ordinary share amounting to RM262,502,732 based on the outstanding issued share capital as at 30 September 2018, has been declared by the directors. The entire interim dividend is applicable for the Dividend Reinvestment Plan ("DRP"). In the event that new BIMB Holdings Berhad ("BHB") shares are allotted by the book closing date arising from the full exercise of the outstanding warrants, the proposed interim dividend will translate into dividend of 12.38 sen per ordinary share.
- ii) Amount per share : Single tier dividend of 15.50 sen.
- iii) Previous corresponding period : Single tier dividend of 14.00 sen.
- iv) Payment date : Tentatively end January 2019, subject to approval by relevant authorities.
- v) Entitlement to dividend will be determined on the basis of the record of shareholders as at book closing date, before or on 31 December 2018.

B11. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the number of average ordinary shares in issue during the period.

Group	Quarter		Year-to-date	
	3 months ended	3 months ended	9 months ended	9 months ended
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net profit for the period under review attributable to equity holders of the parent	198,624	183,434	520,670	470,203
Number of ordinary shares	1,693,566	1,637,741	1,693,566	1,637,741
Number of average ordinary shares	1,693,566	1,637,741	1,688,454	1,632,350
Earnings per share (sen)	11.73	11.20	30.84	28.81

Diluted earnings per share

There is no dilution due to the Company's warrants, as the warrants are currently out-of-money in view that the exercise price for each warrant is higher than the closing market price of the Company's shares as at 30 September 2018.

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B12. Economic profit statement

Group	Quarter		Year-to-date	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Net Operating profit after zakat & tax (NOPAT)				
Profit before zakat and taxation (PBZT)	296,345	270,826	807,256	732,254
Zakat & Taxation	(63,965)	(67,980)	(203,906)	(201,985)
NOPAT	232,380	202,846	603,350	530,269
Economic charge computation				
Average invested capital (excludes the debit balance of the acquisition reserve arising from the acquisition of shares from non-controlling interests)	6,621,611	6,053,229	6,438,751	5,790,525
Weighted Average Cost of Capital (WACC) (%)	7.73	5.87	7.73	5.87
Economic charge	129,014	89,561	372,264	254,229
Economic profit	103,366	113,285	231,086	276,040

B13. Foreign exchange exposure/hedging policy

The breakdown of Bank Islam's net foreign exchange exposure in RM equivalent is as follows:

RM equivalent	As at	
	30.09.2018	31.12.2017
	RM'000	RM'000
USD	(77,592)	(230,227)
EURO	(106,203)	(107,198)
Australian Dollar	(226,772)	(26,658)
Others	13,805	20,487

The Bank's exposure on USD and other currencies are mainly related to its Labuan branch operations and maintenance of foreign current accounts ("FCA").

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B14. Takaful receivables

- a) The average credit terms of takaful receivables granted to related parties and non-related parties are 6 months from the contractual due date. Letter of Demand is issued to the debtor for the recovery of takaful receivables which exceeds the average credit term.

	Family Takaful		General Takaful		Group	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-related parties	134,114	77,307	67,877	92,266	201,991	169,572
Related parties	164	134	2,369	2,410	2,533	2,545
	134,278	77,441	70,246	94,676	204,524	172,117

- b) The age analysis of takaful receivables as at the end of the reporting period based on days past-due was as follows:

	Family Takaful		General Takaful		Group	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Days past due</u>						
Current (not past due)	99,428	72,439	66,687	91,392	166,115	163,831
1-30 days	13,295	1,521	102	1,687	13,397	3,208
31-60 days	693	165	138	544	831	709
61-90 days	104	81	1,254	492	1,358	573
91-180 days	21,108	2,845	97	2,850	21,205	5,695
> 180 days	3,584	1,835	3,240	3,554	6,824	5,389
	138,212	78,886	71,518	100,519	209,730	179,405

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B14. Takaful receivables (continued)

c) Takaful receivables due from related parties are trade related and have been entered into for the purpose of takaful coverage and under normal trade terms. The significant takaful receivables of Takaful Malaysia with its related parties as at the end of the reporting period, are as follows.

	Family Takaful		General Takaful		Group	
	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000	30.09.2018 RM'000	31.12.2017 RM'000
Bank Islam Malaysia Berhad	164	135	2,369	825	2,533	960

During the period, with the implementation of the MFRS 9, Takaful Malaysia has elected to measure the impairment losses for takaful receivables at an amount equal to lifetime ECL. The ECL were calculated based on actual credit loss experience over the past five years. Takaful Malaysia considers the model and some of the assumptions used in calculating these ECL as key sources of estimation uncertainty. Takaful Malaysia performed the calculation of ECL rates separately for Family Takaful's customers and General Takaful's customers. Exposure within each group were segmented based on common credit risk characteristics such as type of products and payment frequency.

In the previous year, under MFRS 139, Takaful Malaysia assess impairment on an individual and collective basis. Takaful Malaysia will assess on a case by case basis, whether there is any objective evidence that the outstanding due is impaired for contribution due and claims recovery that are considered individually significant. The criteria that Takaful Malaysia uses to determine whether there is objective evidence of impairment for those selected for individual assessment include:

- (i) contribution due or claims recovery past-due for 6 months or more and where outstanding receivables is above 2% of total takaful receivables and RM200,000 for Family and General takaful receivables respectively;
- (ii) significant financial difficulty of customer / intermediaries;
- (iii) long outstanding balances where these are disputed and not resolved; and
- (iv) breach of contract, such as default or delinquency in payments.

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B14. Takaful receivables (continued)

Takaful Malaysia records impairment allowance for loans and receivables and takaful receivables in separate "Allowance for Impairment" accounts. Unless Takaful Malaysia is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivables directly. There were no material provisions and write-off of trade receivables during the period.

Before takaful receivables are deemed uncollectible, consistent follow-up action such as requesting for payments including reminders will be sent to the relevant debtors. Where the amount due exceeds the internal threshold, a Letter of Demand will be imposed to the debtors.

B15. Material impairment of assets

The breakdown of the assets' carrying value in the book before impairment, impairment losses and carrying value in the book after impairment against its market value are as follows:

Group	As at 30 September 2018				As at 31 December 2017			
	Carrying value before impairment	Impairment losses	Carrying value after impairment	Market value	Carrying value before impairment	Impairment losses	Carrying value after impairment	Market value
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets at FVOCI - debt securities	10,551,985	(256)	10,551,729	10,551,729	-	-	-	-
Financing, advances and others	45,034,083	(777,570)	44,256,513	45,175,550	42,685,936	(572,516)	42,113,420	42,299,796

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B15. Material impairment of assets (continued)

MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" ("ECL") model. This considerable judgement about how changes in economic factors affect ECLs which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at AC, 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 financial assets, retakaful assets, takaful receivable and statutory deposits with Bank Negara Malaysia.

At each reporting date, the Group 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 applies 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 2: 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.

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B15. Material impairment of assets (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers 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 historical experience, informed credit assessment and including forward-looking information.

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

B16. Derivatives

Bank Islam holds derivative financial instruments to hedge its foreign currency and profit rate exposures.

As at 30 September 2018

Type of derivatives	Contract/notional Value as at the date Of the statement of Financial position RM'000	Fair value as at the date of statement of financial position RM'000
<i>Derivative Financial Instruments</i>		
Foreign exchange related contracts		
- Less than one year	3,341,396	19,905
Profit rate related contracts		
- Less than one year	400,000	565
- One year to 3 years	-	-
- More than 3 years	185,935	1,457
	3,927,331	21,927

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B16. Derivatives (continued)

As at 31 December 2017

Type of derivatives	Contract/notional Value as at the date Of the statement of Financial position RM'000	Fair value as at the date of statement of financial position RM'000
<i>Derivative Financial Instruments</i>		
Foreign exchange related contracts		
- Less than one year	3,218,824	(8,940)
Profit rate related contracts		
- Less than one year	-	-
- One year to 3 years	400,000	741
- More than 3 years	207,992	1,850
	3,826,816	(6,349)

B17. The amount of gains/losses arising from fair value changes of its financial liabilities for the current quarter and financial year to date

Derivative financial assets and liabilities are measured at fair value. Gain and loss arising from fair value changes of these instruments are as follows:

Type of derivatives	Current quarter 30.09.2018 RM'000	Current year-to-date 30.09.2018 RM'000
<i>Derivative Financial Instruments</i>		
Gain/(loss) arising from fair value changes from derivatives assets and liabilities	(337)	(658)

Bank Islam holds derivative financial instruments to hedge its foreign currency and profit rate exposures. However, Bank Islam elects 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.

By order of the Board

MARIA MAT SAID (LS 0009400)
Company Secretary
October 26, 2018