

MAYBANK ISLAMIC BERHAD
(787435-M)
(Incorporated in Malaysia)

Directors' Report and Audited Financial
Statements
31 December 2011

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Contents	Page
Directors' report	1 - 8
Statement by directors	9
Statutory declaration	9
Shariah committee's report	10 - 11
Independent auditors' report	12 - 13
Statement of financial position	14 - 15
Income statement	16
Statement of comprehensive income	17
Statement of changes in equity	18 - 19
Statement of cash flows	20 - 21
Notes to the financial statements	22 - 129

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of Maybank Islamic Berhad ("the Bank") for the financial period ended 31 December 2011.

Principal activities

The Bank was incorporated under the Islamic Banking Act 1983.

The holding company of the Bank is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services.

There were no significant changes in the principal activities during the financial period.

Results

	RM'000
Profit before taxation and zakat	515,536
Taxation and zakat	<u>(127,028)</u>
Profit for the year	<u>388,508</u>

There were no material transfers to or from reserves or provisions during the financial period other than as disclosed in the statement of changes in equity.

In the opinion of the directors, the results of the operations of the Bank during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

Performance review

The Bank posted a profit before tax and zakat of RM515.5 million for the six-month financial period ended 31 December 2011.

Total income closed at RM1,646.4 million, comprising RM1,576.6 million income derived from investment of depositors' funds and RM69.8 million income derived from investment of shareholder's funds. Income attributable to depositors (including inter-bank) is recorded at RM726.5million.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Performance review (cont'd)

The Bank's total assets rose by RM8.1 billion on the back of substantial growth in financing assets and investment in securities portfolio.

Gross financing and advances surged to RM50.9 billion, a growth of RM4.1 billion or 8.8% from 30 June 2011 largely from term financing portfolio. Total customer deposits saw a substantial growth of RM10.4 billion to report at RM58.7 billion as compared to RM48.3 billion recorded in the last financial year ended 30 June 2011.

The Bank's core capital ratio (CCR) and risk-weighted capital ratio (RWCR) under Basel II remained strong at 9.89% and 12.61% respectively as at 31 December 2011.

Net impaired financing stood at 1.03% as at 31 December 2011 as compared to 1.25% as at 30 June 2011.

Prospects

Following the change in financial year end to December, the Bank's new financial year is from 1 January 2012 to 31 December 2012.

Global real GDP for 2012 is expected to decline to 3%, decelerating from an expected growth of 3.3% in 2011 as the challenging global economic environment in 2011 continues into 2012. Eurozone countries are expected to fall into recession as they continue to struggle with their debt problem while the US continues to grow at sub-par rate and China will see slower expansion in 2012.

Despite the slower global economic growth, the Malaysian economy remains resilient with an expected GDP growth of between 3.5% and 4% in 2012, supported by stronger domestic demand, in particular, the rollout of Economic Transformation Programme (ETP).

Domestic economic growth should be able to sustain positive momentum as various investments and major infrastructure projects under the ETP will help to cushion the expected decline in manufacturing exports.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Prospects (cont'd)

The banking industry will be impacted as a result of slower economic growth while the industry financing growth is expected to slowdown. In Malaysia, the Overnight Policy Rate (OPR) is expected to remain at 3% throughout 2012 which is still accommodative for growth.

In view of the less favorable economic and banking environment, the Bank remains prudent in growing its market share by continuing to be selective in pursuing financing growth and will focus on sustaining profitability and asset quality through sound credit risk management policies and practices in view of continued pressure on margins.

In 2012, the Bank will focus on implementing the various initiatives under its three strategic priorities namely strategic alignment, innovation and compliance & risk; to continue putting the Bank on a much stronger footing, reflecting its leadership position in the home market as well as its aspiration to expand Group Islamic services regionally.

Maybank Islamic Berhad is now at a comfortable level to comply with Bank Negara Malaysia's new Basel III capital requirements and will continue to adhere to sound capital management practices.

Barring any unforeseen circumstances, the Bank expects its financial performance for the financial year ending 31 December 2012 to be in line with the last 6-month financial period ended 31 December 2011. At the same time, Islamic financing components are well on track to achieving one third total Islamic financing of the Maybank Group's total domestic loans and advances by year 2015.

Dividend

The amount of dividend paid by the Bank since 30 June 2011 was as follows:

	RM'000
In respect of the financial year ended 30 June 2011 as reported in the directors' report of that year:	
Final tax exempt (single-tier) dividend of RM2.82, on 110,600,000 ordinary shares, proposed on 30 June 2011 and paid on 29 September 2011	<u>311,892</u>

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the financial period ended 31 December 2011 of RM2.00 per share on 110,600,000 ordinary shares, amounting to a dividend payable of RM221,200,000 will be proposed for the shareholder's approval.

The financial statements for the current financial period do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2012.

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Maybank Group Employee Share Scheme

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the parent's i.e. Malayan Banking Berhad's ("Maybank") shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS has been implemented on 23 June 2011 and is in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within Maybank Group.

The maximum number of ordinary shares of RM1 each in Maybank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

Issue of share capital

There was no issuance of shares in the Bank during the financial period.

Directors

The directors of the Bank in office since the date of the last report and at the date of this report are:

Dato' Seri Ismail bin Shahudin
Datuk Dr Syed Othman bin Syed Hussin Alhabshi
Tan Sri Datuk Dr Hadenan bin A. Jalil
En Zainal Abidin bin Jamal
Tan Sri Ahmad Fuzi Abdul Razak (appointed on 5 December 2011)

Directors' benefits

Neither at the end of the financial period, nor at any time during that period, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, other than the share options and Restricted Share Units granted pursuant to the ESS.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors from the Bank as disclosed in Note 26 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial period in shares and options over shares in the holding company, Maybank, during the financial period were as follows:

	[----- Number of ordinary shares of RM1 each -----]			
	1.7.2011	Acquired	Issued pursuant to DRP*	31.12.2011
Dato' Seri Ismail bin Shahudin	22,593	-	649	23,242

None of the other directors in office at the end of the financial period had any interest in shares in the Bank or other related corporations during the financial period.

*DRP is defined as Dividend Reinvestment Plan.

Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
Rating Agency Malaysia Berhad	2 November 2011	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
		Outlook (Long Term)	Stable
Malaysian Rating Corporation Berhad	March 2011	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	MARC-1
		Outlook (Long Term)	Stable

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Other statutory information

- (a) Before the statement of financial position and income statement of the Bank were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for doubtful financing; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

- (b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render:
 - (i) the amount written off for bad financing or the amount of the allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Bank misleading.

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements the Bank which would render any amount stated in the financial statements misleading.

- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Bank which has arisen since the end of the financial period which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Bank which has arisen since the end of the financial period other than those arising in the normal course of business of the Bank.

- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which will or may affect the ability of the Bank to meet its obligations as and when they fall due; and
 - (ii) no item or transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial period in which this report is made.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Other statutory information (cont'd)

Compliance with Bank Negara Malaysia's Guidelines on Financial Reporting

In the preparation of the financial statements the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's Guidelines on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Financial Institutions and the Guidelines on Classification and Impairment Provisions for Financing.

Significant and subsequent events

There is no significant adjusting event after the statements of financial positions date up to the date when the financial statements are authorised for issue.

Change of financial year end

The Bank changed its financial year end from 30 June to 31 December during the financial period.

The comparatives for the income statement, statement of changes in equity and cash flow statement as well as the comparatives in the notes to the financial statements relating to the income statement for the previous twelve (12) months ended 30 June 2011 are hence not comparable to that for the current six (6) months ended 31 December 2011.

Shariah committee

The operation of the Bank is governed by Section 5(b) of Banking and Financial Institutions Act, 1989 ("the Act"), which stipulates that "any licensed institution carrying on Islamic financial business, in addition to its existing licensed business may, from time to time seek the advice of the Shariah Advisory Council ("SAC") of Bank Negara Malaysia established under the Act, on the operations of its business in order to ensure that it does not involve any element which is not approved by the Religion of Islam" and Section IV of BNM's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as the Shariah Governance Framework ("SGF") (which supersedes the BNM/GPS 1), which stipulates that "Every Islamic institution is required to establish a Shariah Committee".

Based on the above, the duties and responsibilities of the Bank's Shariah Committee are to advise on the overall Islamic Banking operations of the Bank's business in order to ensure compliance with the Shariah requirements.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Shariah committee (cont'd)

The roles of the Shariah Committee in monitoring the Bank's activities include:

- (a) To advise the Board on Shariah matters in its business operations;
- (b) To endorse Shariah Compliance Manual;
- (c) To endorse and validate relevant documentations;
- (d) To assist related parties on Shariah matters for advice upon request;
- (e) To advise on matters to be referred to the SAC;
- (f) To provide written Shariah opinion; and
- (g) To assist the SAC on reference for advice.

Zakat obligation

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of the shareholder or depositors.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 February 2012.



Dato' Seri Ismail bin Shahudin



Datuk Dr Syed Othman bin Syed Hussin Alhabshi

Kuala Lumpur, Malaysia

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Statement by directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Dato' Seri Ismail bin Shahudin and Datuk Dr Syed Othman bin Syed Hussin Alhabshi, being two of the directors of Maybank Islamic Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 14 to 129 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines and the Shariah principles so as to give a true and fair view of the financial position of the Bank as at 31 December 2011 and of the results and the cash flows of the Bank for the six-month period then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 February 2012.

Dato' Seri Ismail bin Shahudin

Datuk Dr Syed Othman bin Syed Hussin Alhabshi

Kuala Lumpur, Malaysia

Statutory declaration

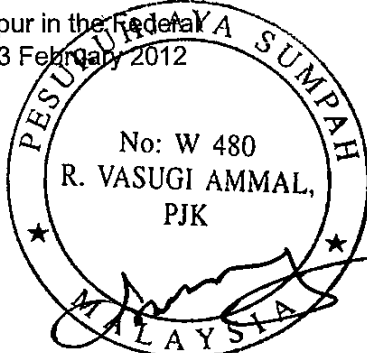
Pursuant to Section 169(16) of the Companies Act, 1965

I, Muzaffar bin Hisham, being the officer primarily responsible for the financial management of Maybank Islamic Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 129 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Muzaffar bin Hisham
at Kuala Lumpur in the Federal Territory
on 23 February 2012

Muzaffar bin Hisham

Before me,



No: 72, Tkt. 3,
Jalan Mega Mendung,
Bandar Kompleks,
58200 Kuala Lumpur.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Shariah committee's report

In the Name of Allah, The Compassionate, The Most Merciful

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions.

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholders, depositors and customers of Maybank Islamic Berhad:

We, the members of the Shariah Committee of Maybank Islamic Berhad (the "Committee"), do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank from 1 July 2011 until 31 December 2011. The Committee held six (6) meetings to review and approve various products, transactions and processes.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank has carried out Shariah audit performed by Internal Audit Division and Shariah review by Shariah Division throughout the organisation and the reports were deliberated in the Committee meetings. The Committee hereby confirms that appropriate efforts have been taken to rectify the Shariah gaps, and the Bank has also implemented several mechanism(s) to prevent similar Shariah gaps from recurring. Moreover, the Bank has organised a "Shariah Awareness Program" (SAP) region wide to disseminate Shariah compliance awareness culture throughout the organisation.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Shariah committee's report (cont'd)

We are of the opinion that:

- (a) The new products, business initiative and enhanced processes introduced by the Bank during the period ended 31 December 2011, that we have reviewed are in compliance with the Shariah rules and principles;
- (b) The contracts, transactions and dealings entered into by the Bank during the period ended 31 December 2011, that we have reviewed are in compliance with the Shariah rules and principles;
- (c) The main funding sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles;
- (d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and
- (e) The financial statements of the Bank for the period ended 31 December 2011 together with the calculation of Zakat disclosed to us are in compliance with the Shariah rules and principles.

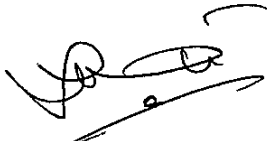
We beg Allah the Almighty to Grant us all the Success and Straight-Forwardness And Allah Knows Best.



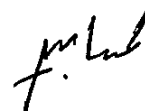
**Tan Sri Dato' Seri (Dr) Haji Harussani
bin Haji Zakaria**
Chairman of the Committee



Dr Mohammad Deen Mohd Napiah
Member of the Committee



Dr Ismail Bin Mohd @ Abu Hassan
Member of the Committee

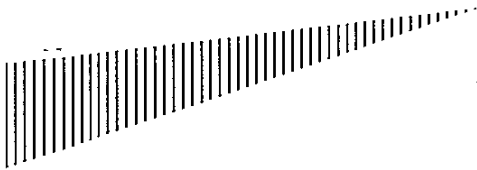


Dr Ahcene Lahsasna
Member of the Committee



Encik Sarip Bin Adul
Member of the Committee

Kuala Lumpur, Malaysia
23 February 2012



787435-M

**Independent auditors' report to the member of
Maybank Islamic Berhad
(Incorporated in Malaysia)**

Report on the financial Statements

We have audited the financial statements of Maybank Islamic Berhad, which comprise the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 129.

Directors' responsibility for the financial statements

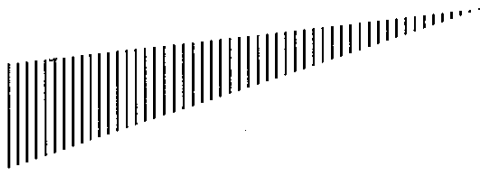
The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Guidelines and the Shariah principles, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



787435-M

Independent auditors' report to the member of
Maybank Islamic Berhad (cont'd.)
(Incorporated in Malaysia)

Opinion

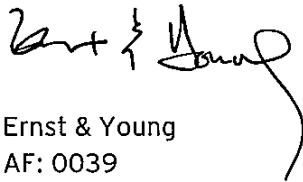
In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines and the Shariah principles so as to give a true and fair view of the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the six-month period then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

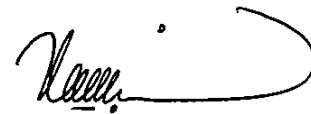
Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
23 February 2012



Chan Hooi Lam
No. 2844/02/14(J)
Chartered Accountant

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2011

	Note	31.12.2011 RM'000	30.6.2011 RM'000
Assets			
Cash and short-term funds	5	9,419,350	9,674,441
Deposits and placements with banks and other financial institutions	6	406,110	460,595
Securities portfolio	7	8,262,282	6,365,100
Financing and advances	8	49,939,551	45,844,219
Derivative assets	9	28,198	14,615
Other assets	10	3,943,593	2,494,253
Statutory deposits with Bank Negara Malaysia	11	1,834,800	913,900
Deferred tax assets	17	177,446	160,844
Total assets		74,011,330	65,927,967
Liabilities			
Deposits from customers	12	58,740,632	48,334,114
Deposits and placements of banks and other financial institutions	13	9,362,905	11,341,726
Bills and acceptances payable		501,753	1,053,540
Derivative liabilities	9	96,179	53,504
Other liabilities	14	109,688	133,463
Provision for taxation and zakat	16	80,305	39,571
Subordinated sukuk	18	1,010,723	1,010,637
Total liabilities		69,902,185	61,966,555
Equity attributable to equity holder of the Bank			
Share capital	19	110,600	110,600
Reserves	20	3,998,545	3,850,812
		4,109,145	3,961,412
Total liabilities and shareholder's equity		74,011,330	65,927,967
Commitments and contingencies	32	22,744,187	18,588,631

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Statement of financial position as at 31 December 2011 (cont'd)

	Note	31.12.2011	30.6.2011
Capital adequacy	36		
Based on credit, market and operational risk (before deducting proposed dividends):			
Basel II			
Core capital ratio		9.89%	10.31%
Risk-weighted capital ratio		<u>12.61%</u>	<u>13.02%</u>

The accompanying notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Income statement

For the period ended 31 December 2011

		1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Income derived from investment of depositors' funds	21	1,576,645	2,441,023
Income derived from investment of shareholder's funds	22	69,758	131,259
Allowances for losses on financing and advances	23	(55,650)	(13,990)
Profit equalisation reserve	15	-	(90,340)
Other expenses directly attributable to depositors' and shareholder's fund		<u>(34,922)</u>	<u>(24,842)</u>
Total distributable income		1,555,831	2,443,110
Income attributable to the depositors	24	<u>(726,528)</u>	<u>(1,049,862)</u>
Total net income		829,303	1,393,248
Overhead expenses	25	(292,581)	(544,135)
Finance cost	27	<u>(21,186)</u>	<u>(10,637)</u>
Profit before taxation and zakat		515,536	838,476
Taxation	28	(121,757)	(203,928)
Zakat		<u>(5,271)</u>	<u>(9,104)</u>
Profit for the year attributable to equity holder of the Bank		<u>388,508</u>	<u>625,444</u>
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	29	<u>351.3</u>	<u>565.5</u>

The accompanying notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of comprehensive income
For the period ended 31 December 2011

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Profit for the year	388,508	625,444
Other comprehensive income/(loss):		
Net gain/(loss) on available-for-sale financial assets	48,881	(1,517)
Income tax relating to components of other comprehensive income (Note 17)	(12,220)	379
Other comprehensive income/(loss) for the year, net of tax	36,661	(1,138)
Total comprehensive income for the year, net of tax	425,169	624,306
Total comprehensive income attributable to : Equity holder of the Bank	425,169	624,306

The accompanying notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the period ended 31 December 2011

	Non-distributable					Distributable		Total equity RM'000
	Share capital RM'000	Share premium RM'000	contribution from the holding company RM'000	Statutory reserve RM'000	Unrealised holding reserve/(deficit) RM'000	Profit reserve RM'000	Retained profits RM'000	
At 1 July 2011	110,600	2,488,400	1,697	147,338	10,720	-	1,202,657	3,961,412
Profit for the period	-	-	-	-	-	-	388,508	388,508
Other comprehensive income	-	-	-	-	36,661	-	-	36,661
Total comprehensive income for the period	-	-	-	-	36,661	-	388,508	425,169
Dividend on ordinary shares	30	-	-	-	-	-	(311,892)	(311,892)
Reversal of PER under the previous guideline	15	-	-	-	-	-	34,456	34,456
Net transfer for the period	15	-	-	-	-	-	(34,456)	-
Total transactions with shareholders	-	-	-	-	-	-	34,456	(277,436)
At 31 December 2011	110,600	2,488,400	1,697	147,338	47,381	34,456	1,279,273	4,109,145

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the period ended 31 December 2011 (cont'd)

	Non-distributable				Distributable		Total equity RM'000
	Share capital RM'000	Share premium RM'000	Share holding company RM'000	Statutory reserve RM'000	Unrealised holding reserve/ reserve/ (deficit) RM'000	Retained profits RM'000	
At 1 July 2010	110,600	2,488,400	1,697	147,338	11,858	577,213	3,397,106
Profit for the year	-	-	-	-	-	625,444	625,444
Other comprehensive loss	-	-	-	-	(1,138)	-	(1,138)
Total comprehensive income for the year	-	-	-	-	(1,138)	625,444	624,306
At 30 June 2011	110,600	2,488,400	1,697	147,338	10,720	1,202,657	3,961,412

The accompanying notes form an integral part of the financial statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the period ended 31 December 2011

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	515,536	838,476
Adjustments for:		
Amortisation of premium less accretion of discount	448	(582)
Allowances for losses on financing and advances	103,439	74,345
Profit equalisation reserve	-	90,340
Unrealised losses/(gains) on revaluation of derivatives	30,294	(2,627)
Unrealised gains on revaluation of securities held-for-trading	(577)	(1,188)
Gains on sale of securities available-for-sale	(13,142)	(20,515)
Gains on sale of securities held-for-trading	(1,493)	(885)
Gains on foreign exchange translations	(13,793)	(10,982)
Share options granted under ESS	968	-
Operating profit before working capital changes	<u>621,680</u>	<u>966,382</u>
Change in deposits and placements with banks and other financial institutions	54,485	(459,888)
Change in securities portfolio	(1,833,537)	(1,881,064)
Change in financing and advances	(4,198,771)	(12,492,126)
Change in derivative assets and liabilities	(1,202)	39,442
Change in other assets	(1,449,341)	(2,287,576)
Change in statutory deposits with Bank Negara Malaysia	(920,900)	(760,900)
Change in deposits from customers	10,406,518	13,846,443
Change in deposits and placements of banks and other financial institutions	(1,965,029)	6,290,380
Change in bills and acceptances payable	(551,787)	1,025,365
Change in other liabilities	30,901	(1,177,379)
Cash generated from operations	<u>193,017</u>	<u>3,109,079</u>
Taxes and zakat paid	(115,116)	(252,627)
Net cash generated from operating activities	<u>77,901</u>	<u>2,856,452</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows

For the period ended 31 December 2011 (cont'd)

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Cash flows from financing activities		
Proceeds from issuance of Subordinated Sukuk	-	1,000,000
Dividend paid	(311,892)	-
Profit paid for Subordinated Sukuk	(21,100)	-
Net cash (used in)/generated from financing activities	<u>(332,992)</u>	<u>1,000,000</u>
Net (decreased)/increase in cash and cash equivalents	(255,091)	3,856,452
Cash and cash equivalents at beginning of period/year	<u>9,674,441</u>	<u>5,817,989</u>
Cash and cash equivalents at end of period/year	<u>9,419,350</u>	<u>9,674,441</u>
Cash and cash equivalents comprise:		
Cash and short term funds	<u>9,419,350</u>	<u>9,674,441</u>

The accompanying notes form an integral part of the financial statements.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

Notes to the financial statements - 31 December 2011

1. Corporate information

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services.

The Bank is a public limited liability company, incorporated on 5 September 2007 and domiciled in Malaysia. The registered office of the Bank is located at 14th Floor, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur.

The holding company of the Bank is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial period-end of the Bank has changed from 30 June to 31 December. Accordingly, the financial statements of the Bank for the financial period ended 31 December 2011 cover a six-month period compared to the 12-month year-end of 30 June 2011 and therefore the comparative amounts are not in respect of comparable periods.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23 February 2011.

2. Basis of preparation of the financial statements

The financial statements of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRSs") in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines and the Shariah principles.

The financial statements are presented in Ringgit Malaysia ("RM") and values are rounded to the nearest thousand (RM'000) except when otherwise stated.

Transition to Malaysian Financial Reporting Standards Framework ("MFRS Framework")

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the MFRS Framework.

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

2. Basis of preparation of the financial statements (cont'd.)

The Bank will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Bank will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The holding company has established a project team to plan and manage the adoption of the MFRS Framework for all main entities within the Maybank Group including the Bank. This project consists of the following phases:

(a) Assessment and planning phase

This phase involves the following:

- (i) High level identification of the key differences between Financial Reporting Standards and accounting standards under the MFRS Framework and disclosures that are expected to arise from the adoption of MFRS Framework;
- (ii) Evaluation of any training requirements; and
- (iii) Preparation of a conversion plan.

The Bank considers the assessment and planning phase to be complete as at the date of this financial statements.

(b) Implementation and review phase

This phase aims to:

- (i) formulate new and/or revised accounting policies and procedures for compliance with the MFRS Framework;
- (ii) identify potential financial effects as at the date of transition, arising from the adoption of the MFRS Framework;
- (iii) develop disclosures required by the MFRS Framework; and
- (iv) develop training programs for the staff.

The Bank has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different upon the adoption of MFRS 1 - First-time Adoption of Malaysian Financial Reporting Standards.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

2. Basis of preparation of the financial statements (cont'd.)

This standard allows the first-time adopter to use one or more of the exemptions or exceptions contained in the standard.

The Bank considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

3. Significant accounting policies

(i) Basis of accounting

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below.

(ii) Changes in accounting policies and effects arising from adoption of new and revised FRSs, amendments to FRSs and interpretations

(a) Amendments to FRSs, Interpretations of the Issues Committee ("IC Interpretations") and Technical Release ("TR") effective from financial period commencing 1 July 2011

The significant accounting policies and methods of computation applied by the Bank are consistent with those adopted in the most recent audited annual financial statements for the year ended 30 June 2011 except for adoption of the following FRS.

- (i) Amendment to FRS 1: First-time Adoption of Financial Reporting Standards, Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters, Additional Exemptions for First-time Adopters.
- (ii) Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions
- (iii) Amendments to FRS 3: Business Combinations
- (iv) Amendments to FRS 7: Financial Instruments: Disclosures, Improving Disclosures about Financial Instruments
- (v) Amendments to FRS 101: Presentation of Financial Statements
- (vi) Amendments to FRS 121: The Effects of Changes in Foreign Exchange Rates
- (vii) Amendments to FRS 128: Investments in Associates
- (viii) Amendments to FRS 131: Interests in Joint Ventures
- (ix) Amendments to FRS 132: Financial Instruments: Presentation

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(ii) Changes in accounting policies and effects arising from adoption of new and revised FRS, amendments to FRS and interpretations (cont'd)

(a) Amendments to FRSs, Interpretations of the Issues Committee ("IC Interpretations") and Technical Release ("TR") effective from financial period commencing 1 July 2011 (cont'd)

- (x) Amendments to FRS 134: Interim Financial Reporting
- (xi) Amendments to FRS 139: Financial Instruments: Recognition and Measurement
- (xii) IC Interpretation 4: Determining Whether an Arrangement contains a Lease
- (xiii) IC Interpretation 18: Transfers of Assets from Customers
- (xiv) IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments
- (xv) Amendments to IC Interpretation 13: Customer Loyalty Programmes
- (xvi) Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirement
- (xvii) TR 3: Guidance on Disclosures of Transition to IFRSs
- (xviii) TR i-4: Shariah Compliant Sale Contracts

In addition to these, the Bank has adopted BNM's Revised Guidelines for Profit Equalisation Reserve ("the Revised Guidelines") issued in May 2011. The Revised Guidelines is effective from financial year beginning on and after 1 July 2011 and the effects of adopting the Revised Guidelines are disclosed in Note 15.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(ii) Changes in accounting policies and effects arising from adoption of new and revised FRS, amendments to FRS and interpretations (cont'd)

(b) Effects of adoption

The adoption of the above FRSs, amendments to FRSs and IC Interpretations did not have any material impact on the financial statements of the Bank, except for the following:

- (1) *the adoption of amendments to FRS 7 which resulted in removal of some disclosures as well as additional disclosures in the financial statements, but did not affect the earnings, retained earnings or other reserves*

Amendments to FRS 7 introduce changes to credit risk disclosures as well as enhanced disclosures on fair value measurement and liquidity risk.

The adoption is effected prospectively for annual periods beginning on or after 1 January 2011 except for credit risk disclosures whereby the changes in the disclosures are effected retrospectively. The details of disclosure are mainly disclosed in Note 34 and the relevant financial instrument notes to the financial statements.

(iii) Financial assets

(a) Date of recognition

All financial assets are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments.

(b) Initial recognition and subsequent measurement

The Bank determines the classification of financial assets at initial recognition and the categories include Financial Assets at Fair Value Through Profit and Loss ("FVTPL"), financing and receivables, held-to maturity ("HTM") and available for sale securities ("AFS") in which the details are disclosed below.

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. When financial assets are recognised initially, they are measured at fair value for FVTPL and fair value plus directly attributable transaction costs for financial assets other than FVTPL.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets

(b) Initial recognition and subsequent measurement (cont'd)

Included in financial assets are the following:

(1) Financial assets at Fair Value Through Profit and Loss ("FVTPL")

Financial assets are classified as FVTPL if they are held-for-trading ("HFT") or are designated as such upon initial recognition. The Bank do not have any financial instruments designated at FVTPL upon initial recognition.

Subsequent to initial recognition, HFT are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement.

(2) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks and financing and advances. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method.

(3) Held-to-Maturity ("HTM") financial assets

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the intention and ability to hold to maturity.

Subsequent to initial recognition, HTM are measured at amortised cost using effective profit method. Amortisation of premium, accretion of discount, impairment and gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(b) Initial recognition and subsequent measurement (cont'd)

(4) Available-for-Sale ("AFS") financial assets

AFS are financial assets that are designated as available for sale or are not classified in any of the three (3) preceding categories.

AFS investments include equity and debt securities. AFS investment include financial assets that are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market condition.

After initial recognition, AFS are measured at fair value. Any gain or loss arising from a change in fair value after applying amortised cost method are recognised directly in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective yield method are recognised in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to income statement as a reclassification adjustment when the financial asset is derecognised in the income statement. Dividends on an AFS instrument are recognised in the income statement when the Bank's right to receive payment is established.

(c) Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either:
 - the Bank has transferred substantially all the risks and rewards of the asset, or
 - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Maybank Islamic Berhad
(Incorporated in Malaysia)

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(c) Derecognition (cont'd).

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

(d) Impairment of financial asset

The Bank assesses at each reporting date whether there is any objective evidence that a financial assets, including security or group of securities (other than held-for-trading financial assets) is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in profit or principal payments and where observable data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(1) Financing and receivables

Classification of financing and advances as impaired

Financing and advances are classified as impaired when:

- principal or profit or both are past due for three (3) months or more;
- where financing in arrears for less than three (3) months exhibit indications of credit weaknesses, whether or not impairment loss has been provided for; or
- where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(d) Impairment of financial asset (cont'd)

(1) Financing and receivables (cont'd)

Impairment Process – Individual Assessment

The Bank assess if objective evidences of impairment exist for financing and advances which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows discounted at the financings' original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Impairment Process – Collective Assessment

Financings which are not individually significant and financings that have been individually assessed with no evidence of impairment loss are grouped together for portfolio impairment assessment. These financings are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups) are taken into consideration.

Impairment process – Written off accounts

Where a financing is uncollectible, it is written off against the related allowances for financing impairment. Such financings are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(d) Impairment of financial asset (cont'd)

(1) AFS

For AFS securities, the Bank assess at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as AFS, the Bank assess individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future income is based on the reduced carrying amount and is accrued using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

In the case of equity investments classified as AFS, the objective evidence would also include a significant or prolonged decline in the fair value of the investment below its cost. The Bank treats significant generally as 25% and for consecutive quarters. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(d) Impairment of financial asset (cont'd)

(2) HTM

For securities carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective profit rate. The amount of the impairment loss is recognised in the income statement.

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the securities' carrying amount does not exceed its amortised cost at the reversal date. The reversal is recognised in the income statement.

For unquoted equity securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iii) Financial assets (cont'd)

(e) Reclassification of financial assets

The Bank may choose to reclassify non-derivative assets out from the held-for-trading category, in rare circumstances, where the financial assets are no longer held for the purpose of selling or repurchasing in the short term. In addition, the Bank may also choose to reclassify financial assets that would meet the definition of financing and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Reclassifications are made at fair value as at the reclassification date, whereby the fair value becomes the new cost or amortised cost, as applicable. Any fair value gains or losses previously recognised in the income statement are not reversed.

(f) Determination of fair value

For financial instruments measured at fair value, the fair value is determined by reference to quoted market prices or by using valuation models. For financial instruments with observable market prices which are traded in active markets, the fair values are based on their quoted market price or dealer price quotations. These include listed equity securities and broker quotes from Bloomberg and Reuters.

For all other financial instruments, fair value is determined using appropriate valuation techniques. In such cases, the fair values are estimated using discounted cash flow models and option pricing models, and based on observable data in respect of similar financial instruments and using inputs (such as yield curves) existing as at reporting date. The Bank generally use widely recognised valuation models with market observable inputs for the determination of fair values, due to the low complexity of financial instruments held.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are measured at cost, and assessed for impairment at each reporting date.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(iv) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank become a party to the contractual provision of the instruments.

(b) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Bank become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Bank that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in the income statement. Net gains or losses on derivatives include exchange differences.

The Bank has not designated any financial liabilities as at fair value through profit or loss.

Maybank Islamic Berhad
(Incorporated in Malaysia)

3. Significant accounting policies (cont'd)

(iv) Financial liabilities (cont'd)

(b) Initial recognition and subsequent measurement (cont'd)

(2) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, deposits and placements of banks and financial institutions, debt securities (including borrowings), payables, bills and acceptance payable and other liabilities.

(1) Deposits from customers, deposits and placements of banks and financial institutions

Deposits from customers, deposits and placements of banks and financial institutions are stated at placement values.

(2) Debt securities

Debt securities issued are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist of subordinated sukuk, classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or dividend or both to holders of the debt securities and that the Bank is contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the borrowings on an effective yield method.

(3) Payables

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective yield method.

Maybank Islamic Berhad
(Incorporated in Malaysia)

3. Significant accounting policies (cont'd)

(iv) Financial liabilities (cont'd)

(b) Initial recognition and subsequent measurement (cont'd)

(2) Other financial liabilities (cont'd)

(4) Bills and acceptance payable

Bills and acceptances payable represent the Bank's own bills and acceptances re-discounted and outstanding in the market.

(5) Other liabilities

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is redeemed or otherwise extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(v) Derivative instruments and hedge accounting

(a) Derivative instruments

The Bank use and trade derivatives such as profit rate swap, forward foreign exchange contracts and options on profit rates, foreign currencies and equities.

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception for non-option derivatives and equivalent to the market premium paid or received for purchased or written options. The derivatives are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(v) Derivative instruments and hedge accounting (cont'd)

(b) Hedge accounting

The Bank uses derivative instruments to manage exposures to profit rate, foreign currency and credit risks. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At the inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

(1) Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

If the hedging instrument is expired or sold, terminated or exercised or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective profit rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

The Bank did not apply fair value hedge as at the end of the financial period.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(v) Derivative instruments and hedge accounting (cont'd)

(b) Hedge accounting (cont'd)

(2) Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement.

When a hedging instrument expires, or is sold, terminated, exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to income statement.

The Bank did not apply cash flow hedge as at the end of the financial period.

(3) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(vi) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(vii) Other assets

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the reporting date.

(viii) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash and bank balances and short-term funds with remaining maturity of less than one month.

(ix) Impairment of non-financial assets

The carrying amounts of assets, other than securities portfolio and deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Maybank Islamic Berhad
(Incorporated in Malaysia)

3. Significant accounting policies (cont'd)

(x) Provisions for liabilities

Provisions for liabilities are recognised when the Bank has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

(xi) Profit Equalisation Reserve ("PER")

PER is the amount appropriated out of the total gross income in order to maintain a certain level of return to depositors in conformity with Bank Negara Malaysia's "The Framework of the Rate of Return" (BNM/GP2-i). PER is appropriated from and written back to the total gross income in deriving the net distributable gross income. This amount appropriated is shared by the depositors and the Bank. The PER is deducted at a rate which does not exceed the maximum amount of the total of 15% of monthly gross income, monthly net trading income, other income and irregular income. PER is maintained up to the maximum of 30% of total capital fund.

On May 2011, the Bank has adopted BNM's Revised Guidelines for PER ("the Revised Guideline"). The Revised Guideline is effective for financial year beginning 1 July 2011 and is required to be applied prospectively. The Bank has decided to discontinue the use of PER by March/April 2012. The Bank is in the process of obtaining the required approval prior to implementing an alternative technique to manage the Displaced Commercial Risk as allowed under the Revised Guideline and currently accounts for PER as follows:

- (i) The creation of PER establishes an obligation to manage distribution to the Investment Account Holder ("IAH") from a Shariah perspective. The PER of the IAH is to be classified as liability and recognised at cost. Subsequent apportionments will be recognised in the income statement. The eventual distribution of PER as profit distributable to IAH will be treated as an outflow of funds due to the settlement of obligation to the IAH.
- (ii) The PER of the Bank is to be classified as a separate reserve in equity. Subsequent apportionments from and distributions to retained profits will be treated as transfers between reserves.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xii) Foreign currencies

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia which is the Bank's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions are recognised in the income statement.

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

(xiii) Income tax

Income tax in the income statement for the year comprises current and deferred taxes. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xiii) Income tax (cont'd.)

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as income or an expense and included in the income statement for the year, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(xiv) Zakat

This represent business zakat payable by the Bank to comply with the principle of Shariah. Zakat provision is calculated based on 'Adjusted Growth' method, at 2.5%.

(xv) Income recognition

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as held-for-trading and available-for-sale, profit income and expense for all profit-bearing financial instruments are recognised within finance income in the income statement using the effective profit method.

The effective yield or profit rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the finance income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but does not consider future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

All income and expense from the business is recognised on an accrual basis in accordance with the principles of Shariah.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xvi) Hibah

Dividend income from securities portfolio and placements which includes coupons earned, accrued discount and amortisation of premium of these securities is recognised on an accrual basis applying the effective yield method in accordance to the principles of Shariah and BNM/GP8-i.

(xvii) Other operating income

Commitment and guarantee fees are recognised as income based on time apportionment basis.

Handling fees paid to motor vehicle dealers for Islamic hire purchase financing are amortised in the income statement over the tenure of the financing in accordance with BNM's Circular on "Accounting Treatment of Handling Fees for Hire Purchase Financing" dated 16 October 2006 and is set off against income recognised on the Islamic hire purchase financing.

(xviii) Financing and related expense recognition

Finance cost and income attributable on deposits and borrowings of the Bank are amortised using the effective yield method.

(xix) Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement when incurred.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xix) Employee benefits (cont'd)

(c) Share-based compensation

ESOS

The ESOS is an equity-settled share-based compensation plan that allows the Bank's Directors and employees to acquire shares of the parent. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to parent over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, the parent revises its estimates of the number of options that are expected to become exercisable over the vesting period.

(ii) Restricted share units ("RSU")

Senior management personnel of the parent are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new parent shares or by cash at the absolute discretion of the ESS Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within the parent's equity over the vesting period and taking into account the probability that the RSU will vest. The fair value of RSU is measured at grant date, taking into account, the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xx) Non-current assets held-for-sale and discontinued operation

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held-for-sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSS. Then, on initial classification as held-for-sale, non-current assets (other than the investment properties, deferred tax assets, employees' benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in income statement.

(xxi) Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

3. Significant accounting policies (cont'd)

(xxii) Standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following new FRSs, amendments to FRSs and Interpretations of the Issues Committee ("IC Interpretations") have been issued but are not yet effective and have not been adopted by the Bank:

- (i) Amendments to FRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- (ii) Amendments to FRS 7: Disclosures – Transfers of Financial Assets
- (iii) FRS 9: Financial Instruments
- (iv) FRS 10: Consolidated Financial Statements
- (v) FRS 11: Joint Arrangements
- (vi) FRS 12: Disclosure of Interests in Other Entities
- (vii) FRS 13: Fair Value Measurement
- (viii) Amendments to FRS 101: Presentation of Items of Other Comprehensive Income
- (ix) Amendments to FRS 112: Deferred Tax: Recovery of Underlying Assets
- (x) FRS 119 (2011): Employee Benefits
- (xi) FRS 124: Related Party Disclosures (Issued in November 2011)
- (xii) FRS 127 (2011): Separate Financial Statements
- (xiii) FRS 128 (2011): Investment in Associates and Joint Ventures

As disclosed in Note 2 above, the Bank will adopt MFRS Framework from 1 January 2012.

(xxiii) Restricted Profit Sharing Investment Accounts ("RPSIA")

These deposits are used to fund specific financing and follow the principle of Mudharabah which state that profits will be shared with the Bank as Mudharib and losses shall be borne solely by depositors.

4. Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving higher degree of judgment and complexity, are as follows:

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

4. Significant accounting estimates and judgements (cont'd)

(i) Fair value estimation of available-for-sale (Note 7) and derivative financial instruments (Note 9)

The fair value of securities and derivatives that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the reporting date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flow method.

(ii) Deferred tax (Note 17) and income taxes (Note 28)

The Bank is subject to income taxes in Malaysia and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking expert advice where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the year in which the estimate is revised or the final liability is established.

(iii) Impairment of securities portfolio (Note 7)

The Bank review the Securities Portfolio of AFS and HTM and assess at each reporting date whether there is any objective evidence that the investment is impaired. If there are indicators or objective evidence, the assets are subject to impairment review.

The impairment review comprises the following judgement made by management:

- (i) Determination whether its investment is impaired following certain indicators such as, amongst others, prolonged decline in fair value, significant financial difficulties of the issuer or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors.
- (ii) Determination of "significant" or "prolonged" requires judgement and management evaluation on various factors, such as historical fair value movement and the significant reduction in fair value.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

4. Significant accounting estimates and judgements (cont'd.)

(iv) Impairment losses on financing and advances (Note 8 and 23)

The Bank assesses if objective evidences of impairment exist for financing and advances which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows discounted at the financing's original effective rate. The carrying amount of the financing and advances are reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowances.

Financing and advances which are not individually significant and loans that have been individually assessed with no evidence of impairment loss are grouped together for portfolio impairment assessment. These financing and advances are grouped within similar credit risk characteristics for collective assessment, whereby data from the financing and advances portfolio (such as credit quality, levels of arrears, credit utilisation, financing and advances to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

5. Cash and short-term funds

	31.12.2011 RM'000	30.6.2011 RM'000
Cash and balances with banks and other financial institutions	1,757,901	1,515,309
Money at call and interbank placements with remaining maturity not exceeding one month	7,661,449	8,159,132
	<u>9,419,350</u>	<u>9,674,441</u>

6. Deposits and placements with banks and other financial institutions

	31.12.2011 RM'000	30.6.2011 RM'000
Licensed banks	405,899	460,258
Bank Negara Malaysia	211	337
	<u>406,110</u>	<u>460,595</u>

7. Securities portfolio

	Note	31.12.2011 RM'000	30.6.2011 RM'000
Securities available-for-sale	(i)	5,875,507	5,920,574
Securities held-to-maturity	(ii)	171,884	171,893
Securities held-for-trading	(iii)	2,214,891	272,633
		<u>8,262,282</u>	<u>6,365,100</u>

(i) Securities available-for-sale

	31.12.2011 RM'000	30.6.2011 RM'000
At fair value		
Money market instruments:		
Cagamas bonds	149,891	183,997
Bank Negara Malaysia Sukuk Ijarah bonds	11,132	11,104
Malaysian Government Investment Issues	3,062,272	3,696,550
Negotiable instruments of deposits	952,927	249,219
Bankers' acceptances and Islamic accepted bills	4,117	220,933
Khazanah bonds	246,208	236,252
	<u>4,426,547</u>	<u>4,598,055</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

7. Securities portfolio (cont'd)

(i) Securities available-for-sale (cont'd)

	31.12.2011 RM'000	30.6.2011 RM'000
Unquoted securities:		
Islamic private debt securities in Malaysia	1,381,658	1,262,059
Malaysia Global Sukuk	67,302	60,460
	<u>1,448,960</u>	<u>1,322,519</u>
Total securities available-for-sale	<u>5,875,507</u>	<u>5,920,574</u>

(ii) Securities held-to-maturity

	31.12.2011 RM'000	30.6.2011 RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	141,549	141,893
Unquoted Securities:		
Islamic private debt securities in Malaysia	30,335	30,000
Total securities held-to-maturity	<u>171,884</u>	<u>171,893</u>

(iii) Securities held-for-trading

	31.12.2011 RM'000	30.6.2011 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	215,712	30,281
Bank Negara Malaysia Sukuk Ijarah bonds	116,331	-
Bank Negara Malaysia Monetary Notes	1,882,848	242,352
Total securities held-for-trading	<u>2,214,891</u>	<u>272,633</u>

The maturity structure of money market instruments available-for-sale and held-to-maturity are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Maturing within one year	1,261,117	892,559
One year to three years	724,126	454,051
Three years to five years	868,555	1,138,278
After five years	1,714,298	2,255,060
	<u>4,568,096</u>	<u>4,739,948</u>

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

8. Financing and advances

	31.12.2011 RM'000	30.6.2011 RM'000
Cashline	2,103,900	2,019,756
Term financing:		
- House financing	7,275,137	6,237,944
- Syndicated financing	52,071	59,566
- Hire purchase receivables	18,167,588	18,191,284
- Other term financing	43,371,441	37,380,736
Bills receivables	2,125	2,201
Trust receipts	204,263	170,724
Claims on customers under acceptance credits	3,507,816	3,647,214
Staff financing	423,973	780,325
Credit card receivables	340,254	307,454
Revolving credit	4,315,880	3,319,247
	<u>79,764,448</u>	<u>72,116,451</u>
Unearned income	(28,894,399)	(25,341,649)
Gross financing and advances [^]	50,870,049	46,774,802
Allowances for impairment on financing and advances:		
- Individual	(298,840)	(354,688)
- Collective	(631,658)	(575,895)
Net financing and advances	<u>49,939,551</u>	<u>45,844,219</u>

[^] Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA"), an arrangement between the Bank and its parent, where the risks and rewards of the RPSIA are accounted by the parent, including allowances for impairment arising thereon, if any and the profit is shared based on pre-agreed ratios.

(i) Financing and advances analysed by Shariah concepts are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Bai' Bithaman Ajil	17,949,940	17,721,184
Al-Ijarah Thumma Al-Bai (AITAB)	15,146,087	15,173,105
Murabahah	14,473,620	11,850,500
Musarakah Mutanaqisah	2,852,124	1,625,386
Bai Al-Dayn	2,217	1,740
Al-Ijarah Muntahiyah Bi-Tamleek	52,071	59,566
Others	393,990	343,321
Gross financing and advances	<u>50,870,049</u>	<u>46,774,802</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd)

(ii) Financing and advances analysed by type of customers are as follows:

	31.12.2011	30.6.2011
	RM'000	RM'000
Domestic non-banking institutions	5,294,637	4,422,136
Domestic business enterprises		
- Small and medium enterprises	6,262,452	4,146,536
- Others	6,532,255	7,209,199
Government and statutory bodies	318,878	295,958
Individuals	31,501,647	29,987,306
Other domestic entities	9,129	9,454
Foreign entities in Malaysia	951,051	704,213
Gross financing and advances	<u>50,870,049</u>	<u>46,774,802</u>

(iii) Financing and advances analysed by profit rate sensitivity are as follows:

	31.12.2011	30.6.2011
	RM'000	RM'000
Fixed rate		
- House financing	2,886,621	2,669,618
- Hire purchase receivables	15,152,459	15,188,904
- Other financing	6,178,966	5,557,055
Floating rate		
- House financing	4,545,606	2,682,323
- Other financing	22,106,397	20,676,902
Gross financing and advances	<u>50,870,049</u>	<u>46,774,802</u>

(iv) Financing and advances analysed by their economic purposes are as follows:

	31.12.2011		30.6.2011	
	RM'000	RM'000	RM'000	RM'000
Purchase of securities		8,062,663		7,970,308
Purchase of transport vehicles	16,676,327		15,902,341	
Less: Hire purchase receivables sold to Cagamas	<u>(1,499,270)</u>	15,177,057	<u>(682,679)</u>	15,219,662
Purchase of landed properties:				
- Residential	7,438,449		6,385,360	
- Non-residential	<u>1,269,053</u>	8,707,502	<u>901,487</u>	7,286,847
Personal use		1,000,346		864,967
Consumer durables		3		13
Construction		2,205,208		1,714,608
Working capital		15,069,544		13,128,013
Credit/charge card		340,254		307,454
Other purposes		307,472		282,930
Gross financing and advances		<u>50,870,049</u>		<u>46,774,802</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd)

(v) The maturity structure of financing and advances is as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Maturing within one year	7,173,315	7,200,343
One year to three years	2,085,895	1,501,244
Three years to five years	8,621,309	7,681,833
After five years	32,989,530	30,391,382
Gross financing and advances	<u>50,870,049</u>	<u>46,774,802</u>

(vi) Movement in the impaired financing and advances are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
At beginning of the period/year	928,549	1,155,639
Impaired during the period/year	316,586	770,551
Reclassified as non-impaired during the period/year	(220,452)	(440,130)
Recovered during the period/year	(120,539)	(260,176)
Expenses debited to customers' accounts	9,448	29,545
Amount written off	(101,619)	(326,880)
At end of the period/year	<u>811,973</u>	<u>928,549</u>
Less:		
- Individual allowance	(298,840)	(354,688)
Net impaired financing and advances	<u>513,133</u>	<u>573,861</u>
Gross financing and advances (excluding RPSIA financing)	50,220,049	46,124,802
Less:		
- Individual allowance	(298,840)	(354,688)
Net financing and advances	<u>49,921,209</u>	<u>45,770,114</u>
Net impaired financing and advances as a percentage of net financing and advances	<u>1.03%</u>	<u>1.25%</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd)

(vii) Impaired financing and advances analysed by their economic purposes are as follows:

	31.12.2011	30.6.2011
	RM'000	RM'000
Purchase of securities	7,222	4,514
Purchase of transport vehicles	57,316	50,791
Purchase of landed properties:		
- Residential	149,843	201,824
- Non-residential	17,210	22,981
Personal use	13,197	12,101
Consumer durables	3	3
Construction	56,599	73,657
Working capital	504,003	557,794
Credit/charge card	6,580	4,884
	<u>811,973</u>	<u>928,549</u>

(viii) Movement in the allowances for impaired financing and advances are as follows:

	31.12.2011	30.6.2011
	RM'000	RM'000
Individual Allowance		
At beginning of the period/year	354,688	473,823
Allowance made (Note 23)	28,449	94,775
Amount written back in respect of recoveries (Note 23)	(38,004)	(41,822)
Transfer to collective allowance	(739)	(6,438)
Amount written off	(45,554)	(165,650)
At end of the period/year	<u>298,840</u>	<u>354,688</u>
Collective Allowance		
At beginning of the period/year	575,895	713,938
Net allowance made* (Note 23)	111,089	16,749
Transfer from individual allowance	739	6,438
Amount written off	(56,065)	(161,230)
At end of the period/year	<u>631,658</u>	<u>575,895</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd)

(viii) Movement in the allowances for impaired financing and advances are as follows (cont'd):

Collective Allowance (cont'd)

As a % of gross financing and advances (excluding RPSIA financing) less individual assessment allowance	<u>1.27%</u>	<u>1.26%</u>
---	--------------	--------------

- * As at 31 December 2011, the gross exposure of the assets under RPSIA is RM650.0 million (30 June 2011 : RM650.0 million) and the collective allowance relating to this RPSIA amounting RM1.5 million (30 June 2011 : RM1.8 million) is accounted for by the parent. There was no individual allowance made on this RPSIA financing by the Bank.

Maybank Islamic Berhad
(Incorporated in Malaysia)

9. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period/year end and are indicative of neither the market risks nor the credit risk.

	31.12.2011			30.6.2011		
	Contract/ Notional amount RM'000	Fair value		Contract/ Notional amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<u>Trading derivatives</u>						
<u>Foreign exchange contracts:</u>						
Currency forward						
- Less than one year	1,448,253	20,156	(19,673)	926,730	8,902	(8,792)
Currency spot						
- Less than one year	50,079	41	(47)	102,634	30	(70)
<u>Profit rate related contracts:</u>						
Profit rate options						
- Less than one year	-	-	-	537,300	2,431	(44,206)
- More than three years	200,000	722	(40,881)	-	-	-
Cross currency profit rate swaps						
- More than three years	300,500	7,104	(7,104)	-	-	-
<u>Commodity related contracts:</u>						
- Less than one year	35,500	-	-	36,000	-	-
	2,034,332	28,023	(67,705)	1,602,664	11,363	(53,068)
<u>Hedging derivatives</u>						
Profit rate swaps						
- One year to three years	1,450,000	175	(15,207)	1,600,000	3,252	(436)
- More than three years	350,000	-	(9,157)	-	-	-
Cross currency profit rate swaps						
- More than three years	317,500	-	(4,110)	-	-	-
	2,117,500	175	(28,474)	1,600,000	3,252	(436)
Total derivative assets/ (liabilities)	4,151,832	28,198	(96,179)	3,202,664	14,615	(53,504)

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

10. Other assets

	31.12.2011 RM'000	30.6.2011 RM'000
Amount due from holding company	3,726,670	1,575,303
Handling fees	127,490	122,431
Prepayments and deposits	70,581	48,066
Other debtors	18,852	748,453
	<u>3,943,593</u>	<u>2,494,253</u>

11. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits maintained with Bank Negara Malaysia are in compliance with Section 37(1)(d) of the Central Bank of Malaysia Act, 1958 (revised 1994), the amounts of which are determined as set percentages of total eligible liabilities.

12. Deposits from customers

	31.12.2011 RM'000	30.6.2011 RM'000
<u>Mudharabah Fund</u>		
Demand deposits	3,592,901	3,773,787
Savings deposits	508,498	423,089
General investment deposits	20,671,521	14,686,914
Negotiable instruments of deposits	257,716	242,829
	<u>25,030,636</u>	<u>19,126,619</u>
<u>Non-Mudharabah Fund</u>		
Demand deposits	5,773,749	5,647,616
Savings deposits	6,689,436	6,178,284
Fixed return investment deposits	21,046,377	16,839,011
Structured deposits *	200,434	542,584
	<u>33,709,996</u>	<u>29,207,495</u>
	<u>58,740,632</u>	<u>48,334,114</u>

* Structured deposits represent Ringgit Malaysia time deposits with embedded foreign currency exchange option, commodity-linked time deposits and profit rate options.

Maybank Islamic Berhad
(Incorporated in Malaysia)

12. Deposits from customers (cont'd)

- (i) The maturity structure of general investment deposits, negotiable instruments of deposits and fixed return investment deposits are as follows:

	31.12.2011	30.6.2011
	RM'000	RM'000
Due within six months	36,550,939	28,991,671
Six months to one year	5,138,961	2,495,634
One year to three years	126,498	130,505
Three years to five years	159,216	150,944
	<u>41,975,614</u>	<u>31,768,754</u>

- (ii) The deposits are sourced from the following customers:

	31.12.2011	30.6.2011
	RM'000	RM'000
Business enterprises	27,925,083	19,636,727
Individuals	15,052,850	13,882,390
Government and statutory bodies	7,354,080	6,775,033
Others	8,408,619	8,039,964
	<u>58,740,632</u>	<u>48,334,114</u>

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

13. Deposits and placements of banks and other financial institutions

	31.12.2011 RM'000	30.6.2011 RM'000
<u>Mudharabah fund</u>		
Licensed banks*	4,892,905	5,319,114
Licensed islamic banks	257,368	790,101
Licensed investment banks	10,202	-
Other financial institutions	639,147	2,781,872
	<u>5,799,622</u>	<u>8,891,087</u>
<u>Non-Mudharabah fund</u>		
Licensed banks	51,953	127,709
Licensed islamic banks	190,163	-
Other financial institutions	3,321,167	2,322,930
	<u>3,563,283</u>	<u>2,450,639</u>
	<u>9,362,905</u>	<u>11,341,726</u>

* Deposits and placements of holding company

Included in the Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the parent amounting to RM650.0 million (30 June 2011 : RM650.0 million). These deposits are used to fund certain specific financing. The RPSIA is a contract based on the Mudharabah principle between two parties to finance a financing where the investor solely provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture is shared between both parties based on pre-agreed ratios. Losses shall be borne by the depositors.

Maybank Islamic Berhad
(Incorporated in Malaysia)

14. Other liabilities

	Note	31.12.2011 RM'000	30.6.2011 RM'000
Profit equalisation reserve (Note 15)		54,695	90,340
Sundry creditors		9,024	12,773
Deposit on trade financing		28,757	13,639
Provisions and accruals	(a)	17,212	16,711
		<u>109,688</u>	<u>133,463</u>

(a) Includes provision for commitments and contingencies with the movement as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
At beginning of the period/year	9,273	-
Made during the period/year	-	9,273
At end of the period/year	<u>9,273</u>	<u>9,273</u>

The provision relates to bank guarantees issued by the Bank that have a high likelihood to result in claims from the beneficiaries.

15. Profit Equalisation Reserve ("PER")

	31.12.2011 RM'000	30.6.2011 RM'000
At beginning of the period/year	90,340	-
Transfer to Non-Distributable profit equalisation reserve	(34,456)	-
Distribution to Investment Account Holder	(1,189)	-
Provided during the period/year	-	90,750
Written back during the period/year	-	(410)
At end of the period/year *	<u>54,695</u>	<u>90,340</u>

* PER at the end of the financial period of which the shareholder's portion is RMNil (30 June 2011: RM34.5 million).

Under the new BNM PER Guideline, the PER of the Bank is to be classified as a separate reserve in equity.

Maybank Islamic Berhad
(Incorporated in Malaysia)

16. Provision for taxation and zakat

	31.12.2011 RM'000	30.6.2011 RM'000
Taxation	74,776	30,446
Zakat	5,529	9,125
	<u>80,305</u>	<u>39,571</u>

17. Deferred tax assets

	31.12.2011 RM'000	30.6.2011 RM'000
At beginning of the period/year	160,844	126,731
Recognised in the income statement (Note 28)	28,822	33,734
Recognised in other comprehensive income	(12,220)	379
At end of the period/year	<u>177,446</u>	<u>160,844</u>

Deferred tax assets of the Bank:

	Allowances for losses on financing and advances RM'000	Unrealised holding reserve/ (deficit) RM'000	Other temporary difference RM'000	Total RM'000
At 1 July 2011	142,223	17,050	1,571	160,844
Recognised in the income statement (Note 28)	29,114	(297)	5	28,822
Recognised in other comprehensive statement	-	(12,220)	-	(12,220)
At 31 December 2011	<u>171,337</u>	<u>4,533</u>	<u>1,576</u>	<u>177,446</u>
At 1 July 2010	131,577	(5,914)	1,068	126,731
Recognised in the income statement (Note 28)	10,646	22,585	503	33,734
Recognised in other comprehensive statement	-	379	-	379
At 30 June 2011	<u>142,223</u>	<u>17,050</u>	<u>1,571</u>	<u>160,844</u>

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

18. Subordinated sukuk

	31.12.2011	30.6.2011
	RM'000	RM'000
RM1,000 million Tier 2 Islamic Subordinated Sukuk due in 2021	<u>1,010,723</u>	<u>1,010,637</u>

On 31 March 2011, the Bank issued RM1.0 billion nominal value Islamic Subordinated Sukuk ("the Sukuk") under the Shariah principle of Musyarakah. The Sukuk carries a tenure of 10 years from the issue date on 10 non-callable 5 basis, with a profit rate of 4.22% per annum payable semi-annually in arrears in March and September each year, and are due in March 2021. Under the 10 non-callable 5 basis feature, the Bank has the option to redeem the Sukuk on any semi-annual distribution date on or after the 5th anniversary from the issue date. Should the Bank decide not to exercise its option to redeem the Sukuk, the Sukuk shall continue to be outstanding until the final maturity date.

The Sukuk is unsecured and it is subordinated in rights and priority of payment, to all deposit liabilities and other liabilities of the Bank except liabilities of the Bank which by their terms rank pari-passu in right and priority of payment with the Sukuk.

19. Share capital

	Number of ordinary shares of RM1 each		Amount	
	31.12.2011	30.6.2011	31.12.2011	30.6.2011
	'000	'000	RM'000	RM'000
Authorised:				
At beginning and end of period/year	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:				
At beginning and end of period/year	<u>110,600</u>	<u>110,600</u>	<u>110,600</u>	<u>110,600</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

20. Reserves

	Note	31.12.2011 RM'000	30.6.2011 RM'000
Non-distributable:			
Share premium		2,488,400	2,488,400
Equity contribution from the holding company		1,697	1,697
Statutory reserve	(a)	147,338	147,338
Unrealised holding reserves		47,381	10,720
Profit equalisation reserve	(b)	34,456	-
		<u>2,719,272</u>	<u>2,648,155</u>
Distributable:			
Retained profits	(c)	1,279,273	1,202,657
Total reserves		<u>3,998,545</u>	<u>3,850,812</u>

(a) Statutory reserves

The statutory reserve is maintained in compliance with the requirements of Bank Negara Malaysia in which the Bank operates and is not distributable as cash dividends.

(b) Profit equalisation reserve

The PER of the Bank is classified as a separate reserve in equity as per BNM Revised Guidelines on Profit Equalisation Reserve issued in May 2011.

(c) Retained profits

Prior to the year of assessment 2008, Malaysian companies adopt the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

As at 31 December 2011 and 30 June 2011, the Bank does not have any Section 108 balance. The Bank may distribute dividends out of its entire retained profits as at 31 December 2011 under the single tier system.

Maybank Islamic Berhad
(Incorporated in Malaysia)

21. Income derived from investment of depositors' funds

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Income from investment of:		
(i) General investment deposits	1,119,741	1,592,158
(ii) Other deposits	456,904	848,865
	<u>1,576,645</u>	<u>2,441,023</u>
 (i) Income derived from investment of general investment deposits		
	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Finance income and hibah		
Financing and advances	931,536	1,277,955
Securities:		
- Available-for-sale	66,604	105,770
- Held-for-trading	1,992	1,199
- Held-to-maturity	2,219	4,286
Money at call and deposits with financial institutions	65,501	88,741
	<u>1,067,852</u>	<u>1,477,951</u>
Amortisation of premium less accretion of discount	(305)	360
Total finance income and hibah	<u>1,067,547</u>	<u>1,478,311</u>
Other operating income		
Fee income:		
- Processing fees	556	897
- Commissions	26,171	52,220
- Service charges	26,342	38,325
Unrealised (losses)/gains on revaluation of derivatives	(20,603)	1,626
Unrealised gains on revaluation of securities held-for-trading	393	735
Gains on sale of securities available-for-sale	8,938	12,698
Gains on sale of securities held-for-trading	1,016	548
Gains/(losses) on foreign exchange:		
- Realised	8,968	6,987
- Unrealised	413	(189)
Total operating income	<u>52,194</u>	<u>113,847</u>
Total	<u>1,119,741</u>	<u>1,592,158</u>

Included in finance income were income on impaired assets amounting to RM7.8 million (30.6.2011 :RM15.7 million).

Maybank Islamic Berhad
(Incorporated in Malaysia)

21. Income derived from investment of depositors' funds (cont'd)

(ii) Income derived from investment of other deposits

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Finance income and hibah		
Financing and advances	380,108	681,347
Securities:		
- Available-for-sale	27,178	56,392
- Held-for-trading	813	639
- Held-to-maturity	906	2,285
Money at call and deposits with financial institutions	26,727	47,313
	<u>435,732</u>	<u>787,976</u>
Amortisation of premium less accretion of discount	(124)	192
Total finance income and hibah	<u>435,608</u>	<u>788,168</u>
Other operating income		
Fee income:		
- Processing fees	227	478
- Commissions	10,679	27,841
- Service charges	10,749	20,433
Unrealised (losses)/gains on revaluation of derivatives	(8,407)	867
Unrealised gains on revaluation of securities held-for-trading	160	392
Gains on sale of securities available-for-sale	3,647	6,770
Gains on sale of securities held-for-trading	414	292
Gains/(losses) on foreign exchange:		
- Realised	3,659	3,725
- Unrealised	168	(101)
Total operating income	<u>21,296</u>	<u>60,697</u>
Total	<u>456,904</u>	<u>848,865</u>

Included in finance income were income on impaired assets amounting to RM3.2 million (30.6.2011: RM8.4 million).

Maybank Islamic Berhad
(Incorporated in Malaysia)

22. Income derived from investment of shareholder's funds

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Finance income and hibah		
Financing and advances	58,034	105,355
Securities:		
- Available-for-sale	4,149	8,720
- Held-for-trading	124	99
- Held-to-maturity	138	353
Money at call and deposits with financial institutions	4,081	7,316
	<u>66,526</u>	<u>121,843</u>
Amortisation of premium less accretion of discount	(19)	30
Total finance income and hibah	<u>66,507</u>	<u>121,873</u>
Other operating income		
Fee income		
- Processing fees	35	74
- Commissions	1,630	4,305
- Service charges	1,641	3,160
Unrealised (losses)/gains on revaluation of derivatives	(1,284)	134
Unrealised gains on revaluation of securities held-for-trading	24	61
Gains on sale of securities available-for-sale	557	1,047
Gains on sale of securities held-for-trading	63	45
Gains/(losses) on foreign exchange:		
- Realised	559	576
- Unrealised	26	(16)
Total operating income	<u>3,251</u>	<u>9,386</u>
Total	<u>69,758</u>	<u>131,259</u>

Included in finance income were income on impaired assets amounting to RM0.5 million (30.6.2011: RM1.3 million).

Maybank Islamic Berhad
(Incorporated in Malaysia)

23. Allowances for losses on financing and advances

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Allowances for impaired financing and advances:		
Individual allowance		
- Allowance made (Note 8 (viii))	28,449	94,775
- Amount written back (Note 8 (viii))	(38,004)	(41,822)
Collective allowance made (Note 8 (viii))	111,089	16,749
Bad financing		
- Written off	1,906	4,643
- Recoveries	(47,790)	(60,355)
	<u>55,650</u>	<u>13,990</u>

24. Income attributable to depositors

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Deposits from customers		
- Mudharabah fund	231,042	429,773
- Non-mudharabah fund	322,272	352,244
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	171,792	265,051
- Non-mudharabah fund	1,422	2,794
	<u>726,528</u>	<u>1,049,862</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

25. Overhead expenses

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Personnel expenses		
- Salaries and wages	4,702	7,081
- Allowances and bonuses	3,186	4,581
- Social security cost	27	42
- Pension cost - defined contribution plan	1,718	1,798
- Share options granted under ESS	968	-
- Other staff related expenses	841	1,925
	<u>11,442</u>	<u>15,427</u>
Establishment costs		
- Rental of premises	587	752
- Repairs, servicing and maintenance	68	8
- Information technology expenses	485	928
	<u>1,140</u>	<u>1,688</u>
Marketing costs		
- Advertisement and publicity	4,126	9,405
- Others	87	26
	<u>4,213</u>	<u>9,431</u>
Administration and general expenses		
- Fees and brokerage	6,601	12,447
- Administrative expenses	2,304	5,597
- General expenses	5,158	20,631
- Auditors' remuneration		
- Statutory audit	282	295
- Other services	25	177
- Directors' fees (Note 26)	103	296
- Shared service costs paid/payable to Maybank	261,313	478,146
	<u>275,786</u>	<u>517,589</u>
Total	<u>292,581</u>	<u>544,135</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

26. Chief executive officer, directors and Shariah committee members' remuneration

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Chief executive officer:		
Salary and other remuneration, including meeting allowance	378	890
ESS costs	70	-
Estimated money value of benefit-in-kind	51	202
	<u>499</u>	<u>1,092</u>
Non-executive directors:		
Fees	82	258
Other remunerations	16	38
	<u>98</u>	<u>296</u>
Shariah committee members	174	280
Total	<u>771</u>	<u>1,668</u>
Total (excluding benefit-in-kind)	<u>720</u>	<u>1,466</u>

Number of directors of the Bank whose remuneration falls into the following band:

Non-executive directors:		
Below RM 50,000	<u>5</u>	<u>4</u>

27. Finance cost

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Islamic Subordinated Sukuk	<u>21,186</u>	<u>10,637</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

28. Taxation

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Tax expense for the period	<u>150,579</u>	<u>237,662</u>
Deferred tax (Note 17):		
Deferred tax in relation to origination and reversal of temporary differences	<u>(28,822)</u>	<u>(33,734)</u>
	<u>121,757</u>	<u>203,928</u>

Domestic current income tax is calculated at the statutory tax rate of 25% of the estimated assessable profit for the period.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Profit before taxation	<u>515,536</u>	<u>838,476</u>
Taxation at Malaysian statutory tax rate of 25%	128,884	209,619
Income not subject to tax	(4,005)	(3,827)
Expenses not deductible for tax purposes	63	106
Effect of zakat deduction	<u>(3,185)</u>	<u>(1,970)</u>
Tax expense for the period	<u>121,757</u>	<u>203,928</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

29. Earnings per share ("EPS")

The basic and diluted EPS of the Bank are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the financial period.

	1.7.2011 to 31.12.2011	1.7.2010 to 30.6.2011
Profit for the period attributable to equity holder of the Bank (RM' 000)	<u>388,508</u>	<u>625,444</u>
Weighted average number of ordinary shares in issue ('000)	<u>110,600</u>	<u>110,600</u>
Basic/diluted EPS (sen)	<u>351.3</u>	<u>565.5</u>

30. Dividends

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Final tax exempt (single-tier) dividend of RM2.82, on 110,600,000 ordinary shares in respect of the financial year ended 30 June 2011	<u>311,892</u>	<u>-</u>

At the forthcoming Annual General Meeting, a final tax-exempt (single-tier) dividend in respect of the financial period ended 31 December 2011 of RM2.00 per share on 110,600,000 ordinary shares, amounting to a dividend payable of RM221,200,000 will be proposed for the shareholder's approval.

The financial statements for the current financial period do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the next financial year ending 31 December 2012.

Maybank Islamic Berhad
(Incorporated in Malaysia)

31. Significant related party transactions and balances

(a) The Bank's significant transactions and balances with related parties are as follows:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Holding company		
Expenditure		
Income attributable on deposits and placements	53,184	70,634
Shared service cost paid/payable to Maybank	261,313	478,146
Other expenses	1,067	1,912
	<u>315,564</u>	<u>550,692</u>
Related company		
Expenditure		
Income attributable on deposits and placements	1,407	2,848
Other expenses	-	1,035
	<u>1,407</u>	<u>3,883</u>

(b) Included in the statement of financial position of the Bank are amounts due to holding company represented by the following:

	31.12.2011 RM'000	30.6.2011 RM'000
Holding company		
Amount due from:		
Current accounts and deposits	17,663	27,003
Derivative assets	666	-
Others	3,726,670	3,770,087
	<u>3,744,999</u>	<u>3,797,090</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

31. Significant related party transactions and balances (cont'd)

(b) Included in the statement of financial position of the Bank are amounts due to holding company represented by the following (cont'd):

	31.12.2011 RM'000	30.6.2011 RM'000
Holding company		
Amount due to:		
Current accounts and deposits	1,071,178	1,001,754
Negotiable instruments of deposits		
- Remaining maturity less than one year	1,596,921	1,577,936
- Remaining maturity more than one year	2,224,807	2,738,328
Derivative liabilities	54,206	-
Others	-	2,100,424
	<u>4,947,112</u>	<u>7,418,442</u>
Related company		
Amount due from:		
Current accounts and deposits	<u>458,828</u>	<u>33,279</u>
	<u>458,828</u>	<u>33,279</u>
Amount due to:		
Current accounts and deposits	10,202	-
General investment deposits	42,503	40,421
Fixed return investment deposits	38,104	117,090
	<u>90,809</u>	<u>157,511</u>

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.

Maybank Islamic Berhad
(Incorporated in Malaysia)

31. Significant related party transactions and balances (cont'd)

(c) Key management personnel compensation

The remuneration of directors and other members of key management during the year are as disclosed in Note 26. The movement in share options of key management personnel is as follows:

	1.7.2011 to 31.12.2011 '000	1.7.2010 to 30.6.2011 '000
At beginning of period/year	-	-
Vested and exercisable	47	-
At end of year	<u>47</u>	<u>-</u>

The share options were granted on the same terms and conditions as those offered to other employees of Maybank Group.

(d) Credit exposure arising from credit transactions with connected parties

	31.12.2011	30.6.2011
Outstanding credit exposure with connected parties (RM'000)	<u>2,332,784</u>	<u>4,112,713</u>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	<u>4.6%</u>	<u>8.8%</u>
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	<u>-</u>	<u>-</u>

The credit exposure above are derived based on paragraph 9.1 of the Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iii) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (iv) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iii) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (v) Any person for whom the persons listed in (i) to (iii) above is a guarantor; and
- (vi) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and loan commitments.

787435-M

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

32. Commitments and contingencies

In the normal course of business, the Bank 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.

The risk-weighted exposures of the Bank as at 31 December 2011 and 30 June 2011, are as follows:

	31.12.2011		30.6.2011			
	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<u>Credit-related</u>						
Direct credit substitutes	353,389	353,389	218,717	258,825	258,825	153,932
Certain transaction-related contingent items	988,725	488,589	420,439	953,946	474,813	425,774
Short-term self-liquidating trade-related contingencies	275,875	54,868	33,029	103,689	20,696	14,814
Hire purchase financing sold to Cagamas Berhad	1,499,270	1,499,270	498,592	682,679	682,679	226,105
Irrevocable commitments to extend credit:						
- maturity within one year	13,278,525	367,560	216,612	11,800,348	173,764	58,462
- maturity more than one year	2,183,909	1,117,988	333,118	1,573,404	345,905	208,332
Miscellaneous commitments and contingencies	12,662	-	-	13,076	-	-
<u>Derivative financial instruments</u>						
Foreign exchange related contracts:						
- less than one year	1,498,332	43,650	12,648	1,029,364	18,174	3,635
- one year to less than five years	618,000	62,723	29,045	-	-	-
Profit rate related contracts:						
- less than one year	-	-	-	537,300	16,716	3,343
- one year to less than five years	1,850,000	39,897	7,979	1,600,000	34,252	6,850
- more than five years	150,000	9,000	1,800	-	-	-
Commodity related contracts:						
- less than one year	35,500	89	18	36,000	91	19
	22,744,187	4,037,023	1,771,997	18,588,631	2,025,915	1,101,266

* The credit equivalent amount and risk weighted amount are arrived at using the credit conversion factors and risk weights respectively as specified by Bank Negara Malaysia Guidelines.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management

(a) Financial risk management overview

The Bank adopts the same principles and standards as Maybank ("the Group") in setting its risk management framework while ensuring the framework is consistent with Shariah requirements set out by the Islamic Financial Services Board ("IFSB") and Bank Negara Malaysia ("BNM"). At present, the Bank manages its credit and operational risks while the management of market and liquidity risk relating to Islamic banking is carried out by Risk Management at Maybank Group Level.

Risk Management is a critical pillar of the Group's operating model, complementing the other two pillars, which are customer sector and support and services sector. A dedicated Board-level Risk Management Committee provides risk oversight of all material risks across the Group.

At the management level, the Executive Risk Committee and the Asset and Liability Management Committee ensures all key risks are managed in line with their respective Terms of Reference.

The Bank's approach to risk management is premised on the following Seven Broad Principles of Risk Management:

- (a) The risk management approach is premised on the three lines of defence concept – risk taking units, risk control units and internal audit.
- (b) The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and pricing of risks. Complementing this is Internal Audit which provides independent assurance of the effectiveness of the risk management approach.
- (c) Risk Management provides risk oversight for the major risk categories including credit, market, liquidity and operational risk.
- (d) Risk Management ensures that the core risk policies of the Bank are consistent, sets the risk tolerance level and facilitates the implementation of an integrated risk-adjusted measurement framework.
- (e) Risk Management is functionally and organisationally independent of business sectors and other risk taking units within the Bank.
- (f) The Board, through the Risk Management Committee, maintains overall responsibility for the risk oversight function within the Bank.
- (g) Risk Management ensures the execution of various risk policies and related decisions empowered by the Board.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(b) Financial instrument by category

	31.12.2011													
		Held-for-trading RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of FRS 139 RM'000	Total RM'000						
Assets														
Cash and short term funds	-	-	-	-	9,419,350	9,419,350	-	-	-	-	-	-	-	9,419,350
Deposits and placements with banks and other financial institutions	-	-	-	-	406,110	406,110	-	-	-	-	-	-	-	406,110
Securities portfolio	2,214,891	5,875,507	171,884	-	49,939,551	8,262,282	-	-	-	-	-	-	-	8,262,282
Financing and advances	-	-	-	-	49,939,551	49,939,551	-	-	-	-	-	-	-	49,939,551
Derivative assets	28,198	-	-	-	-	28,198	-	-	-	-	-	-	-	28,198
Other assets	-	-	-	-	3,745,522	3,745,522	198,071	-	-	-	-	-	-	3,943,593
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,834,800	1,834,800	-	-	-	-	-	-	-	1,834,800
Deferred tax assets	-	-	-	-	-	-	177,446	-	-	-	-	-	-	177,446
TOTAL ASSETS	2,243,089	5,875,507	171,884	-	65,345,333	73,635,813	375,517	74,011,330						
Liabilities														
Deposits from customers	-	-	-	-	58,740,632	58,740,632	-	-	-	-	-	-	-	58,740,632
Deposits and placements of banks and other financial institutions	-	-	-	-	9,362,905	9,362,905	-	-	-	-	-	-	-	9,362,905
Bills and acceptances payable	-	-	-	-	501,753	501,753	-	-	-	-	-	-	-	501,753
Derivative liabilities	96,179	-	-	-	96,179	96,179	-	-	-	-	-	-	-	96,179
Other liabilities	-	-	-	-	37,781	37,781	71,907	-	-	-	-	-	-	109,688
Provision for taxation and zakat	-	-	-	-	-	-	80,305	-	-	-	-	-	-	80,305
Subordinated sukuk	-	-	-	-	1,010,723	1,010,723	-	-	-	-	-	-	-	1,010,723
TOTAL LIABILITIES	96,179	69,653,794	69,749,973	152,212	69,902,185	177,446	74,011,330							

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(b) Financial instrument by category

	Held-for-trading RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of FRS 139 RM'000	Total RM'000
Assets							
Cash and short term funds	-	-	-	9,674,441	9,674,441	-	9,674,441
Deposits and placements with banks and other financial institutions	-	-	-	460,595	460,595	-	460,595
Securities portfolio	272,633	5,920,574	171,893	-	6,365,100	-	6,365,100
Financing and advances	-	-	-	45,844,219	45,844,219	-	45,844,219
Derivative assets	14,615	-	-	-	14,615	-	14,615
Other assets	-	-	-	2,323,756	2,323,756	170,497	2,494,253
Statutory deposits with Bank Negara Malaysia	-	-	-	913,900	913,900	-	913,900
Deferred tax assets	-	-	-	-	-	160,844	160,844
TOTAL ASSETS	287,248	5,920,574	171,893	59,216,911	65,596,626	331,341	65,927,967
Liabilities							
Deposits from customers	-	-	48,334,114	48,334,114	-	48,334,114	48,334,114
Deposits and placements of banks and other financial institutions	-	-	11,341,726	11,341,726	-	11,341,726	11,341,726
Bills and acceptances payable	-	-	1,053,540	1,053,540	-	1,053,540	1,053,540
Derivative liabilities	53,504	-	-	53,504	-	53,504	53,504
Other liabilities	-	-	26,412	26,412	107,051	133,463	133,463
Provision for taxation and zakat	-	-	-	-	39,571	39,571	39,571
Subordinated sukuk	-	-	1,010,637	1,010,637	-	1,010,637	1,010,637
TOTAL LIABILITIES	53,504	61,766,429	61,819,933	146,622	61,966,555		

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(c) Credit risk management

1. Credit Risk Management

Credit risk management

Risk appetite for credit risk is an expression of the amount of risk that the Bank is willing to take in pursuing its strategic objectives. It reflects the Bank's capacity to sustain potential losses arising from a range of potential consequences under different stress scenarios. This is defined in terms of both impact to earnings and maintenance of minimum regulatory capital requirements.

Identifying the risk appetite and risk capacity of the business is an important starting point for Enterprise Risk Management. A key element of the Risk Appetite Framework is the Risk Appetite Statement, which is a Board-approved document that defines the self-imposed constraints and drivers which we have chosen to limit or otherwise influence the amount of risk undertaken. This document shall have a set of quantitative and qualitative key measures, and shall be regularly reviewed, updated and approved by the Board Risk Management Committee and Board.

The Board has approved the Risk Appetite Statement and Framework for implementation by the Bank. The risk appetite statements were articulated to better link our business strategies with our risk taking capacities and optimise risk-return tradeoffs.

Credit risk definition

Credit risk arises as a result of customers or counter-parties' failure or unwillingness to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending operations, trade finance and its funding, investment and trading activities undertaken by the Bank. As the Bank's primary business is in commercial banking, the Bank's exposure to credit risk is primarily from its lending activities and financing to consumer retail, small and medium-sized enterprises ("SMEs") and corporate customers. Other activities such as trading or holding of debt securities, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk.

Management of credit risk

Corporate and institutional credit risks are assessed by business units and approved by an independent party (Group Credit Management) where each customer is assigned a credit rating based on the assessment of relevant factors including customer's financial position, types of facilities and securities offered.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(c) Credit risk management (cont'd.)

1. Credit Risk Management (cont'd.)

Management of credit risk (cont'd.)

Reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units.

Reviews on credit programmes are conducted at least once a year to assess the performance of the portfolio.

Bank wide hierarchy of credit approving authorities and committee structures are in place to ensure appropriate underwriting standards are enforced consistently throughout the Bank.

To manage large exposures, the Bank has in place, amongst others, the following limits and related lending guidelines to avoid undue concentration of credit risk in its financing portfolio:

- Countries
- Business Segments
- Economic Sectors
- Single Customer Groups
- Banks & Non-Bank Financial Institutions
- Counterparties
- Collaterals

To effectively manage vulnerable corporate and institutional credits of the Bank, there are dedicated teams comprising Corporate Remedial Management at Head Office and Loan Management Centres at Regional Offices. Vulnerable consumer credits are managed by the Recovery Management Unit at Head Office and Asset Quality Management Centres at Regional Offices. Special attention is given to these vulnerable credits where more frequent and intensive reviews are performed in order to accelerate remedial action.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(c) Credit risk management (cont'd)

1. Credit Risk Management (cont'd)

Management of credit risk (cont'd)

A post-approval evaluation of credit facilities is emplaced and performed by the Credit Review team, with checks to ensure that credit facilities are properly appraised and approved. The team also reviews credit applications with overrides and/or policy breaches to assess the adequacy of justification and mitigation when approving such overrides/breaches. This is to ensure that the Bank's credit evaluation process is properly benchmarked against best practices and that credit policies and product guidelines are continuously enhanced to ensure that they remain relevant in managing credit risks. Findings of the Credit Review team are tabled at the risk committees for review and remedial actions.

A dedicated Credit Policy and Portfolio Management team designs strategies to achieve a desired ideal portfolio risk tolerance level. The teams also prepare regular credit risk reports which are submitted to the various risk committees as part of on-going monitoring and review of borrowers and financing portfolios. Periodic credit stress testing exercises under selected scenarios are also performed and the results reported.

Credit Risk Management ("CRM") Framework

The CRM framework includes comprehensive credit risk policies, frameworks, tools and methodologies for identification, measurement, monitoring and control of credit risk on a consistent basis. Components of the CRM framework constitute:

- Strong emphasis in creating and enhancing credit risk awareness.
- Comprehensive selection and training of lending personnel in the management of credit risk.
- Leveraging on knowledge sharing tools including e-learning courses to enhance credit skills within the Group.

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. The CRM sub-sector is responsible for developing, enhancing and communicating an effective and consistent credit risk management framework across the Bank to ensure appropriate credit policies are in place to identify, measure, control and monitor such risks.

In view that authority limits are directly related to the risk levels of the borrower and transaction, a Risk-Based Authority Limit structure was implemented based on the Expected Loss framework and internally developed Credit Risk Rating System ("CRRS").

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management policies (cont'd)

(c) Credit risk management (cont'd)

2. Maximum exposure to credit risk

The following analysis represents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial assets, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For off balance sheet assets, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	Maximum Exposure		Financial Effect of Collateral	
	31.12.2011 RM'000	30.6.2011 RM'000	31.12.2011 %	30.6.2011 %
Credit exposure for on-balance sheet assets:				
Cash and short term funds	9,419,350	9,674,441	-	-
Deposits and placements with banks and other financial institutions	406,110	460,595	-	-
Securities portfolio	8,262,282	6,365,100	-	-
Financing and advances	49,939,551	45,844,219	54	51
Derivative assets	28,198	14,615	-	-
Other financial assets	3,745,522	2,323,756	-	-
Statutory deposits with Bank Negara Malaysia	1,834,800	913,900	-	-
	<u>73,635,813</u>	<u>65,596,626</u>		
Credit exposure for off-balance sheet items:				
Direct credit substitutes	353,389	258,825		
Certain transaction-related contingent items	988,725	953,946		
Short-term self-liquidating trade-related contingencies	275,875	103,689		
Hire purchase financing sold to Cagamas Berhad	1,499,270	682,679		
Irrevocable commitments to extend credit	15,462,434	13,373,752		
Miscellaneous	12,662	13,076		
	<u>18,592,355</u>	<u>15,385,967</u>		
Total maximum credit risk exposure	<u>92,228,168</u>	<u>80,982,593</u>		

Amendments to FRS 7 issued in October 2010 required an entity to quantify the extent to which the collateral and other credit enhancements obtained by an entity mitigate the maximum exposure to credit risk as disclosed above.

As at 31 December 2011, 54% of financing and advances for the Bank are collateralised (30 June 2011:51% collateralised).

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

3. Credit risk concentration profile

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank analysed the concentration credit risk by geographic purpose and industry segment as follows:

(a) Concentration of credit risk for both on and off balance sheet exposures analysed by geographic purpose are as follows:

	Cash and short term funds	Deposits and placements with banks and other financial institutions	Securities portfolio	Financing and advances	Derivative assets	Other assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	9,419,350	406,110	8,262,282	50,571,209	28,198	3,745,522	1,834,800	74,267,471	18,592,355
Less: Collective allowance	-	-	-	(631,658)	-	-	-	(631,658)	-
	<u>9,419,350</u>	<u>406,110</u>	<u>8,262,282</u>	<u>49,939,551</u>	<u>28,198</u>	<u>3,745,522</u>	<u>1,834,800</u>	<u>73,635,813</u>	<u>18,592,355</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

3. Credit risk concentration profile (cont'd)

	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Securities portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Malaysia	9,674,441	460,595	6,365,100	46,420,114	14,615	2,323,756	913,900	66,172,521	15,385,967
Less: Collective allowance	-	-	-	(575,895)	-	-	-	(575,895)	-
	9,674,441	460,595	6,365,100	45,844,219	14,615	2,323,756	913,900	65,596,626	15,385,967

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

3. Credit risk concentration profile (cont'd)

(b) Concentration of credit risk for both on and off balance sheet exposures analysed by industry sector are as follows:

	Cash and short term funds	Deposits and placements with banks and other financial institutions	Securities portfolio	Financing and advances	Derivative assets	Other assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2011									
Agriculture	-	-	131,969	642,739	-	-	-	774,708	193,943
Mining and quarrying	-	-	-	8,788	-	-	-	8,788	2,200
Manufacturing	-	-	228,275	3,731,181	-	-	-	3,959,456	991,223
Construction	-	-	41,955	2,398,860	-	-	-	2,440,815	611,041
Electricity, gas and water supply	-	-	290,848	72,353	-	-	-	363,201	90,925
Wholesale, retail trade, restaurants and hotels	-	-	-	1,888,469	-	-	-	1,888,469	472,765
Finance, insurance, real estate and business	9,419,350	406,110	1,762,190	7,867,076	28,198	3,745,522	1,834,800	25,063,246	6,274,413
Transport, storage and communication	-	-	372,795	1,376,913	-	-	-	1,749,708	438,027
Education, health and others	-	-	15,536	511,237	-	-	-	526,773	131,874
Household	-	-	-	31,469,061	-	-	-	31,469,061	7,878,065
Others	-	-	5,418,714	604,532	-	-	-	6,023,246	1,507,879
Less: Collective allowance	-	-	-	(631,658)	-	-	-	(631,658)	-
	9,419,350	406,110	8,262,282	49,939,551	28,198	3,745,522	1,834,800	73,635,813	18,592,355

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

3. Credit risk concentration profile (cont'd)

	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Securities portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
30.6.2011									
Agriculture	-	-	70,349	506,987	-	-	-	577,336	134,238
Mining and quarrying	-	-	-	21,900	-	-	-	21,900	5,092
Manufacturing	-	-	-	4,010,893	-	-	-	4,010,893	932,584
Construction	-	-	173,805	1,756,815	-	-	-	1,930,620	448,894
Electricity, gas and water supply	-	-	611,763	157,109	-	-	-	768,872	178,773
Wholesale, retail trade, restaurants and hotels	-	-	-	1,622,839	-	-	-	1,622,839	377,331
Finance, insurance, real estate and business	9,674,441	460,595	1,297,598	6,295,261	14,615	2,323,756	913,900	20,980,166	4,878,160
Transport, storage and communication	-	-	208,621	1,131,613	-	-	-	1,340,234	311,622
Education, health and others	-	-	-	384,276	-	-	-	384,276	89,349
Household	-	-	70,938	29,939,178	-	-	-	30,010,116	6,977,740
Others	-	-	3,932,026	593,243	-	-	-	4,525,269	1,052,184
Less: Collective allowance	-	-	-	(575,895)	-	-	-	(575,895)	-
	9,674,441	460,595	6,365,100	45,844,219	14,615	2,323,756	913,900	65,596,627	15,385,967

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management policies (cont'd)

(c) Credit risk management (cont'd)

4. Collateral

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

- For mortgages - charges over residential properties
- For auto financing - ownership claims over the vehicle financed
- For commercial property financing - charges over the properties being financed
- For other financing - charges over business assets such as premises, inventories, trade receivable or deposits

5. Credit quality of financial assets

Credit classification for financial assets

For the purposes of disclosure relating to FRS 7, all financial assets are categorised into the following:

- neither past due nor impaired
- past due but not impaired
- past due and impaired

The four credit quality classification set out and defined below describe the credit quality of the Bank's lending. These classifications encompass a range of more granular, internal gradings assigned to financing and advances whilst external gradings are applied to securities. There is no direct correlation between the internal and external ratings at a granular level, except the extent each falls within a single credit quality band.

Exposure to credit risk	Probability of default ("PD") Grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 5	AAA to A-	AAA to AA
Low	6 - 10	A- to BBB-	AA to A
Moderate	11 - 15	BB+ to B+	A to BBB
High	16 - 21	B+ to CCC	BBB to C
Impaired	Impaired	Impaired	Impaired

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(c) Credit risk management (cont'd)

5. Credit quality of financial assets (cont'd)

Risk category is as described below:

Very low: Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.

Low: Obligors rated in this category have a good capacity to meet financial commitments with very low credit risk.

Moderate: Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.

High: Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/default: Obligors with objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in the financial statements.

Unrated: Refer to borrower which are currently not assigned with borrowers' ratings due to unavailability of ratings models.

Sovereign: Refer to obligors which are governments and/or government-related agencies.

33. Financial risk management (cont'd)
(c) Credit risk management (cont'd)

6. Credit quality of financial assets - gross financing and advances

Risk categories of gross financing and advances of the Bank have been assessed based on four credit quality classification as described below:

	31.12.2011						Total RM'000
	Neither past due nor impaired RM'000	Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000	Total RM'000	Impaired RM'000	
Cashline	1,803,837	4,918	4,421	-	9,339	290,724	2,103,900
Term financing	39,112,913	241,294	94,581	57,527	393,402	482,517	39,988,832
Other financing	8,720,730	15,410	1,737	708	17,855	38,732	8,777,317
Gross financing and advances	49,637,480	261,622	100,739	58,235	420,596	811,973	50,870,049
Less:							(298,840)
- Individual allowance							(631,658)
- Collective allowance							(930,498)
							49,939,551
As a percentage of total gross financing and advances	97.58%	0.51%	0.20%	0.11%	0.83%	1.60%	100.00%
	Neither past due nor impaired:						
	Very low RM'000	Low RM'000	Moderate RM'000	High RM'000	Unrated RM'000	Total RM'000	
31.12.2011	575,458	223,272	323,991	177,992	503,124	1,803,837	
Cashline	10,812,072	11,458,637	10,674,796	3,264,514	2,902,894	39,112,913	
Term financing	1,156,098	2,197,492	1,671,166	201,200	3,494,774	8,720,730	
Other financing	12,543,628	13,879,401	12,669,953	3,643,706	6,900,792	49,637,480	
As a percentage of total gross financing and advances	24.66%	27.28%	24.91%	7.16%	13.57%	97.58%	

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

6. Credit quality of financial assets - gross financing and advances

30.6.2011

Past due but not impaired:

	Neither past due nor impaired RM'000	Due			Total RM'000	Impaired RM'000	Total RM'000
		within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000			
Cashline	1,651,277	20,891	10,780	71,287	102,958	265,521	2,019,756
Term financing	34,311,082	850,211	200,197	538,306	1,588,714	628,086	36,527,882
Other financing	8,174,307	12,721	4,446	748	17,915	34,942	8,227,164
Gross financing and advances	44,136,666	883,823	215,423	610,341	1,709,587	928,549	46,774,802
Less:							
- Individual allowance							(354,688)
- Collective allowance							(575,895)
							(930,583)
							45,844,219

As a percentage of total gross financing and advances

94.36%	1.89%	0.46%	1.30%	3.65%	1.99%	100.00%
--------	-------	-------	-------	-------	-------	---------

30.6.2011

	Very low RM'000	Neither past due nor impaired:				Unrated RM'000	Total RM'000
		Low RM'000	Moderate RM'000	High RM'000			
Cashline	586,036	220,708	531,716	254,037	58,780	1,651,277	
Term financing	15,833,731	10,786,256	5,322,552	1,314,706	1,053,837	34,311,082	
Other financing	469,308	2,602,526	2,138,253	356,842	2,607,378	8,174,307	
Gross financing and advances	16,889,075	13,609,490	7,992,521	1,925,585	3,719,995	44,136,666	
As a percentage of total gross financing and advances	36.11%	29.10%	17.09%	4.12%	7.95%	94.36%	

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)
(c) Credit risk management (cont'd)

7. Credit quality of financial assets - securities portfolio and other financial assets

	31.12.2011		Past due but not impaired:		Neither past due nor impaired:		Total		Impairment allowance	Net total
	Neither past due nor impaired	Past due but not impaired	Due within 31 days	Due within 31 to 60 days	Due within 31 to 90 days	Total	High	Unrated		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	9,419,349	-	-	-	-	-	-	-	-	9,419,349
Deposits and placements with banks and other financial institutions	406,110	-	-	-	-	-	-	-	-	406,110
Securities portfolio	8,262,282	-	-	-	-	-	-	-	-	8,262,282
Derivative assets	28,198	-	-	-	-	-	-	-	-	28,198
Other financial assets	3,745,522	-	-	-	-	-	-	-	-	3,745,522
Statutory deposits with Bank Negara Malaysia	1,834,800	-	-	-	-	-	-	-	-	1,834,800
	23,696,262	-	-	-	-	-	-	-	-	23,696,262
As a percentage of gross balance	100.00%	-	-	-	-	-	-	-	-	100.00%
			Neither past due nor impaired:							
31.12.2011			Sovereign (no rating)	Very low	Low	Moderate	High	Unrated	Total	
			RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	9,419,185	295,066	576,972	819,226	-	-	-	1,757,901	9,419,349	
Deposits and placements of banks and other financial institutions	211	90,572	280,248	35,079	-	-	-	-	406,110	
Securities portfolio	5,706,388	1,800,426	384,962	-	-	-	-	370,506	8,262,282	
Derivative assets	27,476	-	-	-	-	-	-	722	28,198	
Other financial assets	-	3,726,670	-	-	-	-	-	18,852	3,745,522	
Statutory deposits with Bank Negara Malaysia	1,834,800	-	-	-	-	-	-	-	1,834,800	
	13,511,584	5,940,210	1,242,182	854,305	-	-	-	2,147,981	23,696,262	
As a percentage of gross balance	57.02%	25.07%	5.24%	3.61%	-	-	-	9.06%	100.00%	

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

7. Credit quality of financial assets - securities portfolio and other financial assets

	30.6.2011						
	Neither past due nor impaired 30 days	Past due but not impaired:	Due within 31 days	Due within 61 days	Due within 90 days	Impairment allowance	Net total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	9,674,441	-	-	-	-	-	9,674,441
Deposits and placements with banks and other financial institutions	460,595	-	-	-	-	-	460,595
Securities portfolio	6,365,100	-	-	-	-	-	6,365,100
Derivative assets	14,615	-	-	-	-	-	14,615
Other financial assets	2,323,756	-	-	-	-	-	2,323,756
Statutory deposits with Bank Negara Malaysia	913,900	-	-	-	-	-	913,900
	19,752,407	-	-	-	-	-	19,752,407
As a percentage of gross balance	100.00%	-	-	-	-	-	100.00%

Neither past due nor impaired:

	30.6.2011						
	Sovereign (no rating)	Very low	Low	Moderate	High	Unrated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	8,034,132	-	-	125,000	-	1,515,309	9,674,441
Deposits and placements of banks and other financial institutions	337	27,003	-	400,000	33,255	-	460,595
Securities portfolio	4,358,432	1,494,804	430,851	81,013	-	-	6,365,100
Derivative assets	-	12,184	-	-	-	2,431	14,615
Other financial assets	-	1,575,303	-	-	-	748,453	2,323,756
Statutory deposits with Bank Negara Malaysia	913,900	-	-	-	-	-	913,900
	13,306,801	3,109,294	430,851	606,013	33,255	2,266,193	19,752,407
As a percentage of gross balance	67.37%	15.74%	2.18%	3.07%	0.17%	11.47%	100.00%

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

8. Credit quality of impaired financial assets

Impaired financial assets analysed by geography are as follows:

	31.12.2011		30.6.2011	
	Cash and short term funds	Deposits and placements with banks and other financial institutions	Securities portfolio	Financing and advances
	RM'000	RM'000	RM'000	RM'000
			Derivative assets	Other financial assets
			RM'000	RM'000
				Statutory deposits with Bank Negara Malaysia
				RM'000
				Total
				RM'000
				Commitments and contingencies
				RM'000
Malaysia	-	-	-	811,973
				811,973
Malaysia	-	-	-	928,549
				928,549

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

8. Credit quality of impaired financial assets (cont'd)

Impaired financial assets analysed by industry sectors are as follows:

31.12.2011	Deposits and placements with banks and other financial institutions		Securities portfolio	Financing and advances	Derivative assets	Other financial assets	Statutory deposits with Bank Negara Malaysia	Total	Commitments and contingencies
	Cash and short term funds	RM'000							
Agriculture	-	-	-	16,800	-	-	-	16,800	-
Mining and quarrying	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	124,103	-	-	-	124,103	-
Construction	-	-	-	62,346	-	-	-	62,346	-
Electricity, gas and water supply	-	-	-	1,293	-	-	-	1,293	-
Wholesale, retail trade, restaurants and hotels	-	-	-	54,023	-	-	-	54,023	-
Finance, insurance, real estate and business	-	-	-	89,721	-	-	-	89,721	-
Transport, storage and communication	-	-	-	79,531	-	-	-	79,531	-
Education, health and others	-	-	-	80,425	-	-	-	80,425	-
Household	-	-	-	240,182	-	-	-	240,182	-
Others	-	-	-	63,550	-	-	-	63,550	-
	-	-	-	811,973	-	-	-	811,973	-

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

8. Credit quality of impaired financial assets (cont'd)

30.6.2011

	Cash and short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Securities portfolio RM'000	Financing and advances RM'000	Derivative assets RM'000	Other financial assets RM'000	Statutory deposits with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	10,040	-	-	-	10,040	-
Mining and quarrying	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	80,949	-	-	-	80,949	-
Construction	-	-	-	69,819	-	-	-	69,819	-
Electricity, gas and water supply	-	-	-	1,310	-	-	-	1,310	-
Wholesale, retail trade, restaurants and hotels	-	-	-	55,976	-	-	-	55,976	-
Finance, insurance, real estate and business	-	-	-	62,922	-	-	-	62,922	-
Transport, storage and communication	-	-	-	126,828	-	-	-	126,828	-
Education, health and others	-	-	-	80,590	-	-	-	80,590	-
Household	-	-	-	798	-	-	-	798	-
Others	-	-	-	439,317	-	-	-	439,317	-
	-	-	-	928,549	-	-	-	928,549	-

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

9. Reconciliation of allowance account

Movements in allowances for impairment losses for financial assets are as follows:

	Financing and advances		Securities AFS	Securities HTM	Other financial assets		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2011							
<u>Individual allowance</u>							
At beginning of the period	354,688	-	-	-	-	-	354,688
Allowance made during the period	28,449	-	-	-	-	-	28,449
Amount written back in respect of recoveries	(38,004)	-	-	-	-	-	(38,004)
Amount written off	(45,554)	-	-	-	-	-	(45,554)
Transfer to collective allowance	(739)	-	-	-	-	-	(739)
At end of the period	298,840	-	-	-	-	-	298,840
<u>Collective allowance</u>							
At beginning of the period	575,895	-	-	-	-	-	575,895
Allowance made during the period	111,089	-	-	-	-	-	111,089
Amount written off	(56,065)	-	-	-	-	-	(56,065)
Transfer from individual allowance	739	-	-	-	-	-	739
At end of the period	631,658	-	-	-	-	-	631,658

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(c) Credit risk management (cont'd)

9. Reconciliation of allowance account (cont'd)

	Financing and advances				Other financial assets		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Individual allowance</u>							
At beginning of the year	473,823	-	-	-	-	-	473,823
Allowance made during the year	94,775	-	-	-	-	-	94,775
Amount written back in respect of recoveries	(41,822)	-	-	-	-	-	(41,822)
Amount written off	(165,650)	-	-	-	-	-	(165,650)
Transfer to collective allowance	(6,438)	-	-	-	-	-	(6,438)
At end of the year	354,688	-	-	-	-	-	354,688
<u>Collective allowance</u>							
At beginning of the year	713,938	-	-	-	-	-	713,938
Allowance made during the year	16,749	-	-	-	-	-	16,749
Amount written off	(161,230)	-	-	-	-	-	(161,230)
Transfer from individual allowance	6,438	-	-	-	-	-	6,438
At end of the year	575,895	-	-	-	-	-	575,895

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(d) Market risk management

1. Market risk management overview

Market risk management

The Bank recognises market risk as the risk of losses on and off balance sheet arising from movements in market prices. Market risk arises through the Bank's trading and balance sheet activities. The primary categories of market risk for the Bank are :

Profit rate risk : arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;

Foreign exchange rate risk : arising from changes in exchange rates and implied volatilities on foreign exchange options;

Commodity price risk : arising from changes in commodity prices and commodity option implied volatilities; and

Equity price risk : arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

2. Management of market risk

The Risk Management Committee ("RMC") approves the Group's Market Risk Management Framework and Risk Appetite taking into account of business volumes, targeted returns, market volatility and ranges of products and services.

The Executive Risk Committee ("ERC") is the Management Committee that recommends frameworks and policies to identify, measure, monitor, manage and control the material risks to RMC for approval.

The Asset and Liability Management Committee ("ALCO") is responsible, under the authority delegated by the RMC, for setting market risk limits by entity, business level, geographical location and portfolio level. ALCO is also responsible for policies, limits and control standards for managing market risk and overseeing their effective implementation. The Bank has an approved Trading Book Policy Statement with clearly defined policies and procedures to determine exposures arising from trading activities for regulatory capital calculation. This is in accordance with Bank Negara Malaysia's requirement as per Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Asset Computation) guidelines dated 30 June 2007.

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management policies (cont'd)

(d) Market risk management (cont'd)

2. Management of market risk (cont'd)

Market Risk Management ("MRM") is the independent risk control unit and is responsible for ensuring efficient implementation of market risk management frameworks and that adequate risk controls are in place to support business growth. Its primary objective is to facilitate risk/return decisions, reduce volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, ALCO, ERC, RMC, Board of Directors and regulators.

3. Market risk management framework

The market risk management framework serves as the base for overall and consistent management of market risk. It covers key risk management activities such as identification, measurement, monitoring, control and reporting of market risk exposures, which are benchmarked against industry leading practices and regulatory requirements. This framework facilitates the Bank to manage its market risk exposures in a systematic and consistent manner.

Measurement and monitoring

The Bank's traded market risk exposures are primarily from proprietary trading and customer driven activities. The risk measurement techniques employed by the Bank comprise of both quantitative and qualitative measures.

Value at Risk

Value at Risk ("VaR") measures the potential loss of value resulting from movement over a specified period of time within a specified probability of occurrence, under a normal business situation. The Bank's Proprietary Trading VaR is computed daily using a one-day holding period with other parameters unchanged. To ensure the relevance and accuracy of the VaR computation, VaR is independently validated on a periodic basis.

Besides VaR, the Bank utilises other non-statistical risk measures such as profit rate sensitivity e.g. exposure to a one basis point increase in yield ("PV01"), net open position ("NOP") limit for managing foreign currency exposure and greek limits for controlling options risk. These measures provide granular information on the Bank's market risk exposures and are used for control and monitoring purposes.

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management policies (cont'd)

(d) Market risk management (cont'd)

3. Market Risk Management Framework (cont'd)

Measurement and monitoring (cont'd)

Valuation

All trading positions are marked to market on a consistent and daily basis using quoted prices within active markets. If this is not possible, positions are marked to model using models, which have been independently validated. The valuations are reviewed on a regular basis and there are valuation adjustments to incorporate counterparty risk, bid/ask spreads and market liquidity, which is in line with FRS 139 standards. The Bank also performs Independent Price Verification ("IPV") to ensure the consistency and accuracy of the valuations of all trading positions.

Stress Testing

The Bank performs Stress Test to further augment and measure the losses arising beyond the VaR confidence interval. By evaluating the size of the unexpected losses, the Group is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are updated dynamically and may be redefined on an ongoing basis to reflect current market conditions. The Stress Test results, trends and explanations are reported and deliberated to Senior Management to facilitate and manage risk with more transparency.

Qualitative Measures

The goal of the risk measurement process is to attempt to quantify the risk exposures. However, not all risks are quantifiable. Where risk quantification is not an effective option, qualitative/judgmental measures are applied, e.g. notification alert upon 75% utilisation of risk limits, monitoring of large ticket items, etc.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

4. Profit rate risk

The Bank is exposed to the risk associated with the effects of fluctuations in the prevailing levels of yield/profit rate on the financial position and cash flows. The fluctuations in yield/profit rate can be influenced by changes in profit rates that affect the value of financial instruments. Yield/Profit rate risk is monitored and managed by the Asset and Liability Management Committee ("ALCO") to protect total net profit income from changes in market profit rates.

The table below summarises the Bank's exposure to yield/profit rate risk. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either reprice or mature, whichever is earlier.

31.12.2011	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-		Trading books RM'000	Total RM'000	Effective profit rate %
						profit sensitive RM'000	Non- trading book			
Assets										
Cash and short-term funds	7,159,556	-	-	-	-	-	2,259,794	-	9,419,350	2.98
Deposits and placements with banks and other financial institutions	-	370,820	35,079	-	-	211	-	406,110	3.34	
Securities held-for-trading	-	-	-	-	-	-	2,214,891	2,214,891	0.53	
Securities available-for-sale	391,424	534,537	365,533	2,402,549	2,181,464	-	-	5,875,507	2.65	
Securities held-to-maturity	-	50,426	-	30,335	91,123	-	-	171,884	3.79	
Financial and advances										
- Performing	19,899,071	2,034,749	684,725	8,477,186	18,962,271	73	-	50,058,075	5.22	
- Impaired*	513,134	-	-	-	-	-	-	513,134	-	
- Collective allowance	-	-	-	-	-	(631,658)	-	(631,658)	-	
Derivative assets	-	-	-	-	-	-	28,198	28,198	-	
Other assets	-	-	-	-	-	5,955,839	-	5,955,839	-	
Total assets	27,963,185	2,990,532	1,085,337	10,910,070	21,234,858	7,584,259	2,243,089	74,011,330		

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

4. Profit rate risk (cont'd)

31.12.2011	Non-trading book					Non- profit sensitive		Trading books		Effective profit rate	
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Liabilities and shareholder's equity											
Deposits from customers	34,911,552	5,546,872	9,685,454	8,475,131	121,623	-	-	58,740,632	2.46		
Deposits and placements of banks and other financial institutions	1,796,967	179,019	1,624,717	1,837,715	538,045	3,386,443	-	9,362,905	3.07		
Bills and acceptances payable	242,614	103,139	119,601	-	-	36,399	-	501,753	3.15		
Derivative liabilities	-	-	-	-	-	-	96,179	96,179	-		
Subordinated sukuk	-	-	-	1,010,723	-	-	-	1,010,723	4.22		
Other liabilities	-	-	-	-	-	189,993	-	189,993	-		
Total liabilities	36,951,133	5,829,030	11,429,772	11,323,569	659,668	3,612,835	96,179	69,902,185			
Shareholder's equity	-	-	-	-	-	4,109,145	-	4,109,145			
Total liabilities and shareholder's equity	36,951,133	5,829,030	11,429,772	11,323,569	659,668	7,721,980	96,179	74,011,330			
On-balance sheet profit rate sensitivity gap	(8,987,948)	(2,838,498)	(10,344,435)	(413,499)	20,575,190	(137,721)	2,146,910	-			
Cumulative profit rate sensitivity gap	(8,987,948)	(11,826,446)	(22,170,881)	(22,584,379)	(2,009,189)	(2,146,910)	-	-			

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

4. Profit rate risk (cont'd)

30.6.2011	Non-trading book					Non-profit sensitive	Trading books	Total	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
Assets									
Cash and short-term funds	8,159,132	-	-	-	-	1,515,309	-	9,674,441	3.04
Deposits and placements with banks and other financial institutions	-	400,000	-	-	-	60,595	-	460,595	3.24
Securities held-for-trading	-	-	-	-	-	-	272,633	272,633	0.27
Securities available-for-sale	275,350	354,743	333,002	2,286,400	2,671,079	-	-	5,920,574	3.81
Securities held-to-maturity	-	-	50,543	30,000	91,350	-	-	171,893	3.83
Financing and advances									
- Performing	16,146,530	2,004,102	944,184	5,184,018	21,567,419	-	-	45,846,253	5.33
- Impaired*	573,861	-	-	-	-	-	-	573,861	-
- Collective allowance	-	-	-	-	-	(575,895)	-	(575,895)	-
Derivative assets	-	-	-	-	-	-	14,615	14,615	-
Other assets	-	-	-	-	-	3,568,997	-	3,568,997	-
Total assets	25,154,873	2,758,845	1,327,729	7,500,418	24,329,848	4,569,006	287,248	65,927,967	

* This is arrived after deducting the individual impairment from the gross impaired financing and advances outstanding.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

4. Profit rate risk (cont'd)

30.6.2011	Non-trading book					Non- profit sensitive		Trading books RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	RM'000	RM'000			
Liabilities and shareholder's equity										
Deposits from customers	24,425,471	7,392,799	8,079,521	8,436,323	-	-	-	48,334,114	2.55	
Deposits and placements of banks and other financial institutions	4,186,984	65,221	1,599,977	2,338,657	564,516	2,586,371	-	11,341,726	3.22	
Bills and acceptances payable	370,242	607,468	41,179	-	-	34,651	-	1,053,540	3.11	
Derivative liabilities	-	-	-	-	-	-	53,504	53,504	-	
Subordinated sukuk	-	-	-	1,010,637	-	-	-	1,010,637	4.22	
Other liabilities	-	-	-	-	-	173,034	-	173,034	-	
Total liabilities	28,982,697	8,065,488	9,720,677	11,785,617	564,516	2,794,056	53,504	61,966,555		
Shareholder's equity	-	-	-	-	-	3,961,412	-	3,961,412		
Total liabilities and shareholder's equity	28,982,697	8,065,488	9,720,677	11,785,617	564,516	6,755,468	53,504	65,927,967		
On-balance sheet profit rate sensitivity gap	(3,827,824)	(5,306,643)	(8,392,948)	(4,285,199)	23,765,332	(2,186,462)	233,744	-		
Cumulative profit rate sensitivity gap	(3,827,824)	(9,134,467)	(17,527,415)	(21,812,614)	1,952,718	(233,744)	-	-		

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

5. Sensitivity analysis for profit rate risk

The table below shows the sensitivity of the Bank's profit after tax and revaluation reserve to an up and down 100 basis point parallel rate shock:

	31.12.2011		30.6.2011	
	RM'000	RM'000	RM'000	RM'000
Tax rate	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
Impact to profit before tax	(128,006)	128,006	(115,638)	115,638
Impact to profit after tax	<u>(96,004)</u>	<u>96,004</u>	<u>(86,729)</u>	<u>86,729</u>
	25%		25%	

Impact to profit after tax is measured using Earnings-at-Risk ("EAR") methodology on statement of financial position which is simulated based on a set of standardised rate shock on the profit rate gap profile. The profit rate gap is the mismatch of rate sensitive assets and rate sensitive liabilities taking consideration the earlier of repricing or remaining maturity, behavioural assumptions of certain indeterminate maturities products such as current and savings deposits, to reflect the actual sensitivity behaviour of these profit bearing liabilities.

Impact to reserve is assessed by applying rate shock to the yield curve to model the impact on mark-to-market for financial assets of Available-for-Sale ("AFS") portfolio:

	31.12.2011		30.6.2011	
	RM'000	RM'000	RM'000	RM'000
Impact to reserve	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
	<u>(213,928)</u>	<u>213,928</u>	<u>251,351</u>	<u>(251,351)</u>

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

6. Foreign exchange risk

Foreign exchange risk is the risk to earnings and value of foreign currency assets, liabilities and derivative financial instruments caused by fluctuations in foreign exchange rates.

The banking activities of providing financial products and services to customers expose the Bank to foreign exchange risk. Foreign exchange risk is managed by treasury function, and monitored by Group Risk Management against delegated limits. The Bank's policy is to ensure, where appropriate and practical, that its capital is protected from foreign exchange exposures. Hedging against foreign exchange exposures is mainly to protect the real economic value, rather than to avoid the short-term accounting impact.

The table below analyses the net foreign exchange positions of the Bank by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, the Great Britain Pound, Hong Kong Dollar, United States Dollar, Indonesia Rupiah and Euro. The "others" foreign exchange risk include mainly exposure to India Rupee, Japanese Yen, New Zealand Dollar, Canadian Dollar, Australian Dollar and Papua New Guinea Kina.

	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
31.12.2011									
Assets									
Cash and short-term funds	10,033,999	50,969	(1,848)	1,986	(1,080,971)	929	15,248	399,038	9,419,350
Deposits and placements with banks and other financial institutions	405,405	-	-	-	12	-	-	693	406,110
Securities portfolio	8,194,980	-	-	-	67,302	-	-	-	8,262,282
Financing and advances	48,701,655	-	3,035	-	1,231,840	-	-	3,021	49,939,551
Derivative assets	8,001	2	-	-	20,190	-	-	5	28,198
Other assets	2,843,237	(49,304)	3,273	(997)	1,139,973	88	(19,423)	26,746	3,943,593
Statutory deposits with Bank Negara Malaysia	1,834,800	-	-	-	-	-	-	-	1,834,800
Deferred tax assets	177,446	-	-	-	-	-	-	-	177,446
Total assets	72,199,523	1,667	4,460	989	1,378,346	1,017	(4,175)	429,503	74,011,330

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

6. Foreign exchange risk (cont'd)

	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
31.12.2011									
Liabilities									
Deposits from customers	58,650,398	9,480	2,119	3	75,824	-	1,339	1,469	58,740,632
Deposits and placements of banks and other financial institutions	8,180,412	-	644	-	760,852	-	-	420,997	9,362,905
Bills and acceptances payable	501,753	-	-	-	19,690	-	16	14	501,753
Derivative liabilities	76,459	-	-	-	-	-	-	14	96,179
Other liabilities	109,688	-	-	-	-	-	-	-	109,688
Provision for taxation and zakat	80,305	-	-	-	-	-	-	-	80,305
Subordinated sukuk	1,010,723	-	-	-	-	-	-	-	1,010,723
Total liabilities	68,609,738	9,480	2,763	3	856,366	-	1,355	422,480	69,902,185
On-balance sheet open position	3,589,785	(7,813)	1,697	986	521,980	1,017	(5,530)	7,023	4,109,145
Less: Derivative assets	(8,001)	(2)	-	-	(20,190)	-	-	(5)	(28,198)
Add: Derivative liabilities	76,459	-	-	-	19,690	-	16	14	96,179
Net open position	3,658,243	(7,815)	1,697	986	521,480	1,017	(5,514)	7,032	4,177,126

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

6. Foreign exchange risk (cont'd)

	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	10,239,822	28,828	6,570	974	(615,504)	40	31,885	(18,174)	9,674,441
Deposits and placements with banks and other financial institutions	400,337	7,959	6,041	457	33,253	94	8,782	3,672	460,595
Securities portfolio	6,305,054	-	-	-	60,046	-	-	-	6,365,100
Financing and advances	44,646,189	-	-	-	1,195,429	-	-	2,601	45,844,219
Derivative assets	5,684	4	-	-	8,927	-	-	-	14,615
Other assets	2,494,253	-	-	-	-	-	-	-	2,494,253
Statutory deposits with Bank Negara Malaysia	913,900	-	-	-	-	-	-	-	913,900
Deferred tax assets	160,844	-	-	-	-	-	-	-	160,844
Total assets	65,166,083	36,791	12,611	1,431	682,151	134	40,667	(11,901)	65,927,967

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(d) Market risk management (cont'd)

6. Foreign exchange risk (cont'd)

	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
30.6.2011									
Liabilities									
Deposits from customers	48,250,934	5,019	5,275	-	63,058	19	8,280	1,529	48,334,114
Deposits and placements of banks and other financial institutions	10,253,701	-	862	-	1,083,712	-	-	3,451	11,341,726
Bills and acceptances payable	1,053,540	-	-	-	-	-	-	-	1,053,540
Derivative liabilities	44,642	-	-	-	8,860	-	-	2	53,504
Other liabilities	133,463	-	-	-	-	-	-	-	133,463
Provision for taxation and zakat	39,571	-	-	-	-	-	-	-	39,571
Subordinated sukuk	1,010,637	-	-	-	-	-	-	-	1,010,637
Total liabilities	60,786,488	5,019	6,137	-	1,155,630	19	8,280	4,982	61,966,555
On-balance sheet open position	4,379,595	31,772	6,474	1,431	(473,479)	115	32,387	(16,883)	3,961,412
Less: Derivative assets	(5,684)	(4)	-	-	(8,927)	-	-	-	(14,615)
Add: Derivative liabilities	44,642	-	-	-	8,860	-	-	2	53,504
Net open position	4,418,553	31,768	6,474	1,431	(473,546)	115	32,387	(16,881)	4,000,301

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(e) Liquidity risk management

1. Liquidity risk management overview

Liquidity risk management

Liquidity is the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Generally, there are two types of liquidity risk which are funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the firm will not be able to meet efficiently both expected and unexpected current and future cash flow needs without affecting either daily operations or the financial condition of the firm. Market liquidity risk is the risk that a firm cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

Liquidity Risk Management Framework

The Bank employs BNM's Liquidity Framework and leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and limits.

Diversification of liquidity sources

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, provider, product and term. The Bank has a diversified liability structure to meet its funding requirements. The primary source of funding include customer deposits, interbank deposits, debt securities, swap market, bank financing syndication and medium term funds. The Bank also initiates and implements strategic fund raising programmes as well as institutes standby lines with external parties on a need basis.

The Bank's funding diversification is augmented with monitoring of concentration by maturity to avoid having many debt repayments at any one time.

The stable growth in deposits is attained through Maybank's large branch network and its reputation as one of the leading financial institutions in the domestic market. Based on customer behavioural profiling study, the rollover rate of traditional deposits has been consistent, hence providing the Bank with a steady source of funding. The Bank's financial strength and strong credit rating also provide the basis for continued customer confidence and long-term growth in the years to come.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(e) Liquidity risk management (cont'd)

1. Liquidity risk management overview (cont'd)

Liquidity buffers

The Bank maintains a portfolio of highly liquid instruments on its statement of financial position that can be drawn upon when needed. These liquid assets include cash and government bonds and high credit quality private securities that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flow.

Stress Testing and Contingency Funding Plan

The Group uses stress testing and scenario analysis to evaluate the impact of sudden stress events on liquidity position. Scenarios are based on hypothetical events that include bank specific crisis and general market crisis scenarios. The stress test result provides an insight of the Bank's funding requirements during different levels of stress environment and is closely linked to the Group's Contingency Funding Plan ("CFP"), which provides a systemic approach in handling any unexpected liquidity disruptions. The plan encompasses strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios. The CFP is being tested regularly to ensure the effectiveness and robustness of the plan.

The Group performs CFP test regularly to ensure the effectiveness and operational feasibility of the CFP. The key aspects of the testing are to focus on the readiness of key senior management and their respective alternate in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

2. Contractual maturity of total assets and liabilities

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities. The disclosure is made in accordance with the requirement of revised BNM GP8 "Guidelines on Financial Reporting for Banking Institutions".

31.12.2011	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short term funds	9,419,350	-	-	-	-	-	-	-	9,419,350
Deposits and placements with banks and other financial institutions	211	370,820	35,079	-	-	-	-	-	406,110
Securities portfolio	391,424	1,740,631	1,122,944	86,101	957,533	1,568,015	2,395,634	-	8,262,282
Financing and advances	4,695,900	2,034,749	778,368	(89,964)	259,638	8,568,515	33,692,345	-	49,939,551
Derivative assets	341	10,663	9,193	-	175	7,826	-	-	28,198
Other financial assets	-	-	-	3,745,522	-	-	-	198,071	3,943,593
Statutory deposits with Bank Negara Malaysia	1,834,800	-	-	-	-	-	-	-	1,834,800
Deferred tax assets	-	-	-	-	-	-	-	177,446	177,446
Total assets	16,342,025	4,156,863	1,945,684	3,741,659	1,217,346	10,144,356	36,087,979	375,517	74,011,330
Liabilities									
Deposits from customers	22,242,664	13,214,095	7,034,360	7,624,887	5,515,223	2,987,781	121,623	-	58,740,632
Deposits and placements of banks and other financial institutions	5,183,409	179,019	1,104,116	520,602	1,799,865	37,849	538,045	-	9,362,905
Bills and acceptances payable	279,013	103,139	119,601	-	-	-	-	-	501,753
Derivative liabilities	82	10,593	9,045	-	15,207	27,939	33,313	-	96,179
Other financial liabilities	-	-	-	54,994	-	-	-	-	54,695
Provision for taxation and zakat	-	-	-	-	-	-	-	80,305	80,305
Total liabilities	27,705,168	13,506,846	8,267,122	8,200,483	7,330,295	3,053,569	692,981	135,000	68,891,462
Net liquidity gap	(11,363,142)	(9,349,983)	(6,321,538)	(4,458,824)	(6,112,949)	7,090,787	35,394,998	240,517	5,119,868

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

	2. Contractual maturity of total assets and liabilities (cont'd)									
	30.6.2011	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets										
Cash and short term funds	9,674,441	-	-	-	-	-	-	-	-	9,674,441
Deposits and placements with banks and other financial institutions	60,595	400,000	-	-	-	-	-	-	-	460,595
Securities portfolio	527,818	354,743	60,628	322,917	671,131	1,655,319	2,772,544	-	-	6,365,100
Financing and advances	3,697,861	2,125,953	163,480	783,146	1,250,493	4,152,108	33,671,178	-	-	45,844,219
Derivative assets	3,768	5,164	2,431	-	3,252	-	-	-	-	14,615
Other financial assets	-	-	-	2,323,756	-	-	-	-	170,497	2,494,253
Statutory deposits with Bank Negara Malaysia	913,900	-	-	-	-	-	-	-	160,844	913,900
Deferred tax assets	-	-	-	-	-	-	-	-	-	160,844
Total assets	14,878,383	2,885,860	226,539	3,429,819	1,924,876	5,807,427	36,443,722	331,341	65,927,967	
Liabilities										
Deposits from customers	31,153,061	10,010,742	4,115,247	2,556,459	130,505	368,100	-	-	48,334,114	
Deposits and placements of banks and other financial institutions	4,186,925	65,281	505,417	1,094,560	2,297,720	40,937	564,516	2,586,370	11,341,726	
Bills and acceptances payable	404,893	607,468	41,179	-	-	-	-	-	1,053,540	
Derivative liabilities	3,788	5,074	-	3,705	3	40,934	-	-	53,504	
Other financial liabilities	-	-	-	26,412	-	-	-	-	107,051	
Provision for taxation and zakat	-	-	-	-	-	-	-	39,571	39,571	
Total liabilities	35,748,667	10,688,565	4,661,843	3,681,136	2,428,228	449,971	564,516	2,732,992	60,955,918	
Net liquidity gap	(20,870,284)	(7,802,705)	(4,435,304)	(251,317)	(503,352)	5,357,456	35,879,206	(2,401,651)	4,972,049	

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

2. Contractual maturity of total assets and liabilities (cont'd)

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

	Up to 1 month	> 1 to 3 months	> 3 to 6 months	> 6 months to 1 year	> 1 to 3 years	> 3 to 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2011								
Non-derivative liabilities								
Deposits from customers	22,334,140	13,307,135	7,142,742	7,750,222	5,525,663	3,026,810	150,895	59,237,607
Deposits and placements of banks and other financial institutions	5,183,447	179,201	1,115,127	520,751	1,821,267	38,088	538,045	9,395,926
Bills and acceptances payable	279,013	103,139	119,601	-	-	-	-	501,753
Other financial liabilities	-	-	-	54,994	-	-	-	54,994
Subordinated sukuk	-	21,100	-	21,100	126,600	84,400	1,147,700	1,400,900
	27,796,600	13,610,575	8,377,470	8,347,067	7,473,530	3,149,298	1,836,640	70,591,180
Commitments and contingencies								
Direct credit substitutes	29,379	47,030	42,093	127,242	5,751	21,888	80,006	353,389
Certain transaction-related contingent items	101,016	41,209	91,730	111,059	249,047	82,481	312,183	988,725
Short-term self-liquidating trade-related contingencies	40,114	111,137	124,231	393	-	-	-	275,875
Hire purchase financing sold to Cagamas Berhad	-	-	-	298,882	1,200,388	-	-	1,499,270
Irrevocable commitments to extend credit	-	-	-	13,278,525	2,183,909	-	-	15,462,434
Miscellaneous	12,662	-	-	-	-	-	-	12,662
	183,171	199,376	258,054	13,816,101	3,639,095	104,369	392,189	18,592,355

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

2. Contractual maturity of total assets and liabilities (cont'd)

	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Deposits from customers	30,106,861	10,969,094	4,035,437	3,035,364	138,674	381,812	-	48,667,242
Deposits and placements of banks and other financial institutions	6,768,802	74,385	587,684	1,094,750	2,648,083	43,293	3,225,762	14,442,759
Bills and acceptances payable	404,893	607,468	41,179	-	-	-	-	1,053,540
Other financial liabilities	-	-	-	26,412	-	-	-	26,412
Subordinated sukuk	-	21,100	-	21,100	84,400	84,400	1,211,000	1,422,000
	37,280,556	11,672,047	4,664,300	4,177,626	2,871,157	509,505	4,436,762	65,611,953
Commitments and contingencies								
Direct credit substitutes	11,986	101,003	32,775	89,287	23,764	10	-	258,825
Certain transaction-related contingent items	25,088	73,154	91,648	148,924	231,561	42,809	340,762	953,946
Short-term self-liquidating trade-related contingencies	23,543	24,315	32,787	23,044	-	-	-	103,689
Hire purchase financing sold to Cagamas Berhad	-	-	-	-	682,679	-	-	682,679
Irrevocable commitments to extend credit	-	-	-	11,800,348	1,573,404	-	-	13,373,752
Miscellaneous	13,076	-	-	-	-	-	-	13,076
	73,693	198,472	157,210	12,061,603	2,511,408	42,819	340,762	15,385,967

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

3. Contractual maturity of financial liabilities on an undiscounted basis

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

	31.12.2011	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives									
Derivative financial liabilities									
Hedging derivatives									
- Profit rate derivatives	-	(1,485)	(2,561)	(5,547)	(13,779)	(1,416)	-	(24,788)	(24,788)
		(1,485)	(2,561)	(5,547)	(13,779)	(1,416)	-	(24,788)	(24,788)
Gross settled derivatives									
Derivative financial liabilities									
Trading derivatives									
Foreign exchange derivatives:									
- Outflow	(20,033)	(308,005)	-	-	-	-	-	-	(328,038)
- Inflow	-	-	89,040	-	-	-	-	-	89,040
	(20,033)	(308,005)	89,040	-	-	-	-	-	(238,998)

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

33. Financial risk management (cont'd)

(e) Liquidity risk management (cont'd)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd)

The table below analyzes the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow.

	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
30.6.2011								
Net settled derivatives								
Derivative financial liabilities								
Hedging derivatives								
- Profit rate derivatives	-	(726)	(375)	(501)	153	1,205	-	(244)
		(726)	(375)	(501)	153	1,205	-	(244)
30.6.2011								
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:								
- Outflow	(30,211)	-	-	-	-	-	-	(30,211)
- Inflow	197,175	308,350	-	-	-	-	-	505,525
	166,964	308,350	-	-	-	-	-	475,314

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

33. Financial risk management policies (cont'd)

(f) Operational risk management

Under the Group's three lines of defence concept, risk taking units (Business/Support Sectors) constitute an integral part of the operational risk management framework and are primarily responsible for the management of day-to-day operational risks inherent in their respective business and functional areas. They are responsible for putting in place and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with Maybank Group's operational risk management framework.

The Operational Risk Management team, as the second line of defence, is responsible for the formulation and implementation of operational risk management framework within Maybank Group, which encompasses the operational risk management strategy and governance structure. The above also include the maintenance and analysis of operational loss database, development and implementation of various operational risk management tools and methodologies to identify, measure, monitor and control operational risks.

Finally, Internal Audit acts as the third line of defence by overseeing compliance in respect of day-to-day management of operational risks at all organisational levels by providing independent assurance in respect of the overall effectiveness of the operational risk management process.

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Fair values of financial assets and financial liabilities

Financial instruments comprise financial assets, financial liabilities and also derivatives. The Bank has an established framework and policies which provides guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgment is

Valuation adjustment is also an integral part of valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making valuation adjustment, the Bank follows methodologies that consider factors such as liquidity, bid-offer spread, unobservable prices / inputs in the market and uncertainties in the assumptions / parameters.

In addition, the Bank continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for its intended use.

Determination of fair value

Amendments to FRS 7 Financial Instruments: Disclosures issued in March 2010 requires an entity to classify its financial instruments measured at fair value according to the following hierarchy:

(a) Level 1: Quoted Prices

Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices which represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

(b) Level 2: Valuation techniques using observable inputs

Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of level 2 financial instruments include over-the-counter (OTC) derivatives, corporate and other government bonds and less liquid equities.

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Fair values of financial assets and financial liabilities (cont'd.)

(c) Level 3: Valuation techniques using significant unobservable inputs

Refers to financial instruments where Fair Value is measured using significant unobservable market inputs. The valuation technique is consistent with the Level 2. The chosen valuation technique incorporates Banks' own assumptions and data. Examples of level 3 instruments include corporate bonds in illiquid markets and private equity investments.

The following table shows the Bank's financial assets and liabilities that are measured at fair value analysed by level within the fair value hierarchy.

Fair value disclosures based on 3-level hierarchy

Classification of financial instruments measured at fair values using the following fair value hierarchies:

	Quoted Market Price Level 1 RM'000	Valuation Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	Total RM'000
As at 31 December 2011				
Financial assets measured at fair values:				
Securities HFT	1,882,848	332,044	-	2,214,892
Securities AFS	3,575	5,871,930	-	5,875,505
Derivative assets	-	27,476	722	28,198
	<u>1,886,423</u>	<u>6,231,450</u>	<u>722</u>	<u>8,118,595</u>
Financial liabilities measured at fair values:				
Derivative liabilities	-	55,298	40,881	96,179
	<u>-</u>	<u>55,298</u>	<u>40,881</u>	<u>96,179</u>

Valuation techniques

The valuation techniques used for the financial instruments that are not determined by reference to quoted prices (Level 1), are described below.

Derivatives

The fair values of the Group's and the Bank's derivative instruments, where no market price is available, are derived using discounted cash flow analysis, option pricing models and benchmarking.

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Fair values of financial assets and financial liabilities (cont'd.)

(c) Level 3: Valuation techniques using significant unobservable inputs (cont'd.)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	Derivative assets RM'000	Derivative liabilities RM'000
At 1 July 2011	2,431	43,588
Gains/(losses) recognised in income statement	(1,709)	(1,913)
Issues	-	32,197
Settlements	-	(32,991)
At 31 December 2011	<u>722</u>	<u>40,881</u>
Total (losses) recognised in income statement for financial instruments measured at fair value at the end of the reporting period	<u>(1,709)</u>	<u>(1,913)</u>
Total gains/(losses) recognised in other comprehensive statement for financial instruments measured at fair value at the end of the reporting period	<u>-</u>	<u>-</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Fair values of financial assets and financial liabilities (cont'd.)

Fair values of financial instruments not carried at fair value

Financial instruments comprise financial assets, financial liabilities and derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

For financing and advances to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Bank's financial instruments, including financing and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Bank could realise in a sale transaction at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Bank as a going concern.

The financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with FRS 132: Financial Instruments: Presentation comprise all its assets and liabilities with the exception of provision for current and deferred taxation.

The estimated fair values of these financial assets and financial liabilities as at the reporting date approximate their carrying amounts shown in the statement of financial position, except for the following financial assets and liabilities.

	31.12.2011		30.6.2011	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Securities held-to-maturity	171,884	174,685	171,893	173,564
Financing and advances	<u>49,939,551</u>	<u>51,519,804</u>	<u>45,844,219</u>	<u>47,797,612</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Fair values of financial assets and financial liabilities (cont'd.)

Fair values of financial instruments not carried at fair value (cont'd.)

Financial liabilities

Deposits from customers	58,740,632	58,791,430	48,334,114	48,355,616
Deposits and placements of banks and other financial institutions	9,362,905	9,478,964	11,341,726	11,398,011
Subordinated sukuk	1,010,723	1,036,178	1,010,637	1,011,446

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments.

(a) Securities

Fair values of securities that are actively traded is determined by quoted prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flow are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

(b) Financing and advances

The fair values of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing and advances, 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 non-performing financing, the fair values are deemed to approximate the carrying values which are net of income-in-suspense and specific provision for bad and doubtful financing.

(c) Deposits from customers, deposits and placements of banks and other financial institutions

The fair values of deposits are estimated to approximate their carrying values at the profit rates determined at the end of their holding periods based on the actual profits generated from the assets invested.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

34. Fair values of financial assets and financial liabilities (cont'd.)

Fair values of financial instruments not carried at fair value (cont'd.)

(d) Recourse obligation on financing sold to Cagamas

The fair values of recourse obligation on hire purchase financing sold to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates at reporting date.

(e) Subordinated Sukuk

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

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

35. Capital management

A strong capital position is essential to the Bank's business strategy and competitive position. The Bank's capital strategy focuses on long-term stability, which enables it to build and invest in market leading businesses. Senior management considers the implications on the Bank's capital strength prior to making any decision on future business activities. In addition, considering the Bank's earnings outlook, senior management evaluates all sources and uses of capital and makes decisions to vary any source or use to preserve the Bank's capital strength.

The Bank's objective in managing its capital resources is to maintain sufficient and adequate capital resources given current and future requirements. The Bank manages requirements for capital from organic and inorganic growth which ensures that resources remain in excess of minimum regulatory requirements and internal targets (which provide a buffer above minimum requirements).

The Bank's capital management activities seek to maximise shareholder's value by optimising the level and mix of its capital resources.

The Bank's capital management objectives are to hold capital sufficient to:

- a) Maintain Core Capital Ratio and Risk Weighted Capital Ratio at levels sufficiently above the current minimum requirements of BNM;
- b) Support the Bank's credit rating;
- c) Allocate capital to businesses to support the Bank's strategic objectives and optimize returns on capital;
- d) Remain flexible to take advantage of future growth opportunities;
- e) Build and invest in businesses, even in a reasonably stressed environment;
- f) Optimise returns to shareholder; and
- g) Withstand capital demands under market shocks and stress conditions.

The quality and composition of capital are key factors in senior management's evaluation of the Bank's capital adequacy. The Bank strongly emphasises the quality of its capital and, accordingly, holds a significant amount of its capital in the form of equity.

The Bank's capital management policies are to diversify its sources of capital; to allocate capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses; and to meet the expectations of key stakeholders, including investors, regulators and rating agencies.

**Maybank Islamic Berhad
(Incorporated in Malaysia)**

35. Capital management (cont'd.)

Capital management plans are drawn up annually covering at least a three year horizon and approved by the Board. The capital management plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support its business strategy.

In its pursuit of an efficient and healthy capital structure, the Bank has undertaken an initiative by issuing Tier 2 RM1.0 billion Subordinated Sukuk due in 2021 to strengthen its capital position.

The capital adequacy of the Bank in relation to its risk profile is assessed through a process articulated in the Internal Capital Adequacy Assessment Process ("ICAAP") at Maybank.

Further disclosure on the ICAAP is included in Maybank's financial statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

36. Capital adequacy

(a) Compliance and application of capital adequacy ratios

On 29 June 2010, the Bank has received approval from BNM to migrate to Internal Ratings-Based approach for credit risk under Basel II Capital Adequacy Framework for Islamic Banks ("CAFIB") from 1 July 2010 onwards.

With effect from 1 July 2010, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Basel II CAFIB issued on 29 June 2007 as follows:

- (i) Credit risk under Internal-Ratings Based Approach
- (ii) Market risk under Standardised Approach
- (iii) Operational risk under Basic Indicator Approach

(b) The capital adequacy ratios of the Bank

The minimum regulatory capital adequacy requirement is 8% (2010: 8%) for the risk-weighted capital ratios.

The capital adequacy ratios of the Bank as at the balance sheet dates, are as follows:

	31.12.2011	30.6.2011
(i) Before deducting proposed dividend*:		
Core capital ratio	9.89%	10.31%
Risk-weighted capital ratio	<u>12.61%</u>	<u>13.02%</u>
(ii) After deducting proposed dividend:		
Core capital ratio	9.32%	9.46%
Risk-weighted capital ratio	<u>12.04%</u>	<u>12.17%</u>

- * In arriving at the capital base used in the ratio calculations of the Bank, the proposed dividends for respective financial period/years were not deducted.

Maybank Islamic Berhad
(Incorporated in Malaysia)

36. Capital adequacy (cont'd.)

(c) Components of Tier 1 and Tier 2 capital

	31.12.2011 RM'000	30.6.2011 RM'000
Tier 1 capital		
Paid-up share capital	110,600	110,600
Share premium	2,488,400	2,488,400
Other reserves	1,428,308	1,351,692
Less: Deferred tax assets (Note 17) ¹	<u>(177,446)</u>	<u>(160,844)</u>
Total Tier 1 capital	<u>3,849,862</u>	<u>3,789,848</u>
Tier 2 capital		
Subordinated sukuk	1,000,000	1,000,000
Collective allowance on non-impaired financing and advances	<u>97,411</u>	<u>96,557</u>
Total Tier 2 capital	<u>1,097,411</u>	<u>1,096,557</u>
Total capital	<u>4,947,273</u>	<u>4,886,405</u>
Less: Excess of total EL over total EP ²	<u>(36,645)</u>	<u>(101,883)</u>
Capital base	<u>4,910,628</u>	<u>4,784,522</u>

¹ Under Bank Negara Malaysia Guidelines, deferred tax asset is required to be excluded from Tier I capital.

² EL is defined as expected loss and EP is defined as eligible provision.

(d) The breakdown of Assets and Credit Equivalent values (for Off Balance Sheet items) according to Risk Weights are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Standardised Approach exposure	4,153,679	3,753,922
Internal Ratings-Based Approach exposure after scaling factor	<u>28,214,051</u>	<u>23,571,746</u>
Total risk-weighted assets for credit risk	<u>32,367,730</u>	<u>27,325,668</u>
Total risk-weighted assets for credit risk absorbed by the parent [^]	<u>(205,926)</u>	<u>(206,402)</u>
Total risk-weighted assets for market risk	307,942	149,810
Total risk-weighted assets for operational risk	2,573,751	2,334,044
Additional risk-weighted asset due to capital floor	<u>3,891,670</u>	<u>7,154,554</u>
Total risk-weighted assets	<u>38,935,167</u>	<u>36,757,674</u>

[^] In accordance with BNM's guideline on the recognition and measurement of Restricted Profit Sharing Investment Account ("RPSIA") as Risk Absorbent, the credit risk on the assets funded by the RPSIA are excluded from the risk weighted capital ratio ("RWCR") calculation.