

MAYBANK ISLAMIC BERHAD

(787435-M)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 December 2017

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 - 15
Statement of financial position	16 - 17
Income statement	18
Statement of comprehensive income	19
Statement of changes in equity	20 - 21
Statement of cash flows	22 - 23
Notes to the financial statements	24 - 162

**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 year ended 31 December 2017.

Principal activities

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 year.

Results

	RM'000
Profit before taxation and zakat	2,265,760
Taxation and zakat	(528,676)
Profit for the year	<u>1,737,084</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in Notes 8 and 27 to the financial statements and the statement of changes in equity.

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

Performance review

The Bank posted profit before tax and zakat of RM2,265.8 million for the financial year ended 31 December 2017, an increase of RM484.0 million or 27% compared to the previous corresponding year.

The Bank's allowance for impairment on financing and advances decreased by RM171.8 million to RM210.1 million due to lower individual allowance made during the financial year ended 31 December 2017. The Bank's financing loss coverage ratio with Regulatory Reserve stood at 121.07% as at 31 December 2017.

Total income grew by RM794.1 million or 10% to RM8,856.2 million from previous corresponding period, comprising of income derived from investment of depositors funds, income derived from investment account funds and income derived from investment of shareholder's funds of RM7,020.9 million, RM1,539.0 million and RM296.3 million respectively.

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

Performance review (cont'd.)

The Bank's gross financing and advances increased by RM13.7 billion to RM163.6 billion as compared to RM149.9 billion recorded in previous financial year. As at 31 December 2017, total funding increased by 12% contributed by total customer deposits which grew by 22%, which was recorded at RM129.9 billion against RM106.6 billion in the last financial year. Investment Account under management decreased by RM6.9 billion to close at RM24.6 billion compared to RM31.5 billion in the previous financial year.

The Bank's capital position continued to be strong and well above regulatory requirements as reflected by its Common Equity Tier I of 14.50%, Tier I Capital Ratio 16.15% and Total Capital Ratio of 20.78%.

Prospects

Malaysia's real GDP growth for 2018 is expected to expand by 5.3% (2017: 5.9%) underpinned by continued growth in consumer spending, public consumption and gross fixed capital formation with expansion in both private and public investments. Exports and imports of goods and services is expected to expand further in 2018 on the back of the sustained global and domestic growth momentum, but the pace of growth is expected to moderate after the high base in 2017. The Bank's financing growth is expected to be in-line with industry growth, as the Bank continues to focus on opportunities within the consumer, retail SME and corporate lending segments.

Moving forward into 2018, the Bank will continue to focus on cementing its leadership position by further enhancing its financial profitability, increased global visibility, playing a lead role in innovation and contributing further to the development of the Islamic Finance industry through its Centre of Excellence initiatives. Moreover, as the digital revolution gathers pace, the Bank intends to capture the opportunities in digital innovation within the realm of Islamic Finance, pioneering ideas that will enhance its social and economic platforms.

Dividends

The amounts of dividend paid by the Bank since 31 December 2016 were as follows:

RM'000

In respect of the financial year ended 31 December 2016 as reported in the directors' report of that year:

Final tax exempt (single-tier) dividend of RM2.76 per ordinary share on 281,556,000 ordinary shares, declared on 5 April 2017 and paid on 12 April 2017

777,095

787435-M

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

Dividends (cont'd.)

In respect of the financial year ended 31 December 2017:

RM'000

Interim tax exempt (single-tier) dividend of RM2.70 per ordinary share on 281,556,000 ordinary shares, declared on 25 August 2017 and paid on 11 October 2017

760,201

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2017 of RM3.46 per ordinary share on 281,556,000 ordinary shares, amounting to a dividend payable of RM974,183,760 will be proposed for the shareholders' approval.

The financial statements for the current financial year 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 financial year ending 31 December 2018.

Holding company

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

Maybank Group Employee Share Scheme

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the holding company's i.e. Malayan Banking Berhad ("Maybank")'s 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 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.

Issuance of share capital and debentures

There were no new ordinary shares issued during the financial year.

During the financial year ended 31 December 2017, the Bank made issuances of term funding and capital securities, as disclose in Note 19 and Note 21 to the financial statements. The proceeds from the issuances were utilised to fund the working capital, general banking and other Shariah complaint corporate purposes.

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

Directors

The names of the directors of the Bank in office since the beginning of the financial year to the date of this report are:

En Zainal Abidin bin Jamal	(appointed as Chairman on 1 June 2017)
Dato' Dr Muhammad Afifi al-Akiti	
En Dali bin Sardar	
En Nor Hizam bin Hashim	
Datin Paduka Jam'iah Abdul Hamid	(appointed on 17 July 2017)
Datuk Mohd Anwar Yahya	(appointed on 17 July 2017)
Dato' Zulkiflee Abbas Abdul Hamid	(resigned with effect from 3 April 2017)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, 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 arising from the share options granted under the Employee Share Option Plan.

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 or the fixed salary of a full-time employee of the holding company as disclosed in Note 30 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

The holding company, Maybank maintained on a group basis, a Directors' and Officers' Liability Insurance against any legal liability incurred by the directors in the discharge of their duties while holding office for Maybank or for Maybank's subsidiary companies. The directors shall not be indemnified by such insurance for any negligence, fraud, intentional breach of law or breach of trust proven against them.

Directors' interests

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the Bank and options over shares in the holding company, Maybank or other related corporations during the financial year.

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

Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
RAM Ratings Services Berhad ("RAM")	5 January 2018	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
		Outlook (Long Term)	Stable
Malaysian Rating Corporation Berhad	16 November 2017	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	MARC-1
		Outlook (Long Term)	Stable

Other statutory information

- (a) Before the statement of financial position, income statement and statement of comprehensive income 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 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.

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

Other statutory information (cont'd.)

- (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 year 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 year 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 year 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 year and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

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 Islamic Financial Institutions and the Guidelines on Classification and Impairment Provisions for Financing.

Significant and subsequent events

The significant events are disclosed in Note 43 to the financial statements.

There are no significant adjusting events after the statement of financial position's date up to the date when the financial statements are authorised for issue.

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

Shariah Committee

The operation of the Bank is governed by Section 28 and 29 of the Islamic Financial Services Act 2013 ("IFSA"), which stipulates that "any licensed institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah and in accordance with the advice or ruling of Shariah Advisory Council ("SAC"), specify standards on Shariah matters in respect of the carrying on of its business, affair or activity" 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.

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.

Our Commitment Towards Sustainability

As one of the leading Islamic financial institutions in the world, Maybank Islamic aims to generate positive and sustainable impact to the economy, community and environment in the markets we operate in. Our sustainable initiatives relate to the objectives of the Shariah which encompasses the protection of religion, life, intellect, wealth and progeny. Through an effective collaboration with Maybank group we have launched the following initiatives:

Protection of Religion:

- Shariah Centre of Excellence under the Leaders' Insight Series.

Protection of Life:

- Ramadhan Relief programme, a regional food distribution community programme.
- The Green Technology Financing Scheme (GTFS), a scheme that aims to promote Green Technology by providing financing to companies that supply and utilise Green Technology.

787435-M

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

Our Commitment Towards Sustainability (cont'd.)

Protection of Intellect:

- Knowledge exchange and Thought Leadership forums with renowned academic institutions.

Protection of Wealth:

- Deposits and Investment Account platform for saving and investment to preserve wealth.
- HouzKey, the first bank initiated rent-to-own scheme, enabling people to own houses after a certain period of lease rental arrangement.
- Empowerment of small and medium-sized enterprises (SMEs) through the Bumiputera Entrepreneur Excellence (BEE) Programme.

Protection of Progeny:

- Wealth Management suite of products covering Wasiat, Hibah and Waqaf.

Maybank Islamic is committed to create value for our clients and the communities that we serve.

Zakat obligation

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

Auditors

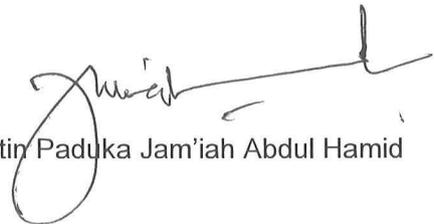
The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 29 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2018.



Zainal Abidin bin Jamal
Kuala Lumpur, Malaysia



Datin Paduka Jam'iah Abdul Hamid

787435-M

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

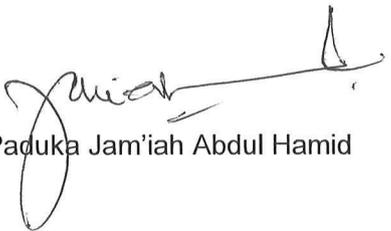
**Statement by directors
Pursuant to Section 251(2) of the Companies Act, 2016**

We, Zainal Abidin bin Jamal and Datin Paduka Jam'iah Abdul Hamid, 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 16 to 162 are properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and of the results and the cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 February 2017.



Zainal Abidin bin Jamal
Kuala Lumpur, Malaysia

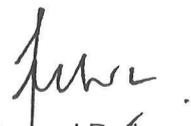


Datin Paduka Jam'iah Abdul Hamid

**Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act, 2016**

I, Dato' Mohamed Rafique Merican bin Mohd Wahiduddin Merican, 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 16 to 162 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 Dato' Mohamed Rafique Merican
bin Mohd Wahiduddin Merican
at Kuala Lumpur in the Federal
Territory on 20 February 2018



Dato' Mohamed Rafique Merican
bin Mohd Wahiduddin Merican

Before me,

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50300 Kuala Lumpur



Corporate Governance Disclosures
31 December 2017

1. THE BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

The Board of Maybank Islamic Berhad (“Maybank Islamic” or “the Bank”) comprised six (6) directors of which five (5) were Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Chairman. The composition of the Board complied with the requirement under the BNM Corporate Governance Policy (“BNM CG Policy”) of having a majority of independent directors at all times.

The members of the Board as at 31 December 2017 were as follow:

Name	Position	First Appointment Date
Chairman		
Encik Zainal Abidin Jamal	Non-Independent Non-Executive Director ("NINED")	NINED - 28 January 2010 Chairman - 1 June 2017
Members		
Dato' Dr. Muhammad Afifi al-Akiti	Independent Non-Executive Director	15 August 2013
Encik Dali Sardar	Independent Non-Executive Director	11 August 2014
Encik Nor Hizam Hashim	Independent Non-Executive Director	18 October 2016
Datin Paduka Jam'iah Abdul Hamid	Independent Non-Executive Director	17 July 2017
Datuk Mohd Anwar Yahya	Independent Non-Executive Director	17 July 2017

A profile of each member of the Board is presented below:-

ZAINAL ABIDIN JAMAL

Non-Independent Non-Executive Director (Chairman)

Nationality

Malaysian

Age

63

Appointment

18 January 2010

Qualification

- LL.B (Honours), University of Singapore
- Advocate & Solicitor, High Court of Malaya
- Arbitrator, Asian International Arbitration Centre (formerly known as Kuala Lumpur Regional Center for Arbitration)

Working Experience

Present

Within Maybank Group

- Chairman of Maybank Islamic Berhad

Other Companies/Bodies

- Senior Partner of Zainal Abidin & Co, Advocate & Solicitor

Past

- First Class Magistrate in Brunei Darussalam
- Advocate & Solicitor of the Supreme Court of Singapore
- Company Secretary of Harrisons Malaysian Plantation Berhad

Directorship of Other Companies

- Sime Darby Plantation Berhad
- Lam Soon (M) Berhad
- Prominent Beauty Sdn Bhd
- Global Humanitarian Fund

Attendance in 2017

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

DATO' DR MUHAMMAD AFIFI AL-AKITI

Independent Non-Executive Director

Nationality

Malaysian

Age

41

Appointment

15 August 2013

Qualification

- Doctor of Philosophy in Islamic Studies, Oxford University
- Master of Studies in Islamic Studies, Oxford University
- Bachelor of Arts in Scholastic Philosophy and the History of Science, Queen's University of Belfast

Working Experience

Present

Within Maybank Group

- Director of Maybank Islamic Berhad

Other Companies/Bodies

- Islamic Centre Lecturer in Islamic Studies at the Faculty of Theology, University of Oxford
- Senior Member of Congregation of the University of Oxford, UK
- Kuwait Foundation for the Advancement of Sciences (KFAS) Fellow, Oxford Centre for Islamic Studies
- Distinguished Visiting Professor, University Utara Malaysia (UUM)
- Visiting Professor, Universiti Teknologi Mara (UiTM)
- Visiting Professor, Universiti Sains Malaysia (USM)

Past

- Organized conferences/seminars namely, among others, Special Session on Islamic Social Finance, convened the 'Muslim Thinkers' Seminar Series, the 'Islamic Finance' Seminar Series, the 'Introducing Islamic Manuscripts' Seminar Series, the 'Islamic Ethics : Classical and Contemporary Perspectives' Seminar Series, etc

Past (cont'd.)

- Involved in Academic Editorial work as Deputy Editor, Journal of Islamic Studies (Oxford University Press), Associate Editor, Integrated Encyclopedia of the Qur'an (CIS), Consultant Editor, Journal of the Royal Asiatic Society (Cambridge University Press), Special Guest Editor, The Muslim World (Wiley-Blackwell), etc.
- Performed selected consultancy work, to name a few, as working level member of the United Nations High-Level Panel on Humanitarian Financing convened by the UN Secretary-General to deal with the various Multilateral Development Banks (MDBs), in particular, the World Bank and the Islamic Development Bank and the various humanitarian agencies in 2015-16, member of an international task force on Islam and Science convened by Ekmeleddin Ihsanoglu (Secretary-General of the OIC), Istanbul, Turkey, supported by the John Templeton Foundation in 2015, member of the Promotion of Piece in Muslim Societies Forum, convened by the Foreign Minister of the United Arab Emirates, HH Sheikh Abdullah bin Zayed Al Nahyan, from 2014, etc

Directorship of Other Companies

- Oxford Islamic Finance Ltd, U.K.
- Oxford Real Estate Ltd, U.K.
- International Advisory Board of Abu Dhabi Educational Council (ADEC) UAE
- International Advisory Board of Sultan Omar 'Ali Saifuddien Centre for Islamic Studies, Universiti Brunei Darussalam (UBD), Brunei
- International Advisory Board, Global Journal Al-Taqafah (USAS Press)
- Board Member of the Perak Islamic and Malay Council
- Member of the Perak Fatwa Council
- KUISAS Berhad
- LTH Oxford Ltd, Jersey

Attendance in 2017

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

DALI SARDAR

Independent Non-Executive Director

Nationality

Malaysian

Age

58

Appointment

11 August 2014

Qualification

- Bachelor of Arts (majoring in Economics), Knox College, Illinois, USA
- Master in Business Administration, American Graduate School of International Management, Arizona, USA

WORKING EXPERIENCE

Present

Within Maybank Group

- Director of Maybank Islamic Berhad

Other Companies/Bodies

- Director of DTA Capital Group

Past

- Relationship Manager and Vice President of Citicorp/ Citbank
- Executive Director and subsequently promoted as Managing Director of Citicorp Capital.
- Chief Executive Officer of Utama Merchant Bank Berhad
- Director of Maybank Private Equity Sdn Bhd

Directorship of Other Companies

- Chuan Huat Resources Bhd
- Malaysian General Investment Corporation (MGIC) Bhd
- DTA Capital Partners Sdn Bhd
- DTA Ventures Management Sdn Bhd
- DTA Growth Capital Sdn Bhd
- Mavcap ICT Sdn Bhd
- Peranex Sdn Bhd
- Norhtec Corporation Ltd (Thailand)
- M Development Ltd (Singapore)

Attendance in 2017

- 10 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

NOR HIZAM BIN HASHIM

Independent Non-Executive Director

Nationality

Malaysian

Age

69

Appointment

18 October 2016

Qualification

- Bachelor of Jurisprudence (BOJ) (External) with honours, University of Malaya
- Chartered Accountant, Malaysia Institute of Accountants
- Bachelor of Commerce (Finance, Accounting and Economics), University of Western Australia

Working Experience

Present

Within Maybank Group

- Director of Malayan Banking Berhad
- Director of Maybank Islamic Berhad
- MCB Bank Limited (Pakistan)

Other Companies/Bodies

- Nil

Past

- Accountant and Financial Analyst of ESSO Malaysia Berhad
- Financial Controller of Mamor Sdn Bhd
- General Manager (Finance) of Raleigh Berhad
- Held various senior positions including as Chief Operating Officer of Telekom Malaysia Berhad Group
- Chief Financial Officer of TELKOM SA Ltd
- Chief Executive Officer of TM International Corporation
- Expert Officer to the Public Private Partnership Unit and Economic Planning Unit in the Prime Minister's Department

Directorship of Other Companies

- Minority Shareholders' Watchdog Group
- Telekom Consultancy Sdn Bhd
- Bizforte Sdn Bhd

Attendance in 2017

- 9 out of 10 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

DATUK MOHD ANWAR YAHYA

Independent Non-Executive Director

Nationality

Malaysian

Age

63

Appointment

17 July 2017

Qualification

- Bachelor of Science (Honours) in Economics & Accountancy, University of Hull, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants in England and Wales
- Member of Malaysia Institute of Accountants
- Member of Malaysian Institute of Certified Public Accountants

Working Experience

Present

Within Maybank Group

- Director of Maybank Islamic Berhad

Other Companies/Bodies

- Nil

Past

- Financial and Business Advisor of PricewaterhouseCoopers
- General Manager of Permodalan Kelantan Berhad
- Finance Manager of Lembaga Kemajuan Kelantan Selatan (KESEDAR)

Directorship of Other Companies

- Usains Holdings Sdn Bhd
- Felda Global Ventures Holdings Berhad

Attendance in 2017

- 4 out of 5 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

DATIN PADUKA JAM'IAH ABDUL HAMID

Independent Non-Executive Director

Nationality

Malaysian

Age

62

Appointment

17 July 2017

Qualification

- Diploma in Public Administration, Universiti Teknologi MARA
- Bachelor of Science (Finance), Northern Illinois, USA
- Master Degree in Business Administration, Universiti Kebangsaan Malaysia
- Certified Financial Planner, Financial Planning Association of Malaysia

Working Experience

Present

Within Maybank Group

- Director of Malayan Banking Berhad
- Director of Maybank Islamic Berhad

Other Companies/Bodies

- Nil

Past

- Deputy President, Corporate & International, Permodalan Nasional Berhad
- Director, Mesiniaga Berhad
- Director, Chemical Company of Malaysia Berhad
- Director, UMW Holdings Berhad

Directorship of Other Companies

- Prolintas Expressway Sdn Bhd
- Projek Lintasan Kota Sdn Bhd
- Projek Lintasan Kota Holdings Sdn Bhd
- Projek Lintasan Shah Alam Sdn Bhd
- Projek Lintasan Damansara-Shah Alam Sdn Bhd
- Projek Lintasan Sungai Besi-Ulu Klang Sdn Bhd
- Turnpike Synergy Sdn Bhd
- Pernec Integrated Network Systems Sdn Bhd
- Unilever (Malaysia) Holdings Sdn Bhd

Attendance in 2017

- 5 out of 5 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Maybank.
- No conflict of interest with Maybank Islamic and has never been charged for any offence.
- Does not hold any shares in Maybank Islamic.

BOARD CHARTER

The Board acknowledges the importance of developing and maintaining a framework of Corporate Governance that is robust and sound, to promote a culture of integrity and transparency throughout the Bank. In this regard, all directors are required to maintain the highest standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern directors' conduct and their relationship with the Bank's stakeholders.

The Board Charter outlines among others, the respective roles, responsibilities and authorities of the Board (both individually and collectively) in setting the direction, management and control of the Bank.

ROLES AND RESPONSIBILITIES OF THE BOARD

In line with the standards of the BNM CG Policy, the Board's duties and responsibilities include the following function:-

- (a) approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Bank's risk profile;
- (b) oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank;
- (c) oversee the implementation of the Bank's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations;
- (d) promote, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour;
- (e) promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- (f) oversee and approve the recovery and resolution as well as business continuity plans for the Bank to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;
- (g) promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the financial institution; and
- (h) ensure that there is a reliable and transparent financial reporting process within the Bank.
- (i) promote Shariah compliance in accordance with expectations set out in the policy document on Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL_012_3) and ensure its integration with the Bank's business and risk strategies; and
- (j) have due regard to any decision of the Shariah Committee on any Shariah issue relating to the carrying on of business, affairs or activities of the institution.

BOARD COMMITTEES

Delegation of certain governance responsibilities has been undertaken by the Board in favour of its Board Committees, which operate within clearly defined terms of references, primarily to assist the Board in the execution of its duties and responsibilities. Although the Board has granted such discretionary authority to these Board Committees to deliberate and decide on certain key and operational matters, the ultimate responsibility for final decision on all matters lies with the entire Board.

Board Investment Committee

As required by para 17.3 of the Investment Account Policy by BNM, every Islamic Bank must establish a separate board investment committee when the investment account constitutes a significant proportion of the total asset of the Bank.

The Board Investment Committee (“BIC”) is responsible for assisting the Board in performing the oversight functions and provide recommendations in respect of the investment strategies, management and performance of the investment account.

The members of the BIC as at 31 December 2017 were as follows:

Name	Position	Appointment Date
Encik Dali Sardar	Chairman	28 September 2016
Dato’ Dr. Muhammad Afifi al-Akiti	Member	31 October 2016
Encik Nor Hizam Hashim	Member	26 April 2017

The specific duties of the BIC include:

- (i) Review and recommend to the Board on matters including, but not limited to objectives, strategies, policies and processes of the investment account including profit distribution policy and valuation;
- (ii) Review and assess the investment operations to ensure the same are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the investment account, relevant legislations and Shariah rulings;
- (iii) Review and assess the effectiveness of the established risk management policies, processes and infrastructure to identify, measure, monitor, control and report the various types of risk associated with the assets funded by the investment account including policies and procedures to determine the significant level of investment account business;
- (iv) Review and assess the competency and investment expertise of the personnel managing the investment accounts;
- (v) Review and assess disclosure policies on a regular basis to ensure reliable, relevant and timely information are disseminated to the investment account holders to facilitate informed decision making by the Board and in order to protect the interest of the investment account holders; and
- (vi) Review performance reports on the activities of the Investment Account Unit on a periodic basis.

Under the leverage model, the Board delegated certain of its governance responsibilities to the following Board Committees of Maybank, which operate within clearly defined terms of references primarily to assist the Board in the execution of its duties and responsibilities. Nevertheless, the final decisions were made by the Board of Maybank Islamic.

1. Audit Committee¹
2. Credit Review Committee²
3. Nomination and Remuneration Committee
4. Risk Management Committee²
5. Employee Share Scheme Committee
6. Compliance Committee of the Board¹
7. Employee Share Grant Plan

Notes:

1. The Chairman of the Audit Committee and the Chairman of the Compliance Committee of the Board also sit at the Board of Maybank Islamic.
2. Representative of the Board sits in as an invitee at the committee meetings for the deliberations on matters related to Maybank Islamic.

TENURE OF DIRECTORSHIP

Consistent with the Maybank Group's Directors' Independence Policy and recommendations of the Malaysian Code on Corporate Governance 2017 ("the Code"), the Board via the Nomination and Remuneration Committee ("NRC") assesses the independence of Independent Directors upon his/her appointment, re-appointment and in any event, annually. In line with the Code, the tenure of service for Independent Directors has been capped at the maximum period of nine years whereby upon completion of such tenure, the Independent Director may continue to serve on the Board subject to his redesignation as a Non-Independent Director. The Board recognises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time alone. The Board also considers that continued tenure could bring considerable stability to the Board and acknowledges the fact that it has benefited greatly from the presence of Board members who have over time gained valuable insight into the Group and its markets. Hence, the Board may in certain circumstances and subject to the NRC's assessment, decide to maintain a member as an Independent Director beyond the requisite 9-year period, if the Board is satisfied (upon the review by the NRC) that the said Director can remain independent in character and judgment, and would continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management and the Board. Under such circumstances, the Board may allow the shareholder to decide whether the said Director should continue to be designated as an Independent Director (notwithstanding the fact his tenure has exceeded the 9-year period), with strong justifications provided by the Board to support the proposal. Currently, none of the Board's independent members has reached the 9-year term in Maybank Islamic.

BOARD MEETINGS

During the financial year ended 31 December 2017, a total of 10 meetings were convened inclusive of 2 special meetings for urgent issues and/or important decisions required to be addressed between the scheduled meetings.

All the Directors have exceeded the 75% meeting attendance requirement in accordance with BNM CG Policy. Details of attendance of each Director on the Board and Board Investment Committee of Maybank Islamic during the financial year ended 31 December 2017 are highlighted in the table below.

Name of Directors	Board			BIC		
	Held	Attended	%	Held	Attended	%
Encik Zainal Abidin Jamal	10	10	100			
Dato' Dr. Muhammad Afifi al-Akiti	10	10	100	6	6	100
Encik Dali Sardar	10	10	100	6	6	100
Encik Nor Hizam Hashim ¹	10	9	90	5	5	100
Datin Paduka Jam'iah Abdul Hamid ²	5	5	100			
Datuk Mohd Anwar Yahya ³	5	4	80			
Dato' Zulkiflee Abbas Abdul Hamid ⁴	5	3	100	1	1	100

Notes:

1. Appointed as BIC member with effect from 26 April 2017.
2. Appointed as a Director with effect from 17 July 2017.
3. Appointed as a Director with effect from 17 July 2017.
4. Ceased directorship with effect from 3 April 2017

DIRECTORS' REMUNERATION

The Board believes that one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package commensurate with the expertise, skills, responsibilities and the risks of being a director of a financial institution. In line with good corporate governance, the Maybank Group has set out its intention to periodically review the Non-Executive Directors (NEDs) remuneration for Maybank and its group of companies at least once every three years. A summary of the total remuneration of the Directors (shown in nearest thousand), in aggregate with categorisation into appropriate components for the financial year ended 31 December 2017 is as follows:

Name of Directors	Directors' Fee (RM)	Other Emoluments (RM)	Benefit in Kind (RM)	Total (RM)
Encik Zainal Abidin Jamal ¹	157,500	10,000	13,412	180,912
Dato' Dr. Muhammad Afifi al-Akiti ²	141,250	16,000	3,000	160,250
Encik Dali Sardar ³	144,750	26,000	3,000	173,750
Dato' Zulkiflee Abbas Abdul Hamid ⁴	36,490	6,000	-	42,490
Encik Nor Hizam Hashim ⁵	133,264	21,000	-	154,264
Datin Paduka Jam'iah Abdul Hamid ⁶	53,125	5,000	-	58,125
Datuk Mohd Anwar Yahya ⁶	53,125	4,000	-	57,125
Total	719,504	88,000	19,412	826,916

Notes:

1. Appointed as Chairman with effect from 1 June 2017.
2. Fees include for BIC
3. Fees include for BIC
4. Ceased directorship with effect from 3 April 2017.
5. Fees include for BIC, appointed as BIC member with effect from 26 April 2017.
6. Appointed as a Director with effect from 17 July 2017.

DIRECTORS' TRAINING

The Board acknowledges the importance of continuing education for its Directors to ensure they are equipped with the necessary skills and knowledge to perform their functions and meet the challenges of the Board. During the year, all the Board members have attended various training programmes and workshops on relevant issues, including key training programme for Directors of financial institutions, namely the Financial Institutions Directors' Education (FIDE).

The Board continues to assess the training needs of its Directors vide the Board Assessment and identify key areas of focus for training programmes. Trainings programmes, conferences, forums and talks attended by the Directors for the financial year ended 31 December 2017 were as follow:

Maybank Group Internal Training

- Maybank Islamic Berhad Director's Induction Programme
- Maybank Group Annual Risk Workshop
- Maybank Islamic Risk Workshop
- Group Compliance Engagement Session on AML/Sanction, FEA Rules & Anti-Bribery & Corruption
- Compliance Engagement with Maybank Group Board, Group EXCOs and Senior Management
- AGEAS Partnership Days
- Independent Assessment and Perspective of Market on Etiqua

FIDE

- FIDE Forum 2nd Distinguished Board Leadership Series : Risk and Reward : What Must Boards Know About a Sustainable FI
- FIDE Core Programme (Module A)
- FIDE Core Programme (Module B)
- Mandatory Accreditation Programme (MAP)
- ICLIFF Leadership & Governance Breakfast talk - Leading in a Volatile, Uncertain, Complex & Ambiguous (VUCA) world

Other External Seminars/Conferences/Talks

- 8th SC-OCIS Roundtable : “Creating Shared Values Through Risk Sharing”
- The new Companies Act 2016: A New Playbook for Directors
- Bonds, Loan & Sukuk Middle East
- Next Generation Customer Experience in Insurance using Big Data Insight
- Robotic Process Automation
- PNB-USIM Governance and Assurance Conference 2017
- The Global Institute for Leadership Development (GILD) Asia Programme
- When AI Meets FinTech
- Cyber Risk to Financial Institution
- Implementation of the Report on Transparency in Corporate Reporting

2. INTERNAL CONTROL FRAMEWORK

INTRODUCTION

Pursuant to the requirement under the BNM Corporate Governance Policy Document, the internal control framework is presented herewith outlining the key features of rules governing Maybank Islamic's organisational and operational structure, including reporting processes and control functions. and controls. Under the leverage model, Islamic business operations are residing in Maybank Group. Hence, Maybank Islamic is similarly adopting Maybank Group risk management and internal control system with customisation where required to address the Bank's internal control environment.

GOVERNANCE AND OVERSIGHT

The Board of Directors

The Board is overall responsible for establishing a sound risk management and internal control system and reviewing its adequacy and effectiveness. Recognising the importance of a sound risk management and internal control system, the Board has established the governance. structure and frameworks to ensure effective oversight of risks and controls. The Board has delegated its governance and oversight functions to its Board Committee, i.e. the Board Investment Committee, as well as Maybank Group Board level Committees, namely, Audit Committee, Risk Management Committee, Credit Review Committee, Nomination and Remuneration Committee and Employee's Share Scheme Committee, Employee Share Grant Plan and Compliance Committee of the Board.

Shariah Committee

The Board has appointed an independent Shariah Committee ("SC") to provide decision, views and opinions related to Shariah matters, as well as perform oversight role on Shariah matters related to the business operations and activities to ensure compliance with Shariah. Among its main duties and responsibilities are to provide relevant advice to the Board and the Management in addition to assessing the work carried out by Shariah Review and Compliance and Shariah Audit.

Management Committee

The Management Committee of the Bank is established to assist and support the Board to oversee the core areas of business operations and implement the Board's policies and procedures on risks and controls. Maybank Islamic is also leveraging on the various Maybank Group Executive Level Management Committees (ELCs), namely, the Group Executive Committee, Group Management Credit Committee, Group Executive Risk Committee, Group Asset and Liability Management Committee, Group Procurement Committee, Group IT Steering Committee, and Group Staff Committee.

Lines of Defence

Maybank Islamic's governance model provides a transparent and effective governance structure that promotes active involvement from the Board and Senior Management to ensure a uniform view of risk. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the lines of defence, which include the following:

Functions	Key Responsibilities
First Line of Defence	
Risk Taking Units	<ul style="list-style-type: none"> ● Consist of business/front-line and support units with the ultimate responsibility to manage day-to-day risks inherent in its business, activities and risk exposures. ● Ensure that the business operates within the established risk strategies, risk tolerance, risk appetite, risk frameworks, policies and procedures. ● Established within the business sectors, the Business Risk unit ensures effective risk oversight, implementation of risk frameworks, policies and procedures and clarity in the risk management practices.
Second Line of Defence	
MIB Shariah Management	<ul style="list-style-type: none"> ● Ensure that all structures, terms and conditions, legal documentation and operational process flow and procedures are Shariah compliant.
MIB Compliance function	<ul style="list-style-type: none"> ● Establishes compliance framework and policies, provides advice and guidance on all areas of regulations, and surveillance over the effectiveness of the compliance controls embedded in the business i.e. risks of non-conformity/non-compliance with applicable laws and regulations as well as internal regulations. ● Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools.

Second Line of Defence	
MIB Risk Management function	<ul style="list-style-type: none"> ● Establishes risk frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report all risk types which forms part of businesses day-to-day operations. It is also responsible for communicating risk strategies and creating risk awareness within the entire organisation. <p>Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools.</p>
Third Line of Defence	
Group Internal Audit	<ul style="list-style-type: none"> ● Provides reasonable assurance via regular and independent assessment and validation that: <ul style="list-style-type: none"> (i) Risk management and compliance frameworks, policies and tools are sufficiently robust and consistent with regulatory standards. (ii) Controls to mitigate risks are adequate and effectively executed by the Risk Taking Units. (iii) Adequate oversight by the Risk Control Units over the Risk Taking Units.
MIB Shariah Review function	<ul style="list-style-type: none"> ● Provides independent and periodical assessment to improve the degree of compliance in ensuring a sound and effective internal control system for Shariah Compliance. ● Continuous review of processes and deliverables, as well as determining that such processes and outcomes comply with Shariah requirement.

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

The key elements of the internal control system established by the Board that provides effective governance and oversight of internal control include:

Risk Management Framework

Risk management has evolved into an important driver for strategic decisions in support of business strategies while balancing the appropriate level of risk taken to the desired level of rewards. As risk management is a core discipline of the Bank, it is underpinned by a set of key principles which serve as the foundation in driving strong risk management culture, practices and processes:

Principles	Description
Establish risk appetite & strategy	The risk appetite which is approved by the Board, articulates the nature, type and level of risk the Bank is willing to assume.
Assign adequate capital	The approach to capital management is driven by strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.
Ensure proper governance and oversight function	There is clear and effective governance structure with well-defined, transparent and consistent lines of responsibility established within the Bank.
Promote strong risk culture	Institutionalisation of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
Implement sound risk frameworks and policies	Implementation of integrated risk frameworks, policies and procedures to ensure that risk management practices and processes are effective at all levels.
Execute strong risk management practices and processes	Robust risk management processes are in place to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the
Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are in place to enable effective risk management.

Compliance Management Framework

The Compliance Management Framework provides the fundamental policies and guidelines on compliance management and oversight for Maybank Islamic. This Framework serves as a key tool for Compliance Officers alongside the Board, the Management and all the employees of the Bank in understanding, complying and managing compliance risk.

Shariah Governance Framework

Maybank Islamic has in place a Shariah Governance Framework, which sets out the expectations of the Shariah governance structures, processes and arrangements within the Bank. This is to ensure its operations and business activities are in accordance with Shariah, as well as to provide comprehensive guidance to the Board, Shariah Committee (“SC”) and the Management in discharging their duties in matters relating to Shariah.

A sound and robust SC or Shariah Governance Framework is reflected by effective and responsible Board and Management, independent SC that is both competent and accountable supported by strong internal Shariah functions comprising of Shariah Management, Shariah Risk under Risk Management, Shariah Audit and Shariah Review and Compliance functions.

Risk Appetite

The risk appetite is a critical component of a robust risk management framework which is driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite enables the Board and Senior Management to communicate, understand and assess the types and levels of risk that the Bank is willing to accept in pursuit of its business objectives. The development of the risk appetite is integrated into the annual strategic planning process and is adaptable to changing business and market conditions. The articulation of the risk appetite is done through a set of risk appetite statements that defines the Bank’s appetite on all material risks of the Bank. The Bank’s risk appetite balances the needs of all stakeholders by acting both as a governor of risk, and a driver of future and current business activities.

Risk and Compliance Culture

The risk and compliance culture of Maybank Islamic is driven with a strong tone from the top, complemented by the tone from the middle, to ingrain the expected values and principles of conduct that shape the behaviour and attitude of employees at all level of business and activities across the Bank. Risk frameworks and policies are clearly defined, consistently communicated and continuously reinforced throughout the Bank, to embed a robust culture that cultivates active identification, assessment and mitigation of risk as part of the responsibility of all employees across the Bank.

As part of the risk and compliance culture, the Bank has instilled a compliance culture where the Board, Senior Management and every employee of the Bank are committed to adhere to the requirement of relevant laws, rules, regulations and regulatory guidelines. This commitment is clearly demonstrated through the establishment of strong compliance policies and guidelines to ensure that non-compliance risks are effectively managed.

Anti-Fraud Policy

The Anti-Fraud Policy outlines the vision, principles and strategies for the Bank to adopt to effectively manage fraud from detection to remedy, and to deter future occurrences. Robust and comprehensive tools and programmes are employed to reinforce the Policy, with clear roles and responsibilities outlined at every level of the organisation in promoting and instilling high standard of integrity in every employee.

Technology Risk Management Framework

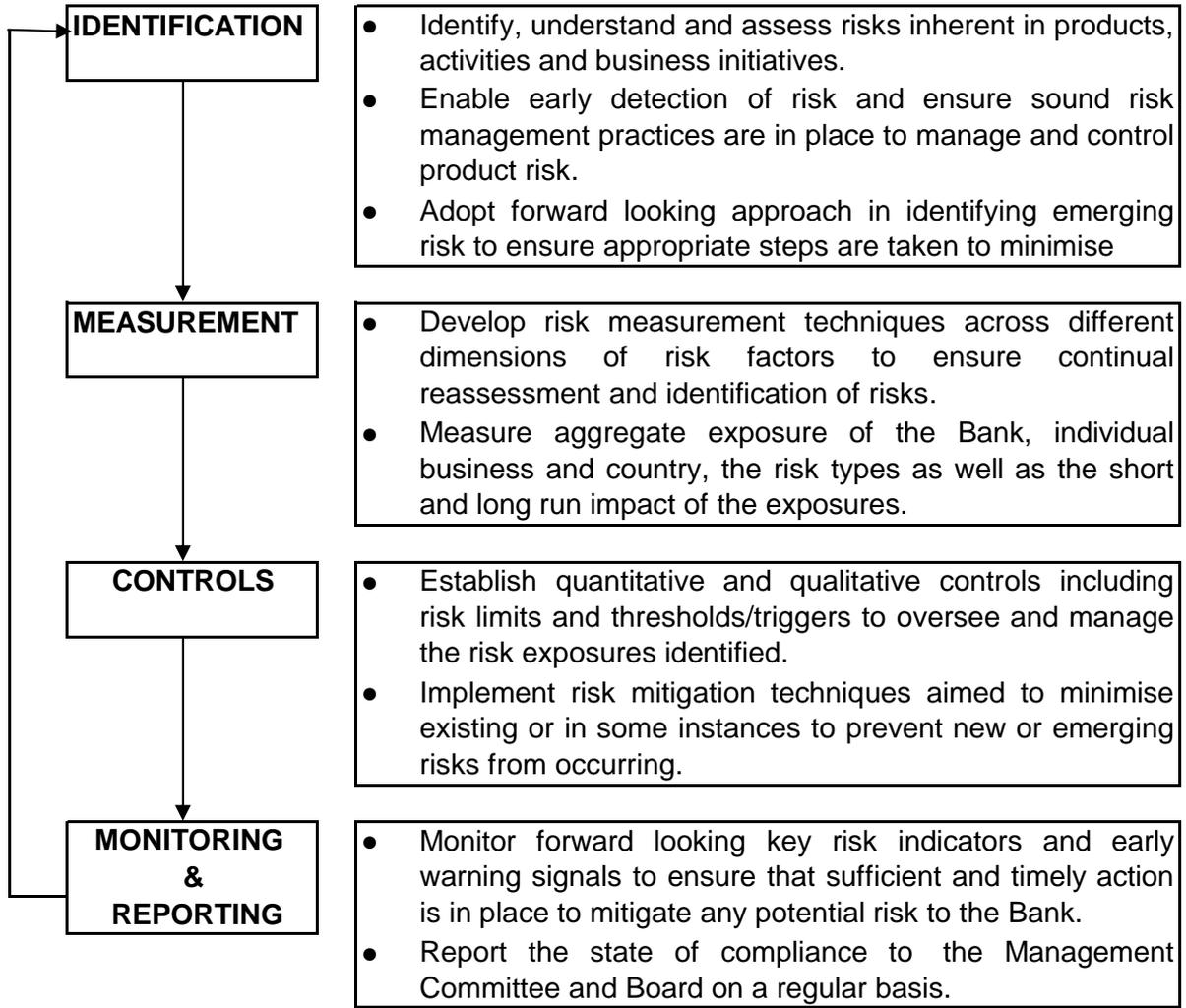
Technology Risk Management Framework is established at Maybank Group level for application across the Group. The Framework sets the standards for systematically identifying the causes of failure in the organisation's technology related functionalities, assessing the impact to the business and taking the appropriate risk remedial actions. This is established to maintain high service levels to customers and business units within Maybank Group, as well as to safeguard reputation.

Cyber Risk Management Framework

The Cyber Risk Management Framework is established at Maybank Group level for application across the Group to identify risks, build resilience, detect cyber threats and effectively respond to cyber related events. The Framework encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Framework and covers both Business and Technology drivers from an end to end perspective, which focuses on the key layers of People, Process and Technology.

Risk Management Practices & Processes

The risk management practices and processes enable the Bank to systematically identify, measure, control, monitor and report risk exposures across the Bank.



Regular Updates and Communication of Risk Management Principles, Policies, Procedures and Practices

Risk management principles, policies, procedures and practices are reviewed and updated regularly to ensure relevance to the current business environment as well as compliance with current/applicable laws and regulations. Maybank Islamic has a dedicated Risk Management function to facilitate establishment and review of these documents and ensure their implementation within the Bank.

Organisation Structure

The Board has established an organisation structure with clearly defined lines of responsibility, authority limits, and accountability aligned to business and operations requirements which support the maintenance of a strong control environment.

Annual Business Plan and Budget

Business plan and budget are submitted to the Board for approval, annually. Performance achievements are reviewed against the targeted results on a monthly basis allowing timely responses and corrective actions to be taken to mitigate risks. The Board reviews regular reports from the Management on the key operating parameters, as well as legal and regulatory matters. The Board also approves any changes or amendments to the Bank's policies.

Written Control Policies

A written Management Control Policy (MCP) and Internal Control Policy (ICP) from Management are in place. The MCP outlines the specific responsibilities of the various parties i.e. the Maybank Group Management, Internal Audit Committee (IAC) and the Audit Committee of the Board (ACB) pertaining to internal control. The ICP is to create awareness among all the employees within the Group, including Maybank Islamic, with regards to the internal control components and the basic control policy.

Management of Information Assets

Confidentiality, integrity and availability of information are critical to the day-to-day operations and strategic decision making of Maybank Islamic. To safeguard the information assets of the Bank, the Information Risk Management Guideline is established to clearly define the processes for effective management of information assets and its associated risks. Guided by information handling rules in alignment to the information lifecycle, all information must be properly managed, controlled and protected. Additional measures include reinforcing the clear desk policy to minimise information leakage/theft and fraud.

Non-Credit Discretionary Power

Appropriate empowerment and authority limits have been approved by the Board for procurement activities, acquisition & disposal of assets, operational write-off, donations, as well as approving general and operational expenses.

Standard Practice Instruction

Policies and procedures are in place to ensure compliance with internal controls and the prescribed laws and regulations. These policies and procedures are set out in the Standard Practice Instruction (SPIs) and are updated from time to time in tandem with changes to the business environment or regulatory guidelines. These SPIs are published in the communication portal which is made available to all employees.

Human Resource Policies and Guidelines

In addition, the Maybank Group People Policies (MGPP) serves as a baseline with clarity on the philosophy and principles for People Management and Development in Maybank Group. It incorporates key principles and philosophies that support Maybank Group's Mission of Humanising Financial Services. The MGPP consists of a set of policies and guidelines that governs all aspects of human resource management, from talent acquisition and development, performance and consequence management, code of conduct to cessation of employment. A Disciplinary Policy is also established to provide for a structure where disciplinary matters are dealt with fairly, consistently and in line with the prevailing labour laws and employment regulations.

Core Values and Code of Ethics and Conduct

Maybank Islamic observes the Islamic code and values. The Shariah is the overarching principle steering the Bank at all times in all its businesses and operations. In addition, the Maybank Group's core values, T.I.G.E.R. (Teamwork, Integrity, Growth, Excellence and Efficiency, Relationship Building) are the essential guiding principles to drive behavioural ethics. It is further complemented by the Code of Ethics and Conduct that sets out sound principles and standards of good practice observed by all.

Whistle Blowing Channel

Maybank Group also adopts a whistle blowing policy, providing an avenue for all employees and external parties to report actual or suspected malpractice, misconduct or violations of policies and regulations, in a safe and confidential manner.

INTERNAL AUDIT

Internal Audit Function

The Internal Audit (IA) function is established to undertake continuous review and assessment on the adequacy, efficiency and effectiveness of risk management, control and governance processes implemented in the Group including Maybank Islamic. It reports directly to the Audit Committee of the Board (ACB) and is independent from the activities or operations of other operating units in the Group. The fundamentals of the internal audit function involve identifying risks that could negatively impact the performance of Maybank Group and/or keep it from achieving its corporate goals, ensuring the Management and Maybank Group Management fully understands these risks and proactively recommending improvements to minimise these risks. The annual Group Audit Plan (GAP) is established based on Maybank Risk Based Audit (MRBA) while COSO framework is used to assess the adequacy level and effectiveness of internal controls. The Management and Maybank Group Management follow through and ensure remedial actions taken are prompt, adequate and effective. Status reporting of the remedial actions taken is also tabled to the ACB and IAC regularly for deliberation and tracking.

Audit Committee of the Board

Audit Committee of the Board (ACB) is a Board Committee established by the Maybank Board to assist in the execution of its governance and oversight responsibilities. The responsibilities include the assessment of the effectiveness and adequacy of Maybank Group's internal control system through the Internal Audit function. The ACB has active oversight over Internal Audit's independence, scope of work and resources. The ACB meets on a scheduled basis to review findings identified in the audit and investigation reports prepared by Internal Audit, taking into consideration the deliberation of the same report at the IAC. ACB also deliberates on the outstanding audit findings to ensure prompt and effective remedial actions are taken by the Management and Maybank Group Management. Where necessary, representatives from the parties being audited are requested to attend the ACB meeting to facilitate the deliberation of the audit findings. Minutes of the ACB meetings are tabled to Maybank Board while an extract on pertinent matters relating to the Islamic banking business and operations are reported to the Maybank Islamic Board.

Internal Audit Committee

Internal Audit Committee (IAC) is a management level committee comprising senior level representatives from the various lines of business including Islamic banking. It is chaired by the Group Chief Financial Officer (GCFO). It meets on a scheduled basis to deliberate on the findings highlighted in the audit and investigation reports and decide on the appropriate remedial actions required. Where necessary, representatives from the parties being audited are requested to attend the IAC meeting to enable a more detailed deliberation and speedy resolution of the matter at hand. The status of the audit findings is also tabled to the IAC to ensure the committed remedial actions are promptly and effectively implemented within the set timeline. Minutes of the IAC meeting are then tabled to the ACB together with the audit reports. The IAC also follows through on the actions required by the ACB.

3. REMUNERATION

REWARDS AND REMUNERATION

At Maybank Islamic, we embrace an integrated rewards strategy that focusses on providing the right remuneration, benefits and career development/progression opportunities at the right time for our employees' personal and professional aspirations. It involves integration of total rewards' key elements that are aligned to the Maybank Group strategy, Maybank Group Human Capital strategy, culture and Core Values T.I.G.E.R., to create motivated, engaged and productive employees. This outcome will in turn create desired business performance for sustainable growth.

The Bank's remuneration policy is approved by the Board and is subject to periodic monitoring and reviewing. The remuneration policy reinforces a high performance culture to attract, motivate and retain talent through market competitive and differentiated pay.

Maybank Group rewards' principles are delivered holistically via the Group's Total Rewards Framework which include base pay, other fixed cash, performance-based variable cash, long-term incentive awards, benefits and development.

Key Elements	Purpose
Fixed Pay	<ul style="list-style-type: none"> ● Attract and retain talent by providing competitive pay that is externally benchmarked against relevant peers and location, and internally aligned with consideration of differences in individual performance and achievements, skill set, job scope as well as competency level.
Variable Cash	<ul style="list-style-type: none"> ● Reinforce pay-for-performance culture and adherence to Maybank Group's core values. ● Variable cash award design that is aligned with the long-term performance goals of the Group through our deferral and claw-back policies. ● Based on overall Group Performance, Business/Corporate Function and individual performance ● Performance is measured via Balanced Scorecard approach ● Deferral Policy: Any Variable Bonus Award in excess of certain threshold will be deferred over a ● Clawback: The Maybank Board, based on risk management issues, financial misstatement, fraud and gross negligence or wilful misconduct, has the discretion to make potential adjustment or clawback on variable bonus awards.
Long Term Incentive Awards	<ul style="list-style-type: none"> ● Attract and retain employees who have a direct line of sight to the Maybank Group's long-term performance.

Key Elements	Purpose
Benefits	<ul style="list-style-type: none"> Employee benefits provide employees with financial protection, access to health care, paid time-off, staff loans at preferential rates, programmes to support work/life balance, etc. and aims to remain relevant for a diverse workforce. The benefits programmes which blend all elements including cost optimisation and employee/job needs, are reviewed regularly with proactive actions taken to remain competitive in the increasingly dynamic business landscape and continuously enrich our employees, as part of our total rewards strategy.
Development and Career Opportunities	<ul style="list-style-type: none"> Opportunities provided to employees to chart their careers across different businesses and

Total Compensation ensures that employees are paid equitably to the market, delivered via cash and share/share-linked instruments. The mixed of cash and shares/shares-linked instruments is aligned to our long-term value creation and time horizon of risk with targeted mix ratio. The target positioning of Base Pay is mid-market while target positioning for Total Compensation for a performer is to be within the Upper Range of market. Target positioning for benefits is mid-market. In certain markets/geographies, there may be exceptions for selected benefits with above mid-market positioning for strategic purposes. As Maybank Group operates globally, it is essential that local legislation and practices are observed. Should any clause of any policy conflict with local legislation, local legislations shall take precedence.

Key features of Remuneration Framework that Promote Alignment between Risk and Rewards

The Bank's Total Compensation, a mixture of Fixed and Variable (i.e. Variable Bonus and Long-term Incentive Plan) is designed to align with the long-term performance goals and objectives of the organisation. The compensation framework provides a balance approach between fixed and variable components that change according to individual performance, business/corporate function performance, group performance outcome and individual's level and accountability.

The Bank has good internal governance on performance and remuneration of control functions which are measured and assessed independently from the business units they support to avoid any conflict of interests. Remuneration of the control functions is approved by the respective committees of the Board.

Performance Management principles ensure KPIs continue to focus on outcomes delivered that is aligned to the business plans. Each of the Senior Officers and other material risk takers carry Risk, Governance & Compliance goals in their individual scorecard and are cascaded accordingly. Being a responsible organisation, the right KPI setting continues to shape the organisational culture, actively drive risk and compliance agenda effectively where inputs from control functions and Board Committees are incorporated into the Sector and individual performance results.

Remuneration practices

As part of the overall corporate governance framework, the Bank ensures its remuneration policies and structure are in line with the requirement of governance regulations. From a risk management perspective, the remuneration policy is supported by strong governance and sensitive to risk outcomes.

Staff rewards are reviewed on annual basis and consistent with business performance and prudent risk management. Appropriately, involvement by the relevant control functions are sufficiently embedded to provide an independent and objective assessment of the remuneration principles and practices which are pre-requisites for executing a sound remuneration policy.

Senior Officers and Other Material Risk Takers

The remuneration package for Senior Officers and Other Material Risk Takers are reviewed on an annual basis and submitted to the Nomination and Remuneration Committee for recommendation to the Board for approval.

Summary of FY2017 compensation outcome for those identified as Senior Officers of Maybank Islamic:

Total value of remuneration awards for the financial year for the financial year	Senior Officers			
	Unrestricted		Deferred	
Fixed remuneration				
- Cash-based	11 headcounts	6,657,320	-	-
- Shares and share-linked instruments	-	-	-	-
- Others	11 headcounts	334,813	-	-
Variable remuneration				
- Cash-based	11 headcounts	2,674,637	-	-
- Shares and share-linked instruments	6 headcounts	1,580,913		
- Others	-	-	-	-
Definition	Senior Officers of the Identified Entities & Senior Officers of BNM-regulated Companies refers to CEO and Chief Financial Officer.			

Notes:

Figures presented in the table are in MYR. Currency exchange used for remuneration in foreign currency is based on average exchange rate for the year.

**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 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 (the "Bank"):

We, the members of the Shariah Committee of the Bank (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 January 2017 until 31 December 2017. During the year, the Shariah Committee had convened 28 times and all members have satisfied the minimum attendance requirement required as per Appendix 5: Operation Procedures for the Shariah Committee of the BNM's Shariah Governance Framework which requires a Shariah Committee member to attend at least 75% of the Shariah Committee meetings held in each financial year.

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 Review and Compliance 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 region wide Shariah training program to enhance Shariah compliance awareness 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.

We are of the opinion that:

- (a) The new products, business initiatives and enhanced processes introduced by the Bank during the year ended 31 December 2017, 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 year ended 31 December 2017, that we have reviewed are in compliance with the Shariah rules and principles;

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

Shariah Committee's report (cont'd.)

- (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 Shariah non-compliance events and disposal of any earnings from prohibited sources/means by the Bank during the year ended 31 December 2017 had been channeled to the donation/charity fund as disclosed in Note 42; and
- (f) The financial statements of the Bank for the year ended 31 December 2017 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.



Assoc. Prof. Dr. Aznan Hasan
Chairman of the Committee



Assoc. Prof. Dr. Ahcene Lahsasna
Member of the Committee

Kuala Lumpur, Malaysia
20 February 2018

787435-M

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Maybank Islamic Berhad ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 162.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

787435-M

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

Information other than the financial statements and auditors' report thereon (cont'd.)

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

787435-M

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

Auditors' responsibilities for the audit of the financial statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

787435-M

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

Auditors' responsibilities for the audit of the financial statements (cont'd.)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia
20 February 2018



Muhammad Syarifzal Bin Abdul Rahim

No. 03157/01/2019 J

Chartered Accountant

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Cash and short-term funds	5	17,134,359	15,535,992
Deposits and placements with banks and other financial institutions	6	-	651,558
Financial assets at fair value through profit or loss	7(i)	240,571	252,451
Financial investments available-for-sale	7(ii)	9,882,004	8,719,654
Financial investments held-to-maturity	7(iii)	2,731,560	-
Financing and advances	8	162,072,685	148,523,310
Derivative assets	9	487,989	515,554
Other assets	10	6,690,982	4,506,551
Statutory deposit with Bank Negara Malaysia	11	3,242,000	3,070,000
Deferred tax assets	18	12,903	19,487
Total assets		202,495,053	181,794,557
Liabilities			
Customers' funding:			
- Deposits from customers	12	129,897,440	106,604,492
- Investment accounts of customers ¹	13	24,555,445	31,544,587
Deposits and placements of banks and other financial institutions	14	28,238,141	30,342,006
Bills and acceptances payable		8,854	53,220
Financial liabilities at fair value through profit or loss	15	892,695	902,091
Derivative liabilities	9	650,320	535,161
Other liabilities	16	310,393	91,739
Provision for taxation and zakat	17	148,373	98,090
Term funding	19	4,945,437	-
Subordinated sukuk	20	2,534,105	2,534,496
Capital securities	21	1,002,441	-
Total liabilities		193,183,644	172,705,882

¹ Investment accounts of customers are used to fund financing and advances as disclosed in Note 13.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2017 (cont'd.)

	Note	2017 RM'000	2016 RM'000
Equity attributable to equity holder of the Bank			
Share capital	22	5,481,783	281,556
Share premium	23	-	5,200,227
Retained profits	23	3,351,547	2,857,087
Other reserves	23	478,079	749,805
		<u>9,311,409</u>	<u>9,088,675</u>
Total liabilities and shareholder's equity		<u>202,495,053</u>	<u>181,794,557</u>
Commitments and contingencies	36	<u>53,463,406</u>	<u>52,067,915</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

Income statement
For the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Income derived from investment of depositors' funds	24	7,032,548	6,132,907
Income derived from investment of investment account funds	25	1,526,848	1,613,812
Income derived from investment of shareholder's funds	26	296,780	315,364
Allowances for impairment losses on financing and advances	27	<u>(210,063)</u>	<u>(381,836)</u>
Total distributable income		8,646,113	7,680,247
Profit distributed to depositors	28	(3,989,634)	(3,463,225)
Profit distributed to investment account holders		<u>(913,276)</u>	<u>(1,079,875)</u>
Total net income		3,743,203	3,137,147
Overhead expenses	29	(1,340,351)	(1,233,110)
Finance cost	31	<u>(137,092)</u>	<u>(122,267)</u>
Profit before taxation and zakat		2,265,760	1,781,770
Taxation	32	(510,150)	(427,444)
Zakat		<u>(18,526)</u>	<u>(16,599)</u>
Profit for the year		<u>1,737,084</u>	<u>1,337,727</u>
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	33	<u>617.0</u>	<u>495.5</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of comprehensive income
For the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Profit for the year		1,737,084	1,337,727
Other comprehensive income/(loss):			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net gain/(loss) on financial investments available-for-sale		30,185	66,616
Income tax relating to components of other comprehensive income	18	<u>(7,239)</u>	<u>(17,387)</u>
Other comprehensive income/(loss) for the financial year, net of tax		<u>22,946</u>	<u>49,229</u>
Total comprehensive income for the year, net of tax		<u>1,760,030</u>	<u>1,386,956</u>
Total comprehensive income attributable to:			
Equity holder of the Bank		<u>1,760,030</u>	<u>1,386,956</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the year ended 31 December 2017

	←----- Non-distributable ----->						Distributable	
	Share capital (Note 22) RM'000	Share premium (Note 23) RM'000	Equity contribution from the holding company (Note 23) RM'000	Statutory reserve (Note 23) RM'000	AFS reserve (Note 23) RM'000	Regulatory reserve (Note 23) RM'000	Retained profits (Note 23) RM'000	Total equity RM'000
At 1 January 2017	281,556	5,200,227	1,697	409,672	(55,264)	393,700	2,857,087	9,088,675
Profit for the year	-	-	-	-	-	-	1,737,084	1,737,084
Other comprehensive income					22,946			22,946
Total comprehensive income for the year	-	-	-	-	22,946	-	1,737,084	1,760,030
Transfer to regulatory reserve	-	-	-	-	-	115,000	(115,000)	-
Transfer from statutory reserve	-	-	-	(409,672)	-	-	409,672	-
Transfer from share premium	5,200,227	(5,200,227)	-	-	-	-	-	-
Dividend on ordinary shares (Note 34)	-	-	-	-	-	-	(1,537,296)	(1,537,296)
Total transactions with shareholder/ other equity movements	5,200,227	(5,200,227)	-	(409,672)	-	115,000	(1,242,624)	(1,537,296)
At 31 December 2017	5,481,783	-	1,697	-	(32,318)	508,700	3,351,547	9,311,409

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the year ended 31 December 2016 (cont'd.)

	<----- Non-distributable ----->						Distributable		
	Share capital (Note 22) RM'000	Share premium (Note 22) RM'000	Equity contribution from the holding company (Note 23) RM'000	Statutory reserve (Note 23) RM'000	AFS reserve (Note 23) RM'000	Profit equalisation reserve (Note 23) RM'000	Regulatory reserve (Note 23) RM'000	Retained profits (Note 23) RM'000	Total equity RM'000
At 1 January 2016	263,959	4,658,232	1,697	409,672	(104,493)	34,456	430,249	2,572,819	8,266,591
Profit for the year	-	-	-	-	-	-	-	1,337,727	1,337,727
Other comprehensive income	-	-	-	-	49,229	-	-	-	49,229
Total comprehensive income for the year	-	-	-	-	49,229	-	-	1,337,727	1,386,956
Transfer from regulatory reserve	-	-	-	-	-	-	(36,549)	36,549	-
Issue of ordinary shares	17,597	541,995	-	-	-	-	-	-	559,592
Dividend on ordinary shares (Note 34)	-	-	-	-	-	-	-	(1,124,464)	(1,124,464)
Transfer from profit equalisation reserve	-	-	-	-	-	(34,456)	-	34,456	-
Total transactions with shareholder / other equity movements	17,597	541,995	-	-	-	(34,456)	(36,549)	(1,053,459)	(564,872)
At 31 December 2016	281,556	5,200,227	1,697	409,672	(55,264)	-	393,700	2,857,087	9,088,675

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2017

	2017 RM'000	2016 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	2,265,760	1,781,770
Adjustments for:		
Amortisation of premium less accretion of discount	(75,266)	(125,463)
Allowances for losses on financing and advances	261,639	553,247
Unrealised (gains)/losses on revaluation of derivatives	(6,508)	24,789
Unrealised losses/(gains) on revaluation of financial assets at fair value through profit or loss	9	(44)
Unrealised losses/(gains) on revaluation of financial liabilities at fair value through profit or loss	9,582	(15,068)
Gains on sale of financial investments available-for-sale	(9,317)	(25,297)
Gains on sale of financial assets at fair value through profit or loss	(459)	(2,821)
Losses on foreign exchange translations	11,926	169,846
Share options granted under ESS	511	1,007
Finance cost	137,092	-
Operating profit before working capital changes	<u>2,594,969</u>	<u>2,361,966</u>
Change in deposits and placements with banks and other financial institutions	651,558	(651,558)
Change in cash and short-term funds with original maturity of more than three months	201,263	103,515
Change in financial investments portfolio	(3,767,262)	575,949
Change in financing and advances	(13,811,014)	(18,910,209)
Change in derivative assets and liabilities	149,232	(95,048)
Change in other assets	(2,184,431)	(832,558)
Change in statutory deposit with Bank Negara Malaysia	(172,000)	764,000
Change in deposits from customers	23,292,948	818,276
Change in deposits and placements of banks and other financial institutions	(2,115,791)	8,827,587
Change in investment accounts of customers	(6,989,142)	13,886,694
Change in financial liabilities at fair value through profit or loss	(18,528)	917,160
Change in bills and acceptances payable	(44,366)	19,664
Change in other liabilities	218,143	74,114
Cash (used in)/generated from operating activities	<u>(1,994,421)</u>	<u>7,859,552</u>
Taxes and zakat paid	(479,048)	(354,945)
Net cash (used in)/generated from operating activities	<u>(2,473,469)</u>	<u>7,504,607</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2017 (cont'd.)

	Note	2017 RM'000	2016 RM'000
Cash flows from financing activities			
Proceeds from issuance of shares		-	559,592
Dividend paid		(1,537,296)	(1,124,464)
Dividend paid for Subordinated sukuk		(118,141)	(115,732)
Issuance of capital securities		1,000,000	-
Drawdown of term funding		4,942,215	-
Dividend paid for term funding		(13,679)	-
Net cash generated from/(used in) financing activities		<u>4,273,099</u>	<u>(680,604)</u>
Net increase in cash and cash equivalents		1,799,630	6,824,003
Cash and cash equivalents at beginning of year		<u>15,334,729</u>	<u>8,510,726</u>
Cash and cash equivalents at end of year		<u>17,134,359</u>	<u>15,334,729</u>
Cash and cash equivalents comprise:			
Cash and short term funds	5	17,134,359	15,535,992
Deposits and placements with banks and other financial institutions	6	-	651,558
		<u>17,134,359</u>	<u>16,187,550</u>
Less: Cash and short-term funds with original maturity of more than three months		-	(852,821)
		<u>17,134,359</u>	<u>15,334,729</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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

Notes to the financial statements - 31 December 2017

1. Corporate information

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services. There were no significant changes in these activities during the financial year.

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 15th Floor, Tower A Dataran Maybank, 1, Jalan Maarof, 59000 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.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 20 February 2018.

2. Accounting policies

2.1 Basis of preparation and presentation of the financial statements

The financial statements of the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965 in Malaysia.

On 15 September 2016, the Companies Act 2016 ("New Act") was enacted to replace the Companies Act, 1965 in Malaysia with the New Act became effective on 31 January 2017. The key changes of the New Act are disclosed in Note 3(xxiii).

The financial statements of the Bank have been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies disclosed in Note 3.

The Bank presents the statement of financial position in the order of liquidity.

Financial assets and financial liabilities are offset and the net amounts are reported in the statement of financial position of the Bank only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement of the Bank unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies

(i) 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. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Financial assets within the scope of MFRS 139 are classified as financial assets at fair value through profit or loss, financing and advances and financial investments available-for-sale. The classification of financial assets at initial recognition depends on the purpose and the management's intention for which the financial assets were acquired and their characteristics. The Bank determines the classification of financial assets at initial recognition, in which the details are disclosed below.

Included in financial assets are the following:

(1) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial assets designated at FVTPL upon initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by MFRS 139.

For financial assets designated at FVTPL, upon initial recognition the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

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

**(1) Financial assets at fair value through profit or loss ("FVTPL")
(cont'd.)**

Included in financial assets designated at FVTPL are derivatives (including separated embedded derivatives), debt securities and equities.

Subsequent to initial recognition, financial assets held-for-trading and financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in the income statement under the caption of 'other operating income'.

(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 bank balances and financing and advances and other receivables. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective yield method, less accumulated impairment losses.

(3) Financial investments held-to-maturity ("HTM")

Financial investments HTM are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Bank have the intention and ability to hold to maturity.

Subsequent to initial recognition, financial investments HTM are measured at amortised cost using the effective interest method, less accumulated impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in the income statement under the caption of 'finance income and hibah'. The losses arising from impairment and the gain or loss arising from derecognition of such investments are recognised in the income statements.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

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

(3) Financial investments held-to-maturity ("HTM") (cont'd.)

If the Bank were to sell or reclassify more than an insignificant amount of financial investments HTM before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as financial investments available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial investments as held-to-maturity over the following two (2) years. During the financial year ended 31 December 2017, the Bank did not reclassify any of its financial investments HTM as financial investments available-for-sale.

(4) Financial investments available-for-sale ("AFS")

Financial investments AFS are financial assets that are not classified in any of the three (3) preceding categories.

Financial investments AFS include equity and debt securities. Financial investments in this category 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 conditions.

After initial recognition, financial investments AFS are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and in the 'AFS reserves', except for impairment losses, foreign exchange gains or losses on monetary financial assets and profit income calculated using the effective profit method are recognised in the income statement. Dividends on financial investments AFS are recognised in the income statement when the Bank's right to receive payment is established. When the Bank derecognises financial investments AFS, the cumulative unrealised gain or loss previously recognised in the 'AFS reserves' is reclassified to the income statement under the caption of 'other operating income'.

(c) Derecognition

A financial asset is derecognised when:

- (1) The rights to receive cash flows from the financial asset have expired; or

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(c) Derecognition (cont'd.)

A financial asset is derecognised when (cont'd.):

(2) The Bank has transferred its rights to receive cash flows from the financial asset or have 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:

(i) the Bank has transferred substantially all the risks and rewards of the financial asset, or

(ii) the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Bank has transferred its rights to receive cash flows from a financial asset or has entered into a "pass through" arrangement, they evaluate to what extent they have retained the risks and rewards of ownership. When the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset and have not transferred control of the financial asset, the Bank continues to recognise the transferred financial asset to the extent of the Bank's continuing involvement in the financial asset. In that case, the Bank also recognises an associated financial liability. The transferred financial asset and associated financial liability are measured on a basis that reflect the rights and obligations that the Bank has retained.

(d) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset, including security or a group of securities (other than financial assets at FVTPL) 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 (1) 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 customer or a group of customers experiencing significant financial difficulty, the probability that they will enter bankruptcy or other reorganisation, default or delinquency in profit or principal payments or where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables

(i) Financing and advances

Classification of financing and advances as impaired

Financing and advances are classified as impaired when:

- Principal or profit or both are past due more than three (3) months; or
- Financing and advances in arrears for less than three (3) months which exhibit indications of credit weaknesses; or
- Impaired financing and advances has been rescheduled or restructured, the financing and advances will continue to be classified as impaired until repayments based on the rescheduled or restructured terms have been observed continuously for a period of six (6) months; or
- Default occurs for repayments scheduled on intervals of three (3) months or longer.

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 loss is measured as the difference between the carrying amount of the financing and advances and the present value of the estimated future cash flows discounted at the original effective yield/profit rate of the financing and advances. The carrying amount of the financing and advances is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statement.

Impairment process – collective assessment

Financing and advances which are not individually significant and that have been individually assessed with no evidence of impairment loss are grouped together for collective 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 to collateral ratios etc.) and concentrations of risks (such as the performance of different individual groups) are taken into consideration.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables (cont'd.)

(i) Financing and advances (cont'd.)

Impairment process – collective assessment (cont'd.)

Future cash flows in a group of financing and advances that are collectively evaluated for impairment are estimated based on the historical loss experience of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do 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 a group 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.

Impairment process – subsequent measurement

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or written back by adjusting the allowances for impairment losses on financing and advances account.

Impairment process – written-off accounts

When there is no realistic prospect of future recovery, the financing and advances are written off against the related allowance for impairment. Such financing and advances are written-off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts which were previously written-off are recognised in the income statement under the caption of 'allowances for impairment losses on financing and advances'.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(1) Financing and receivables (cont'd.)

(ii) Other receivables

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Bank consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statements.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statements.

(2) Financial investments available-for-sale ("AFS")

For financial investments AFS, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as financial investments AFS, the objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Bank treats "significant" generally as 25% and "prolonged" generally as four (4) consecutive quarters. When there is evidence of impairment, the cumulative loss (which is measured as the difference between the acquisition cost and the current fair value, less any accumulated impairment loss on that investment previously recognised in the income statement) that had been recognised in other comprehensive income is reclassified from equity to 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)**

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

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

(2) Financial investments available-for-sale ("AFS") (cont'd.)

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 for unquoted equity securities is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition until actual cash is received.

For quoted equity securities, its impairment losses are not reversed subsequent to its recognition until such equities are disposed.

In the case of debt instruments classified as financial investments AFS, the impairment is assessed based on the same criteria as financial investments HTM. 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 accumulated impairment loss on that investment previously recognised in the income statement.

Future profit income continues to be accrued based on the reduced carrying amount of asset by using the rate of profit which is used to discount the future cash flows for the purpose of measuring the impairment loss. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(3) Financial Instruments held-to-maturity ("HTM")

For financial investments HTM, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. If there is objective evidence of impairment on financial investments HTM, impairment loss is measured as the difference between the carrying amount of the financial investments HTM and the present value of the estimated future cash flows discounted at the original effective yield rate of the financial investments HTM. The carrying amount of the financial investments HTM is reduced through the use of an impairment allowance account and the amount of the impairment loss is recognised in the income statement.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

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

(3) Financial Instruments held-to-maturity ("HTM") (cont'd.)

Subsequent reversals in the impairment loss are recognised when the decrease can be objectively related to an event occurring after the impairment loss was recognised. The reversal should not result in the carrying amount of the asset that exceeds what its amortised cost would have been at the reversal date had the impairment not been recognised. The reversal is recognised in the income statement.

(e) Reclassification of financial assets

The Bank may choose to reclassify non-derivative assets out of the financial assets at FVTPL 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 financial assets at FVTPL or financial investments AFS 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.

For a financial asset reclassified out of the financial investments AFS, any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the asset using the effective yield method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective yield method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. The Bank did not reclassify any financial instrument into the FVTPL category after initial recognition or reclassify any financial instrument out of financial investments AFS during the current and previous financial year.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(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. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(1) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities HFT and financial liabilities designated upon initial recognition at FVTPL.

Financial liabilities held-for-trading

Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivatives entered into by the Bank that do not meet the hedge accounting criteria.

Gains or losses on financial liabilities HFT are recognised in the income statements.

Financial liabilities designated at fair value

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in MFRS 139 are satisfied.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

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

(1) Financial liabilities at FVTPL (cont'd.)

Financial liabilities designated at fair value (cont'd.)

Effective on 1 January 2016, the Bank have adopted Fair Value Option ("FVO") for certain financial liabilities under MFRS 139. The Bank have designated certain financial liabilities namely, structured deposits and term fundings containing embedded derivatives at Fair Value Through Profit or Loss ("FVTPL") upon inception. This FVO adoption will be applied prospectively. As a result of this adoption, the Bank have presented 'Financial liabilities at fair value through profit or loss', as a separate line item on the face of statement of financial position of the Bank. Details of the financial liabilities at FVTPL are disclosed in Note 15.

(2) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, investment accounts of customers, deposits and placements of banks and other financial institutions, debt securities (including term fundings), payables, bills and acceptances payable and other liabilities.

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

Deposits from customers, investment accounts of customers, deposits and placements of banks and other financial institutions are stated at placement values. Profit expense of deposits from customers, investment accounts of customers and deposits and placements from banks and other financial institutions measured at amortised cost is recognised as it accrued using the effective yield method.

(2) Debt securities

Debt securities issued by the Bank 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 notes/sukuk, Innovative Tier I/Stapled Capital Securities and term fundings.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

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

(2) Other financial liabilities (cont'd.)

(2) Debt securities (cont'd.)

These debt securities are 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 profit 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 term fundings 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.

(4) Bills and acceptances payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are measured at amortised cost using the effective yield method.

(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.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. 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. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in the income statement.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position of the Bank if there is a current legal enforceable right to offset the recognised amount and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The financial assets and financial liabilities of the Bank that are subject to offsetting, enforceable master netting arrangements and similar agreements are disclosed in Note 39.

(iv) Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

The Bank trades derivatives such as profit rate swaps, foreign exchange swap, forward foreign exchange contracts and options on profit rates and foreign currencies.

Derivative financial instruments are initially recognised at fair value. For non-option derivatives, their fair value are normally zero or negligible at inception. For purchased or written options, their fair value are equivalent to the market premium paid or received. The derivatives are subsequently remeasured 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)**

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(iv) 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 risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

Hedge ineffectiveness is recognised in the income statement. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

(1) Fair value hedge

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying amount of the hedged item in the statement of financial position and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying amount is amortised over the remaining term of the hedge using the effective yield method. Effective yield rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(iv) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting (cont'd.)

(1) Fair value hedge (cont'd.)

The Bank did not apply fair value hedge as at the end of the current and previous financial year.

(2) Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument previously recognised as other comprehensive income is transferred to the corresponding income or expense line of the income statement.

When a hedging instrument expires, or is sold, terminated, exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

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 end of the current and previous financial year.

(3) Net investment hedge

Net investment hedge including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, while any gain or loss relating to the ineffective portion is recognised immediately in the income statement.

On disposal of the foreign operations, the cumulative amount of any such gains or losses recognised in other comprehensive income is transferred to the income statement.

Maybank Islamic Berhad
(Incorporated in Malaysia)

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(iv) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting (cont'd.)

(3) Net investment hedge (cont'd.)

The Bank did not apply cash flow hedge as at end of the current and previous financial year.

(v) 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.

(vi) Other assets

Included in other assets are other debtors, amount due from brokers and clients, prepayments and deposits and tax recoverable.

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 balances as at the reporting date.

(vii) Cash and short-term funds

Cash and short-term funds in the statement of financial position comprise cash balances and deposits with financial institutions and money at call with a maturity of one month or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash and short-term funds, and deposits and placements with financial institutions, with the original maturity of 3 months or less.

(viii) Impairment of non-financial assets

The carrying amounts of non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is such indication or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit ("CGU")'s fair value less costs to sell and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Maybank Islamic Berhad
(Incorporated in Malaysia)

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(viii) Impairment of non-financial assets (cont'd.)

The Bank bases its value-in-use calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGU to which the individual assets are allocated. 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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For other non-financial assets, an assessment is made at each reporting date as to whether any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

(ix) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) 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.

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. Any increase in the provision due to the passage of time is recognised in the income statement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and recognised in income statement.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(x) Foreign currencies

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM") which is the Bank's functional and presentation currency.

(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 functional currency spot rate of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the income statement.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot 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 spot exchange rates at the date when the fair value was determined.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statement for the financial year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income.

(xi) Income and deferred taxes

(a) Income tax

Current tax assets/recoverable and current tax liabilities/provisions are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Income taxes for the year comprises current and deferred taxes.

Current tax expense relating to items recognised directly in equity, is recognised in other comprehensive income or in equity and not in the income statements.

Details of income taxes for the Bank are disclosed in Note 32.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xi) Income and deferred taxes (cont'd.)

(b) Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

- (i) when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xi) Income and deferred taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Details of deferred tax assets and liabilities are disclosed in Note 18.

(xii) Zakat

This represents 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%. The beneficiaries of the zakat fund are determined by the Zakat Committee and subject to the approval of the Shariah Committee.

(xiii) Fair value measurement

The Bank measures financial instruments such as financial assets at FVTPL, financial liabilities designated at FVTPL, financial investments AFS and derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xiii) Fair value measurement (cont'd.)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value hierarchies of financial instruments that are measured at fair value are disclosed in Note 38(c).

While the fair value hierarchies of financial instruments that are not measured at fair value, for which the fair value is disclosed are presented in Note 38(g).

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xiv) Income recognition

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

The effective yield 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 yield 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 yield/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.

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

(xv) 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.

(xvi) Financing and related expense recognition

Finance cost and income attributable to deposits and term-fundings of the Bank are amortised using the effective yield method.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xvii) Employee benefits

(a) Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the income statement 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 as an expense in the income statement 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.

(c) Share-based compensation

(i) Employee Share Option Scheme ("ESOS")

The ESOS is an equity-settled share-based compensation plan that allows the Bank's Directors and employees to acquire shares of the holding company. 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 holding company 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 holding company revises its estimates of the number of options that are expected to become exercisable over the vesting date.

Maybank Islamic Berhad
(Incorporated in Malaysia)

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xvii) Employee benefits (cont'd.)

(c) Share-based compensation (cont'd.)

(ii) Restricted share units ("RSU")

Senior management personnel of the bank 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 holding company shares or by cash at the absolute discretion of the Employees' Share Scheme ("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 holding company'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.

At each reporting date, the holding company revises its estimates of the number of RSU that are expected to be awarded on vesting date.

(xviii) Share capital and dividends declared

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Transaction costs directly attributable to the issuance of new equity shares are taken to equity as a deduction against the issuance proceeds.

Dividends declared on ordinary shares are recognised as a liability and deducted from equity in the period in which all relevant approvals have been obtained.

(xix) Contingent assets and contingent liabilities

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. The Bank does not recognise contingent assets but discloses its existence when inflows of economic benefits are probable, but not virtually certain.

Maybank Islamic Berhad
(Incorporated in Malaysia)

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xix) Contingent assets and contingent liabilities (cont'd.)

Contingent liabilities are possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably. The Bank does not recognise contingent liabilities. Contingent liabilities are disclosed, unless the probability of outflow of economic benefits is remote.

(xx) Earnings per share

The Bank presents basic and diluted (where applicable) earnings per share ("EPS") for profit or loss from continuing operations attributable to the ordinary equity holders of the Bank on the face of the income statement.

Basic and diluted EPS are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

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

RPSIA placements are used to fund specific financing and are based on the principle of Mudharabah whereby profits will be shared between the Bank as Mudharib and the investors as Rabbul Mal whereas losses shall be borne solely by the investors. These placements and financing are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 139. Any impairment allowances required on the financing are not recognised in the profit or loss of the Bank but charged to and borne by the investors.

All assets financed by the RPSIA are excluded from the computation of Collective Allowance and Capital ratio as disclosed in Notes 8 and 41 respectively.

2.3 Changes in accounting policies and disclosures

On 1 January 2017, the Bank adopted the following amendments to MFRS and annual improvements to MFRSs:

Description	Effective for annual periods beginning on or after
MFRS 107 <i>Statement of Cash Flows</i> - Disclosure Initiative (Amendments to MFRS 107)	1 January 2017
MFRS 112 <i>Income Taxes</i> - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017

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

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

The nature and impact of these amendments to MFRSs are disclosed below:

MFRS 107 *Statement of Cash Flows* - Disclosure Initiative (Amendments to MFRS 107)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (for example, foreign exchange movements and fair value changes).

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. On initial application of these amendments, entities are not required to provide comparative information for preceding periods. Application of the amendments have not resulted in any additional disclosures to be provided by the Bank as the movements in financing activities only relate to cash flows movements as presented in the Statement of Cash Flows.

MFRS 112 *Income Taxes* - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that deductible tax difference will arise from unrealised losses of debt instruments classified at fair value regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument.

In circumstances where tax law restricts the utilisation of tax losses such that an entity can only deduct the tax losses against income of a specified type, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments also clarify that when estimating taxable profit of future periods, an entity can assume that an asset will be recovered for more than its carrying amount if that recovery is probable and the asset is not impaired. All relevant facts and circumstances should be assessed when making this assessment.

In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The amendments should be applied retrospectively. However, on initial application of the amendments, adjustment to the opening equity of the earliest comparative period may be recognised in opening retained earnings, without allocating the change between retained earnings and other components of equity. If this relief is applied, the entity must disclose this fact.

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

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

The nature and impact of these amendments to MFRSs are disclosed below (cont'd.):

**MFRS 112 Income Taxes - Recognition of Deferred Tax for Unrealised Losses
(Amendments to MFRS 112) (cont'd.)**

The Bank have been recognising deferred tax assets based on the requirements in the amendments. Thus, the amendments do not have any impact to the financial statements of the Bank.

2.4 Significant changes in regulatory requirements

Companies Act 2016

The Companies Act 2016 ("New Act") was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representative) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, would be on 31 January 2017.

Amongst the key changes introduced in the New Act which will affect the financial statements of the Bank upon the commencement of the New Act on 31 January 2017 are:

- the removal of the authorised share capital;
- the ordinary shares of the Bank will cease to have par or nominal value; and
- the Bank's share premium will become part of the share capital.

During the financial period ended 31 December 2017, the Bank has transferred RM5.2 billion share premium to its share capital. Pursuant to Section 618(3) of the New Act, the Bank has twenty four (24) months to utilise the amount of share premium that has been transferred to share capital.

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

2. Accounting policies (cont'd.)

2.4 Significant changes in regulatory requirements(cont'd.)

Revised Policy Document on Capital Funds for Islamic Banks issued by Bank Negara Malaysia ("BNM")

On 3 May 2017, BNM issued a Revised Policy Document on Capital Funds for Islamic Banks ("Revised Policy Document"). This Revised Policy Document applies to banking institutions in Malaysia that cover licensed Islamic bank. The issuance of this Revised Policy Document has superseded guidelines issued by BNM previously, namely Capital Funds for Islamic Banks dated 1 July 2013.

The key changes in the Revised Policy Document are:

- (i) the removal of the requirement on maintenance of a reserve fund; and
- (ii) the revised component of capital funds shall exclude share premium and reserve fund.

Upon adoption of the Revised Policy Document, the Bank has transferred RM409.7 million statutory reserve to retained earnings as at 31 December 2017.

Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 and Islamic Financial Services Act 2013 issued by Bank Negara Malaysia ("BNM")

On 21 June 2017, BNM issued a Policy Document on Classification and Regulatory Treatment for Structured Products under the Financial Services Act 2013 ("FSA") and Islamic Financial Services Act 2013 ("IFSA"). This Policy Document applies to banking institutions in Malaysia that covers licensed commercial bank and licensed Islamic bank.

The Policy Document clarifies that structured products that do not guarantee full repayment of principal amount on demand do not fulfill the definition of deposits under Section 2 of the FSA and IFSA and hence must not be classified as deposits or Islamic deposits.

In terms of financial reporting, insofar that the structured product is bifurcated, the principal amount shall not be reported under the "deposit", "Islamic deposit" or "investment account" line items in the banking institutions' financial statements. Effective from June 2017 reporting date onwards, banking institutions shall report structured products (in accordance with the accounting treatment adopted) under either of these items:

- "Financial Liabilities Designated at Fair Value through Profit or Loss" if applying fair value options; or
- "Other Liabilities" if accounted for separately from the embedded derivative.

The adoption of the Policy Document will not have any financial effects on the Bank's financial results for the current financial year ending 31 December 2017.

**Maybank Islamic Berhad
(Incorporated in Malaysia)****3. Significant accounting judgements, estimates and assumptions**

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Although these estimates and judgements are based on management's best knowledge of current events and actions, actual results may differ. The most significant uses of judgements and estimates are as follows:

3.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Impairment of financial investments portfolio (Note 7)

The Bank reviews its financial investments AFS and financial investments HTM at each reporting date to assess whether there are any objective evidence that these investments are impaired. If there are indicators or objective evidence, these investments are subjected to impairment review.

In carrying out the impairment review, the following management's judgements are required:

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

3.3 Fair value estimation of financial assets at FVTPL (Note 7), financial investments AFS (Note 7), derivative financial instruments (Note 9) and financial liabilities designated at FVTPL (Note 15)

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair values are measured using valuation techniques. Valuation techniques include the discounted cash flows method, option pricing models, credit models and other relevant valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Refer to Note 38 for further disclosures.

**Maybank Islamic Berhad
(Incorporated in Malaysia)****3. Significant accounting judgements, estimates and assumptions (cont'd.)****3.4 Impairment losses on financing and advances (Notes 8 and 27)**

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the obligor's or the customer's financial situation and the net realisable value of collateral. 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 that have been assessed individually but for which no impairment is required and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar credit risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects of which are not yet evident. The collective assessment takes account of data from the financing and advances portfolio (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgements on the effect of concentrations of risks (such as the performance of different individual groups).

3.5 Deferred tax (Note 18) and income taxes (Note 32)

The Bank is subject to income taxes in Malaysia and significant judgement 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 advice on the tax treatments 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.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Maybank Islamic Berhad
(Incorporated in Malaysia)

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective

The following are standards, annual improvements to standards and IC Interpretation issued by Malaysian Accounting Standards Board (“MASB”), but not yet effective, up to the date of issuance of the Bank’s financial statement. The Bank intends to adopt these standards, annual improvements to standards and IC Interpretation, if applicable, when they become effective.

Except for the new or revised MFRSs discussed below, there are no other standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods.

Description	Effective for annual periods beginning on or after
• MFRS 2 <i>Share-based Payment</i> - Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
• MFRS 9 <i>Financial Instruments</i> (IFRS 9 issued by IASB in July 2014)	1 January 2018
• MFRS 9 <i>Financial Instruments</i> - Prepayment features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
• MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
• MFRS 16 <i>Leases</i>	1 January 2019
• Annual Improvements to MFRSs 2014-2016 Cycle (i) Amendments to MFRS 1 <i>First-time Adoption of Malaysian Financial Reporting Standards</i>	1 January 2018
• IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
• IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
• Annual Improvements to MFRSs 2015-2017 Cycle (i) Amendments to MFRS 3 <i>Business Combinations</i> and MFRS 11 <i>Joint Arrangements</i>	1 January 2019
(ii) Amendments to MFRS 112 <i>Income Tax</i>	1 January 2019
(iii) Amendments to MFRS 123 <i>Borrowing Costs</i>	1 January 2019

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 2 *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The amendments address three main areas:

- (i) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- (ii) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- (iii) Accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. Specific transition provisions apply. The Bank is assessing the potential impact of the amendments on the financial statements.

MFRS 9 *Financial Instruments*

The International Accounting Standards Board ("IASB") issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

MFRS 9 is issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates. The areas with expected significant impact from application of MFRS 9 are summarised below:

(i) Classification and measurement

MFRS 9 requires financial assets to be classified on the basis of two criteria:

- (1) The business model within financial assets are managed; and
- (2) The contractual cash flows characteristics.

Maybank Islamic Berhad
(Incorporated in Malaysia)

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 Financial Instruments (cont'd.)

(i) Classification and measurement (cont'd.)

At initial recognition, each financial assets will be classified as either amortised cost, fair value through other comprehensive income ("FVOCI"), or FVTPL as summarised in below table:

Amortised Cost	Fair Value	
	FVOCI	FVTPL
<ul style="list-style-type: none"> Debt instruments will be measured at amortised cost if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest. 	<ul style="list-style-type: none"> Debt instruments will be measured at FVOCI if the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual cash flows represent solely payments of principal and interest. Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, to measure changes through FVOCI (i.e. without recycling profit or loss upon derecognition). 	<ul style="list-style-type: none"> Debt instruments will be measured at FVTPL if the assets are held for trading or if the assets do not qualify to be held at amortised cost or at FVOCI. Equity instruments that are not elected for FVOCI (without recycling to profit or loss upon derecognition) will be measured at FVTPL. All derivatives will be measured at FVTPL.

Classification and measurement of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at FVTPL to be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

(ii) Impairment

The MFRS 9 impairment requirements are based on an Expected Credit Loss ("ECL") model that replaces the Incurred Loss model under MFRS 139. The ECL model applies to financial assets measured at amortised cost or financial assets that are debt instruments measured at FVOCI, irrevocable loan commitments and financial guarantee contracts not measured at FVTPL, which will include loans, advances and financing and debt instruments held by the Bank. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 117 *Leases*.

The measurement of ECL will involve increased complexity and judgement that include:

- Determining significant increase in credit risk since initial recognition

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. Quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Bank will generally be required to apply a three-stage approach based on the change in credit quality since initial recognition:

3 Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Under-performing	Non-performing
ECL Approach	12-month ECL	Lifetime ECL	Lifetime ECL
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit-impaired assets
Interest revenue based on:	Gross carrying amount	Gross carrying amount	Net carrying amount

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

(ii) Impairment (cont'd.)

The measurement of ECL will involve increased complexity and judgement that include (cont'd.):

- ECL Measurement

There are three main components to measure ECL which are a probability of default model ("PD"), a loss given default model ("LGD") and the exposure at default model ("EAD"). The ECL models developed have been leveraged as much as possible on the Bank's existing Basel II models. Necessary adjustments have been made to produce the MFRS 9 ECL models.

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Bank decided to continue measure the impairment on an individual transaction basis for financial assets that are deemed to be individually significant. For detailed information on existing impairment approach under MFRS 139, please refer to Note 3(i)(d).

- Expected Life

Lifetime ECL must be measured over the expected life of each asset. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolving financial instruments such as credit cards and overdrafts. The expected life for these revolving facilities is expected to be the behavioural life which could exceed their contractual life.

- Forward Looking information

ECL are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Reasonable and supportable forward looking information will be based on the Bank's research arm, Maybank Kim Eng ("MKE") Research. In addition, MKE Research's assumptions and analyses would also be based on the collation of macroeconomic data obtained from various sources such as, but not limited to regulators, governments and foreign ministries as well as independent research organisations.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

(iii) Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

The Bank have established an MFRS 9 project co-sponsored by the Group's Chief Financial Officer and the Group's Chief Risk Officer and includes subject matter experts with assistance from external consultants with respect to the planning and implementation of MFRS 9, and external auditors to review and validate the MFRS 9 policies, processes and models. This implementation project consists of the following phases:

(a) Phase 1 - Impact assessment and solution development

This phase involves the following:

- (i) Provide a clear understanding of the new accounting requirements via training and workshops;
- (ii) Perform gap and impact assessment;
- (iii) Understand the interdependencies with other projects; and
- (iv) Develop MFRS 9 blueprint.

(b) Phase 2 - Build, test and deploy

This phase aims to:

- (i) Develop detailed implementation plan;
- (ii) Determine accounting policies to be adopted by the Bank, develop new and modified processes and build MFRS 9 models; and
- (iii) Identify and build optimal solutions for the Bank.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

The Bank have established an MFRS 9 project co-sponsored by the Group's Chief Financial Officer and the Group's Chief Risk Officer and includes subject matter experts with assistance from external consultants with respect to the planning and implementation of MFRS 9, and external auditors to review and validate the MFRS 9 policies, processes and models. This implementation project consists of the following phases (cont'd.):

(c) Phase 3 - Go live

This phase will involve the following:

- (i) Parallel run and deployment of solution tools; and
- (ii) Reassessment of solution tools and conclusion.

The Bank had completed Phase 1 during the financial year ended 31 December 2016, and Phase 2 substantially on 30 June 2017. Phase 3 has commenced on 1 July 2017, covering parallel run on the financial instruments that are impacted by the classification and measurement requirements, and progressively for ECL computation based on the developed impairment models in accordance with acceptable methodologies. During the current financial year, the Bank have also developed its approaches for assessing significant increase in credit risk, incorporating forward looking information, including the probability-weighted outcome of future economic conditions.

The overall governance of MFRS 9 project implementation is through the MFRS 9 Project Steering Committee which includes representation from Finance, Risk, IT and various Business sectors across the different regions and countries within the Maybank Group. The Audit Committee of the Board and the Board of Directors provide effective oversight of the Bank's progress towards implementing MFRS 9.

Overall, the Bank anticipate impacts to the financial statements mainly in the areas of classification and measurement for financial assets, fair value measurement for financial liabilities carried at FVTPL, and impairment measurement. The classification and measurement requirements will affect the presentation and disclosures within the Bank's financial statements, the fair value changes of financial liabilities carried at FVTPL will be recorded mainly within equity via other comprehensive income, whilst the impairment requirements are expected to result in earlier recognition of impairment losses.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* - Prepayment features with Negative Compensation (Amendments to MFRS 9)

Under MFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to MFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments must be applied retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Bank does not anticipate significant impact to the financial statement upon adoption of the amendments.

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The core principle of MFRS 15 is that, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach (i.e. five-step model) to measure and recognise revenue. The five-step model that will apply to revenue recognition under MFRS 15 is as follows:

- 1) Identify the contract(s) with a customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the performance obligations in the contract; and
- 5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. New disclosure requirements under MFRS 15 which include disaggregated information about revenue and information about the performance obligations remaining at the reporting date.

**Maybank Islamic Berhad
(Incorporated in Malaysia)****4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)****MFRS 15 Revenue from Contracts with Customers (cont'd.)**

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under MFRS (including MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for the Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*). Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank adopt the standard on its effective date, using the modified retrospective method of adoption. The standard does not apply to income or revenue associated with financial instruments scoped in MFRS 9 such as loan, advances and financing and financial investment securities.

The Bank have established a project team, with assistance from the various lines of business and finance management to evaluate the potential impact of adopting this standard. The implementation efforts included the scoping of material revenue streams, analysis of underlying contracts, business unit discussion to further assess specific contracts and products and the development of updated disclosures. Based on the completed contracts reviews to date, the potential changes in revenue recognition for those contracts are not expected to result in a material impact to the Bank upon adoption. The project team is developing additional quantitative and qualitative disclosures that will be required upon the adoption of the new revenue recognition standard.

MFRS 16 Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, similar to the accounting for finance leases under MFRS 117. The standard will supersede MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease - Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Lessee

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

MFRS 16 Leases (cont'd.)

(i) Lessee (cont'd.)

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

(ii) Lessor

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Bank is in the process of assessing the financial implication for adopting the new standard and plan to adopt the new standard on the required effective date.

Annual Improvements to MFRSs 2014-2016 Cycle

(i) Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*

The amendments removed a number of short-term exemptions because the reliefs provided are no longer available or because they were relevant for reporting periods that have now passed. The Bank does not anticipate significant impact to the financial statements upon adoption of the amendment.

IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

IC Interpretation 22 addresses the exchange rate that should be used on initial recognition of an asset, expenses or income, when the related consideration was received (or paid) in advance. It requires that the exchange rate to use is the one that applied when the non-monetary asset (or liability) arising from the receipt (or payment) of advance consideration was initially recognised. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (cont'd.)

IC Interpretation 22 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted and must be disclosed. Entities are given two options to apply these amendments:

- (i) retrospectively according to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (ii) prospectively to all assets, expenses and income in the scope of the interpretation initially recognised on or after:
 - the beginning of the reporting period in which the entity first applies the interpretation; or
 - the beginning of a prior reporting period presented as comparative information in the financial statement of the reporting period in which the entity first applies the interpretation.

The Bank does not anticipate significant impact to the financial statements upon adoption of the interpretation.

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

IC Interpretation 23 clarifies application of recognition and measurement requirements in MFRS 112 *Income Taxes* when there is uncertainty over income tax treatments (e.g. when recognising a current tax asset if tax laws require entities to make payments on a disputed tax treatment).

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

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

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

IC Interpretation 23 *Uncertainty over Income Tax Treatments* (cont'd.)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank is in the process of assessing the financial implication and for adopting the interpretation and plan to adopt the new interpretation on the required effective date.

Annual Improvements to MFRSs 2015-2017 Cycle

(i) Amendments to MFRS 3 *Business Combinations* and MFRS 11 *Joint Arrangements*

- MFRS 3 *Business Combinations*

The amendments clarify that if an entity in a joint operation that is a business subsequently obtains control of the joint operation, it must remeasure its previously held interest at the acquisition-date fair value. Any difference between the acquisition-date fair value and previous carrying value is recognised as a gain or loss. The amendments therefore means that when the entity in a joint operation that is a business subsequently obtains control of the joint operation, it applies the same requirements already in MFRS 3 that apply to business combinations achieved in stages.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Bank does not anticipate significant impact to the financial statements upon adoption of the amendments.

- MFRS 11 *Joint Arrangements*

The amendments clarify that if an entity that participates in (but does not have joint control over) a joint operation that is a business subsequently obtains joint control of the joint operation, it must not remeasure its previously held interest. The amendments therefore aligns with the accounting applied to transactions in which an associate becomes a joint venture and vice versa.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Bank does not anticipate significant impact to the financial statements upon adoption of the amendments.

Maybank Islamic Berhad
(Incorporated in Malaysia)

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

(ii) Amendments to MFRS 112 *Income Tax*

The amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

The amendments apply for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Bank does not anticipate significant impact to the financial statements upon adoption of the amendments.

(iii) Amendments to MFRS 123 *Borrowing Costs*

Paragraph 14 of MFRS 123 requires an entity to exclude borrowings made specifically for the purpose of obtaining/constructing a qualifying asset i.e. specific borrowings, when determining the funds that an entity borrows generally i.e. general borrowings and the funds that it uses for the purpose of obtaining/constructing a qualifying asset. The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. Therefore, from that date, the rate applied on those specific borrowings are included in the determination of the capitalisation rate of general borrowings accordingly.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Bank does not anticipate significant impact to the financial statements upon adoption of the amendments.

Maybank Islamic Berhad
(Incorporated in Malaysia)

5. Cash and short-term funds

	2017	2016
	RM'000	RM'000
Cash and balances with banks and other financial institutions	577	340
Money at call and interbank placements with remaining maturity not exceeding one month	<u>17,133,782</u>	<u>15,535,652</u>
	<u>17,134,359</u>	<u>15,535,992</u>

6. Deposits and placements with banks and other financial institutions

	2017	2016
	RM'000	RM'000
Licensed Islamic banks	-	451,188
Licensed investment banks	-	200,370
	<u>-</u>	<u>651,558</u>

7. Financial investments portfolio

	Note	2017	2016
		RM'000	RM'000
Financial assets at fair value through profit or loss	(i)	240,571	252,451
Financial investments available-for-sale	(ii)	9,882,004	8,719,654
Financial investments held-to-maturity	(iii)	2,731,560	-
		<u>12,854,135</u>	<u>8,972,105</u>

(i) Financial assets at fair value through profit or loss

	2017	2016
	RM'000	RM'000
At fair value		
Unquoted securities:		
Foreign Islamic Corporate Sukuk	<u>240,571</u>	<u>252,451</u>
Total financial assets at fair value through profit or loss	<u>240,571</u>	<u>252,451</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

7. Financial investments portfolio (cont'd.)

(ii) Financial investments available-for-sale

	2017 RM'000	2016 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	7,286,200	4,337,818
Negotiable Islamic instruments of deposits	398,541	3,088,513
Bankers' acceptances and Islamic accepted bills	166,173	-
	<u>7,850,914</u>	<u>7,426,331</u>
At fair value, or at cost for certain unquoted equity instruments, less accumulated impairment losses		
Unquoted securities:		
Corporate Sukuk in Malaysia	1,969,825	1,189,659
Foreign Islamic Corporate Sukuk	16,389	53,989
Malaysian Government Sukuk	44,126	48,925
Equity	750	750
	<u>2,031,090</u>	<u>1,293,323</u>
Total financial investments available-for-sale	<u>9,882,004</u>	<u>8,719,654</u>

The maturity profile of money market instruments is as follows:

	2017 RM'000	2016 RM'000
Within one year	665,402	3,186,311
One year to three years	1,778,237	444,148
Three years to five years	575,283	475,241
After five years	4,831,992	3,320,631
	<u>7,850,914</u>	<u>7,426,331</u>

(iii) Financial investments held-to-maturity

	2017 RM'000	2016 RM'000
At amortised cost		
Unquoted Securities:		
Corporate Sukuk in Malaysia	2,731,560	-
Total financial investments held-to-maturity	<u>2,731,560</u>	<u>-</u>

787435-M

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

8. Financing and advances

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

2017	Bai [^] RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al- Bai (AITAB) RM'000	Ijarah RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	5,600,032	-	-	-	78	-	5,600,110
Term financing								
- House financing	17,660,022	63,125,656	2,374,094	-	-	-	-	83,159,772
- Syndicated financing	-	756,158	-	-	-	-	-	756,158
- Hire purchase receivables	-	-	-	37,176,740	-	-	-	37,176,740
- Other term financing	21,635,738	85,917,965	1,200,320	-	124,918	132,001	60,394	109,071,336
Bills receivable	-	226	-	-	-	-	-	226
Trust receipts	-	179,243	-	-	-	-	-	179,243
Claims on customers under acceptance credits	-	4,882,661	-	-	-	-	-	4,882,661
Staff financing	618,934	1,518,560	9,784	152,340	-	-	47,344	2,346,962
Credit card receivables	-	-	-	-	-	-	982,882	982,882
Revolving credit	-	16,726,994	-	-	-	-	-	16,726,994
Financing to:								
- Directors of related companies	2,258	3,626	-	1,221	-	-	29	7,134
	39,916,952	178,711,121	3,584,198	37,330,301	124,918	132,079	1,090,649	260,890,218
Unearned income								(97,335,170)
Gross financing and advances ^{^^}								163,555,048
Allowances for impaired financing and advances:								
- Individual allowance								(661,180)
- Collective allowance								(821,183)
Net financing and advances								162,072,685

[^] Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^{^^} Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA") and Investment Accounts of Customers ("IA").

787435-M

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

8. Financing and advances (cont'd.)

(i) Financing and advances analysed by type and Shariah concepts are as follows (cont'd.):

2016	Bai'^	Murabahah	Musharakah	Al-Ijarah Thumma Al- Bai (AITAB)	Ijarah	Istisna'	Others	Total financing and advances
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cashline	-	4,844,236	-	-	-	157	-	4,844,393
Term financing								
- House financing	19,101,421	59,659,568	2,563,623	-	-	-	-	81,324,612
- Syndicated financing	-	785,260	-	-	-	-	-	785,260
- Hire purchase receivables	-	-	-	36,147,946	-	-	-	36,147,946
- Other term financing	27,660,430	69,777,874	1,339,766	-	118,178	148,079	54,879	99,099,206
Bills receivable	-	793	-	-	-	-	379	1,172
Trust receipts	-	153,310	-	-	-	-	-	153,310
Claims on customers under acceptance credits	-	4,838,297	-	-	-	-	-	4,838,297
Staff financing	737,605	1,372,550	10,546	150,323	-	-	44,793	2,315,817
Credit card receivables	-	-	-	-	-	-	825,658	825,658
Revolving credit	-	16,508,748	-	-	-	-	-	16,508,748
Financing to:								
- Directors of related companies	391	2,932	-	226	-	-	3	3,552
	<u>47,499,847</u>	<u>157,943,568</u>	<u>3,913,935</u>	<u>36,298,495</u>	<u>118,178</u>	<u>148,236</u>	<u>925,712</u>	<u>246,847,971</u>
Unearned income								(96,954,485)
Gross financing and advances^^								<u>149,893,486</u>
Allowances for impaired financing and advances:								
- Individual allowance								(617,350)
- Collective allowance								(752,826)
Net financing and advances								<u><u>148,523,310</u></u>

^ Bai' comprises of Bai-Bithaman Ajil, Bai Al-Inah and Bai-Al-Dayn

^^ Included in financing and advances are the underlying assets under the Restricted Profit Sharing Investment Account ("RPSIA") and Investment Accounts of Customers ("IA").

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd.)

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

	2017	2016
	RM'000	RM'000
Domestic non-banking institutions	4,979,718	5,389,556
Domestic business enterprises		
- Small and medium enterprises	15,290,943	17,140,131
- Others	30,882,117	28,085,529
Government and statutory bodies	14,501,853	8,546,355
Individuals	96,184,530	89,398,021
Other domestic entities	25,455	27,117
Foreign entities in Malaysia	1,690,432	1,306,777
Gross financing and advances	<u>163,555,048</u>	<u>149,893,486</u>

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

	2017	2016
	RM'000	RM'000
Fixed rate		
- House financing	1,197,274	1,411,729
- Hire purchase receivables	32,249,261	31,306,119
- Other financing	27,144,518	27,219,698
Floating rate		
- House financing	35,279,803	30,275,842
- Other financing	67,684,192	59,680,098
Gross financing and advances	<u>163,555,048</u>	<u>149,893,486</u>

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

	2017	2016
	RM'000	RM'000
Purchase of securities	20,351,945	19,549,967
Purchase of transport vehicles	32,223,683	31,285,307
Purchase of landed properties:		
- Residential	35,968,890	30,558,405
- Non-residential	11,223,437	11,448,638
Purchase of fixed assets (excluding landed properties)	40,451	30,867
Personal use	3,540,216	3,293,004
Purchase of consumer durables	330	293
Constructions	3,627,019	3,553,259
Working capital	55,550,728	49,305,842
Credit/charge card	1,028,349	867,904
Gross financing and advances	<u>163,555,048</u>	<u>149,893,486</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd.)

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

	2017	2016
	RM'000	RM'000
Within one year	33,360,524	31,796,935
One year to three years	6,833,097	5,178,971
Three years to five years	13,228,752	14,279,409
After five years	110,132,675	98,638,171
Gross financing and advances	<u>163,555,048</u>	<u>149,893,486</u>

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

	2017	2016
	RM'000	RM'000
Gross impaired financing and advances at 1 January	1,489,286	873,230
Impaired during the financial year	1,289,639	1,399,827
Reclassified as non-impaired	(531,863)	(415,007)
Amount recovered	(396,623)	(237,721)
Amount written off	(139,906)	(131,043)
Gross impaired financing and advances at 31 December	<u>1,710,533</u>	<u>1,489,286</u>

Calculation of ratio of net impaired financing and advances:

Gross impaired financing and advances (excluding financing funded by RPSIA and IA)	1,644,569	1,407,595
Less: Individual allowance	(661,180)	(617,350)
Net impaired financing and advances (excluding financing funded by RPSIA and IA)	<u>983,389</u>	<u>790,245</u>
Gross financing and advances (excluding financing funded by RPSIA and IA)	122,304,503	100,618,436
Less: Individual allowance	(661,180)	(617,350)
Net financing and advances (excluding financing funded by RPSIA and IA)	<u>121,643,323</u>	<u>100,001,086</u>
Ratio of net impaired financing and advances	<u>0.81%</u>	<u>0.79%</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:

	2017	2016
	RM'000	RM'000
Purchase of securities	10,490	14,906
Purchase of transport vehicles	149,452	135,642
Purchase of landed properties:		
- Residential	158,635	117,898
- Non-residential	91,046	79,290
Personal use	20,548	17,375
Purchase of consumer durables	8	14
Constructions	349,422	356,865
Working capital	920,214	759,357
Credit/charge card	10,718	7,939
	<u>1,710,533</u>	<u>1,489,286</u>

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

	2017	2016
	RM'000	RM'000
Individual Allowance		
At 1 January	617,350	208,683
Allowance made (Note 27)	149,083	460,108
Amount written back (Note 27)	(75,632)	(22,583)
Transferred to collective allowance	(5,191)	(3,406)
Amount written-off	(24,430)	(25,452)
At 31 December	<u>661,180</u>	<u>617,350</u>
Collective Allowance		
At 1 January	752,826	747,774
Net allowance made* (Note 27)	178,642	107,237
Transferred from individual allowance	5,191	3,406
Amount written-off	(115,476)	(105,591)
At 31 December	<u>821,183</u>	<u>752,826</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

8. Financing and advances (cont'd.)

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

	2017	2016
Collective Allowance (cont'd.)		
As a percentage of gross financing and advances (excluding financing funded by RPSIA and IA) less individual allowance (including regulatory reserve)	<u>1.20%</u>	<u>1.20%</u>

* As at 31 December 2017, the gross exposure of the financing funded by RPSIA was RM16,695.1 million (31 December 2016: RM17,730.5 million). The individual allowance and collective allowance relating to these financing amounting to RM168.3 million and RM41.5 million (31 December 2016: RM126.7 million and RM52.0 million) respectively is accounted for by the holding company as disclosed in Note 3 (xxi).

The gross exposure of the financing funded by IA as at 31 December 2017 was RM24,555.4 million (31 December 2016: RM31,544.6 million). No individual allowance and collective allowance relating to financing funded by IA are recognised in the financial statements of the Bank, as the credit risk are borne by the investors.

787435-M

**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 year end and are indicative of neither the market risks nor the credit risk.

The Bank enters into derivative financial instruments at the request and on behalf of its customers as well as to hedge the Bank's own exposures and not for speculative purpose.

	2017			2016		
	Principal amount RM'000	Fair value ----->		Principal amount RM'000	Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<u>Trading derivatives</u>						
<u>Foreign exchange related contracts</u>						
Currency forwards:						
- Less than one year	3,978,004	8,805	(223,594)	4,087,372	263,098	(3,724)
- One year to three years	623,903	8,534	(18,294)	-	-	-
	4,601,907	17,339	(241,888)	4,087,372	263,098	(3,724)
Currency swaps:						
- Less than one year	5,451,419	229,285	(152,482)	5,212,700	14,892	(263,997)
Currency spots:						
- Less than one year	270,312	10	(872)	46,449	6	(24)
Currency options:						
- Less than one year	-	-	-	1,794	130	(130)

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

9. Derivative financial instruments (cont'd.)

	2017			2016		
	Principal amount RM'000	<----- Fair value ----->		Principal amount RM'000	<----- Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Trading derivatives (cont'd.)						
<u>Foreign exchange related contracts (cont'd.)</u>						
Cross currency profit rate swaps:						
- One year to three years	632,421	33,862	(33,039)	-	-	-
- More than three years	2,013,315	65,553	(65,553)	668,208	75,201	(73,928)
	2,645,736	99,415	(98,592)	668,208	75,201	(73,928)
<u>Profit rate related contracts</u>						
Profit rate options:						
- More than three years	1,490,000	5,463	(16,789)	1,310,000	5,801	(28,111)
Profit rate swaps:						
- One year to three years	850,000	1,849	(1,789)	750,000	2,700	(2,777)
- More than three years	2,900,620	18,451	(10,341)	2,603,674	25,356	(20,655)
	3,750,620	20,300	(12,130)	3,353,674	28,056	(23,432)
	18,209,994	371,812	(522,753)	14,680,197	387,184	(393,346)

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

9. Derivative financial instruments (cont'd.)

	2017			2016		
	Principal amount RM'000	Fair value ----->		Principal amount RM'000	Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<u>Hedging derivatives</u>						
<u>Foreign exchange related contracts</u>						
Cross currency profit rate swaps:						
- Less than one year	170,607	-	(11,620)	-	-	-
- One year to three years	1,514,854	114,921	(114,921)	1,704,621	127,296	(141,161)
	1,685,461	114,921	(126,541)	1,704,621	127,296	(141,161)
<u>Profit rate related contracts</u>						
Profit rate swaps:						
- Less than one year	-	-	-	1,000,000	368	(368)
- One year to three years	607,500	1,256	(1,026)	672,900	706	(286)
	607,500	1,256	(1,026)	1,672,900	1,074	(654)
	2,292,961	116,177	(127,567)	3,377,521	128,370	(141,815)
Total	20,502,955	487,989	(650,320)	18,057,718	515,554	(535,161)

Maybank Islamic Berhad
(Incorporated in Malaysia)

10. Other assets

	2017	2016
	RM'000	RM'000
Amount due from holding company	6,224,345	3,756,777
Handling fees	171,802	174,548
Prepayments and deposits	269,701	261,520
Margin account with holding company	-	224,220
Other debtors	25,134	89,486
	<u>6,690,982</u>	<u>4,506,551</u>

11. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit maintained with Bank Negara Malaysia is in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as set percentages of total eligible liabilities.

12. Deposits from customers

	2017	2016
	RM'000	RM'000
Savings deposits		
Qard	14,629,050	13,498,385
Demand deposits		
Qard	18,641,198	17,291,694
Term deposits		
Murabahah	94,301,452	73,527,095
Qard	2,325,740	2,287,318
	96,627,192	75,814,413
	<u>129,897,440</u>	<u>106,604,492</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

12. Deposits from customers (cont'd.)

(i) The maturity profile of term deposits are as follows:

	2017	2016
	RM'000	RM'000
Within six months	80,598,476	69,666,272
Six months to one year	14,731,846	6,093,985
One year to three years	1,273,516	30,863
Three years to five years	23,354	23,293
	<u>96,627,192</u>	<u>75,814,413</u>

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

	2017	2016
	RM'000	RM'000
Business enterprises	53,763,542	43,055,514
Individuals	41,154,362	33,237,761
Government and statutory bodies	19,292,571	17,395,634
Others	15,686,965	12,915,583
	<u>129,897,440</u>	<u>106,604,492</u>

13. Investment accounts of customers

(i) Movements in the unrestricted investment accounts of customers are as follows:

	2017	2016
	RM'000	RM'000
<u>Funding inflows/outflows</u>		
At 1 January	31,544,587	17,657,893
New placement during the financial year	57,230,520	99,504,483
Redemption during the financial year	(64,204,910)	(85,637,094)
Profit payable	(14,752)	19,305
At 31 December	<u>24,555,445</u>	<u>31,544,587</u>

(ii) Unrestricted investment accounts are sourced from the following type of customers:

	2017	2016
	RM'000	RM'000
Business enterprises	9,841,269	13,040,863
Individuals	13,255,076	16,197,049
Government and statutory bodies	218,371	460,216
Others	1,240,729	1,846,459
	<u>24,555,445</u>	<u>31,544,587</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

13. Investment accounts of customers (cont'd.)

(iii) Maturity profile of unrestricted investment accounts are as follows:

	2017 RM'000	2016 RM'000
<u>Mudharabah</u>		
- without maturity	9,948,920	7,564,114
- with maturity		
Within six months	12,053,210	15,045,407
Six months to one year	2,532,512	8,929,760
One year to three years	2,563	3,513
Three years to five years	18,240	1,793
	<u>14,606,525</u>	<u>23,980,473</u>
Total investment account of customers	<u>24,555,445</u>	<u>31,544,587</u>

(iv) The allocation of investment asset are as follows:

	2017 RM'000	2016 RM'000
Unrestricted Investment		
Retail financing	24,554,642	27,913,126
Non-retail financing	803	3,631,461
Total investment	<u>24,555,445</u>	<u>31,544,587</u>

(v) Profit sharing ratio and rate of return are as follows:

	2017		2016	
	Investment account holder ("IAH")			
	Average profit sharing ratio (%)	Average rate of return (%)	Average profit sharing ratio (%)	Average rate of return (%)
Investment accounts of customers	<u>60%</u>	<u>3.07%</u>	<u>63%</u>	<u>3.17%</u>

(vi) Investment accounts of customers are used to fund financing and advances.

Maybank Islamic Berhad
(Incorporated in Malaysia)

14. Deposits and placements of banks and other financial institutions

	2017	2016
	RM'000	RM'000
<u>Mudharabah fund</u>		
Licensed banks*	18,068,219	17,767,671
	<u>18,068,219</u>	<u>17,767,671</u>
<u>Non-Mudharabah fund</u>		
Licensed banks	5,261,204	10,667,415
Licensed Islamic banks	1,873,521	198,120
Licensed investment banks	199,034	-
Other financial institutions	2,836,163	1,708,800
	<u>10,169,922</u>	<u>12,574,335</u>
	<u>28,238,141</u>	<u>30,342,006</u>

* Included in the Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the holding company amounting to RM18,068.2 million (31 December 2016: RM17,767.7 million). These placements are used to fund certain specific financing and advances.

15. Financial liabilities at fair value through profit or loss

	2017	2016
	RM'000	RM'000
Structured deposits	<u>892,695</u>	<u>902,091</u>

The Bank has designated the above structured deposits at fair value through profit or loss ("FVTPL"). This designation is permitted under MFRS 139 - Financial Instruments: Recognition and Measurement as it significantly reduces accounting mismatch. These instruments are managed by the Bank on the basis of its fair value and include terms that have substantive derivative characteristics.

The carrying amount of structured deposits designated at fair value through profit or loss of the Bank as at 31 December 2017 was RM898,182,000 (2016: RM917,160,000). The fair value changes of the financial liabilities that are attributable to the changes in own credit risk are not significant.

Maybank Islamic Berhad
(Incorporated in Malaysia)

16. Other liabilities

	2017 RM'000	2016 RM'000
Sundry creditors	100,133	56,082
Deposit on trade financing	10,715	22,691
Provisions and accruals	18,033	12,966
Margin account with holding company	164,420	-
Others	17,092	-
	<u>310,393</u>	<u>91,739</u>

17. Provision for taxation and zakat

	2017 RM'000	2016 RM'000
Taxation	130,023	81,540
Zakat	18,350	16,550
	<u>148,373</u>	<u>98,090</u>

18. Deferred tax assets

	2017 RM'000	2016 RM'000
At 1 January	19,487	36,892
Recognised in income statement (Note 32)	655	(18)
Recognised in statement of other comprehensive income	(7,239)	(17,387)
At 31 December	<u>12,903</u>	<u>19,487</u>

Deferred tax assets of the Bank:

	AFS reserve RM'000	Other temporary difference RM'000	Total RM'000
At 1 January 2017	17,442	2,045	19,487
Recognised in income statement (Note 32)	-	655	655
Recognised in statement of other comprehensive income	(7,239)	-	(7,239)
At 31 December 2017	<u>10,203</u>	<u>2,700</u>	<u>12,903</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

18. Deferred tax assets (cont'd.)

Deferred tax assets of the Bank: (cont'd.)

	AFS reserve RM'000	Other temporary difference RM'000	Total RM'000
At 1 January 2016	34,829	2,063	36,892
Recognised in income statement (Note 32)	-	(18)	(18)
Recognised in statement of other comprehensive income	(17,387)	-	(17,387)
At 31 December 2016	<u>17,442</u>	<u>2,045</u>	<u>19,487</u>

19. Term funding

	2017 RM'000	2016 RM'000
Unsecured term funding:		
(i) Commercial Paper		
- Less than one year	<u>2,459,845</u>	-
(ii) Medium Term Notes		
- Less than one year	482,370	-
- More than one year	<u>2,003,222</u>	-
	<u>2,485,592</u>	-
Total term funding	<u>4,945,437</u>	-

Included in the unsecured term fundings issued by the Bank are as follows:

RM10.0 billion Islamic Commercial Paper/Islamic Medium Term Note Programme

On 21 February 2017, the Bank established a RM10.0 billion Islamic Commercial Paper/Islamic Medium Term Note Programme, pursuant to which the Bank may issue, from time to time, Ringgit Malaysia Islamic Commercial Papers ("RM ICPs") and/or Ringgit Malaysia Islamic Medium Term Notes ("RM IMTNs") of up to RM10.0 billion in nominal value under the Shariah principle of Wakalah Bi Al-Istithmar.

The ICP/IMTN Programme will give the Bank flexibility to raise funds via the issuance of Islamic commercial papers and/or Islamic medium term notes from time to time which can be utilised, amongst others, to fund the Bank's working capital, general banking and other Shariah compliant corporate purposes, including the refinancing of any existing financing or debt instruments issued by the Bank.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

19. Term funding (cont'd.)

Included in the unsecured term fundings issued by the Bank are as follows (cont'd.):

Description	Issue date	Maturity date	Profit rate (% p.a.)	Nominal value
<u>Maybank Islamic Berhad</u>				
<u>RM10.0 billion Commercial Paper/Medium Term Note Programme</u>				
Islamic zero coupon medium term notes	16-Nov-17	16-Nov-18	-	RM250.0 million
Islamic medium term notes	18-Dec-17	16-Dec-22	4.20	RM2,000.0 million
Islamic zero coupon medium term notes	19-Dec-17	19-Dec-18	-	RM250.0 million

Additionally, the aggregate nominal value of the commercial papers are as follows:

Description	Tenor	Nominal value
<u>Maybank Islamic Berhad</u>		
RM10.0 billion Commercial Paper/Medium Term Note Programme	90 - 365 days	RM2,500.0 million

20. Subordinated sukuk

	Note	2017 RM'000	2016 RM'000
RM1,500 million subordinated sukuk due in 2024	(i)	1,516,397	1,516,788
RM1,000 million subordinated sukuk due in 2026	(ii)	1,017,708	1,017,708
		2,534,105	2,534,496

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

20. Subordinated sukuk (cont'd.)

The details of the issued subordinated sukuk are as follows:

Note	Description/nominal value	Issue date	First call date	Maturity date	Profit rate (% p.a.)
<u>RM10.0 billion Subordinated Sukuk Murabahah Programme</u>					
(i)	RM1,500.0 million ¹	7-Apr-14	5-Apr-19	5-Apr-24	4.75
(ii)	RM1,000.0 million ¹	15-Feb-16	15-Feb-21	13-Feb-26	4.65

¹ The Bank may, subject to the prior consent of BNM, redeem these subordinated sukuk, in whole or in part, on the first call date and on each semi-annual interest/profit payment date thereafter.

21. Capital securities

Description	Issue date	First call date	Maturity date	2017 RM'000	2016 RM'000
<u>RM10.0 billion Additional Tier 1 Sukuk Wakalah Programme</u>					
RM1,000.0 million 4.95% Additional Tier 1 Sukuk Wakalah ¹	14-Dec-17	14-Dec-22	Perpetual	1,002,441	-

¹ The Bank, may redeem these capital securities, in whole or in part on the first call date and on every Periodic Distribution Date thereafter.

On 14 December 2017, the Bank issued RM1.0 billion of Additional Tier 1 Sukuk Wakalah ("the AT1 Sukuk Wakalah") in nominal value with a tenor of Perpetual Non-Callable five (5) years pursuant to AT1 Sukuk Wakalah Programme of up to RM10.0 billion nominal value established on 23 November 2017. The proceeds from the issuance will be utilised for general banking, working capital and other Shariah compliant corporate purposes, as well as to refinance any existing financing or sukuk of the Bank.

Maybank Islamic Berhad
(Incorporated in Malaysia)

22. Share capital

	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued and fully paid:				
At 1 January	281,556	263,959	281,556	263,959
Transfer from share premium	-	-	5,200,227	-
Issued during the year	-	17,597	-	17,597
At 31 December	<u>281,556</u>	<u>281,556</u>	<u>5,481,783</u>	<u>281,556</u>

During the current financial year, the Bank increased its issued and paid-up share capital from RM281,556,000 as at 31 December 2016 to RM5,481,783,300 as at 31 December 2017 via transfer of share premium amounting to RM5,200,227,300 to share capital pursuant to Companies Act 2016.

23. Reserves

	Note	2017 RM'000	2016 RM'000
Non-distributable:			
Share premium		-	5,200,227
Equity contribution from the holding company		1,697	1,697
Statutory reserve	(a)	-	409,672
AFS reserve		(32,318)	(55,264)
Regulatory reserve	(b)	<u>508,700</u>	<u>393,700</u>
		478,079	5,950,032
Distributable:			
Retained profits	(c)	<u>3,351,547</u>	<u>2,857,087</u>
Total reserves		<u>3,829,626</u>	<u>8,807,119</u>

(a) Statutory reserve

On 3 May 2017, BNM issued a Revised Policy Document on Capital Fund and Capital Funds for Islamic Banks ("Revised Policy Document"). The Revised Policy Document has been updated to remove the requirement for a banking institution to maintain a reserve fund.

Maybank Islamic Berhad
(Incorporated in Malaysia)

23. Reserves (cont'd.)

(a) Statutory reserve (cont'd.)

The Bank had transferred the statutory reserve to retained profits as at 31 December 2017 amounting to RM409,672,000.

(b) Regulatory reserve

Regulatory reserve is maintained in addition to the collective impairment allowance that has been assessed and recognised in accordance with MFRS and which has been transferred from the retained profits, in accordance with BNM's Revised Policy Document on Classification and Impairment Provisions for Loans/Financing issued on 6 April 2015.

(c) Retained profits

The retained profits of the Bank as at 31 December 2017 and 31 December 2016 are distributable profits and may be distributed as dividends under the single-tier system.

24. Income derived from investment of depositors' funds

	2017	2016
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	5,231,322	4,361,568
(ii) Other deposits	1,801,226	1,771,339
	<u>7,032,548</u>	<u>6,132,907</u>

(i) Income derived from investment of general investment deposits

	2017	2016
	RM'000	RM'000
Finance income and hibah		
Financing and advances	4,296,722	3,533,665
Financial assets at fair value through profit or loss	5,866	4,272
Financial investments available-for-sale	221,718	151,248
Financial investments held-to-maturity	61,763	-
Money at call and deposits with financial institutions	336,849	287,012
	<u>4,922,918</u>	<u>3,976,197</u>
Accretion of discount less amortisation of premium	53,721	84,862
Total finance income and hibah	<u>4,976,639</u>	<u>4,061,059</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(i) Income derived from investment of general investment deposits (cont'd.)

Other operating income

Fee income:

- Processing fees	22,272	33,813
- Commissions	96,960	78,842
- Service charges and other fees	126,823	112,158
Gains on sale of financial investments available-for-sale	6,650	17,111
Gains on sale of financial assets at fair value through profit or loss	327	1,908
Unrealised gains/(losses) on revaluation of:		
- Derivatives	4,646	(16,766)
- Financial assets at fair value through profit or loss	(7)	30
- Financial liabilities at fair value through profit or loss	(6,839)	10,192
(Losses)/gains on foreign exchange:		
- Realised	(7,740)	166,565
- Unrealised	(772)	(114,883)
Realised gain on derivatives	12,363	11,539
Total other operating income	254,683	300,509
Total	5,231,322	4,361,568

Included in finance income are income on impaired assets amounting to RM30.0 million (2016: RM28.6 million).

(ii) Income derived from investment of other deposits

	2017	2016
	RM'000	RM'000
Finance income and hibah		
Financing and advances	1,479,428	1,435,107
Financial assets at fair value through profit or loss	2,020	1,735
Financial investments available-for-sale	76,341	61,426
Financial investments held-to-maturity	21,266	-
Money at call and deposits with financial institutions	115,983	116,563
	1,695,038	1,614,831
Accretion of discount less amortisation of premium	18,497	34,465
Total finance income and hibah	1,713,535	1,649,296

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(ii) Income derived from investment of other deposits (cont'd.)

Other operating income

Fee income:

- Processing fees	7,669	13,732
- Commissions	33,385	32,020
- Service charges and other fees	43,667	45,550
Gains on sale of financial investments available-for-sale	2,290	6,949
Gains on sale of financial assets at fair value through profit or loss	113	775
Unrealised gains/(losses) on revaluation of:		
- Derivatives	1,599	(6,809)
- Financial investments at fair value through profit or loss	(2)	12
- Financial liabilities at fair value through profit or loss	(2,355)	4,139
(Losses)/gains on foreign exchange:		
- Realised	(2,665)	67,646
- Unrealised	(266)	(46,657)
Realised gain on derivatives	4,256	4,686
Total other operating income	<u>87,691</u>	<u>122,043</u>
Total	<u>1,801,226</u>	<u>1,771,339</u>

Included in finance income are income on impaired assets amounting to RM10.3 million (2016: RM11.7 million).

25. Income derived from investment of investment account funds

	2017 RM'000	2016 RM'000
Finance income and hibah		
Financing and advances	1,503,196	1,570,992
Financial investments available-for-sale	-	1,308
Total finance income and hibah	<u>1,503,196</u>	<u>1,572,300</u>
Other operating income		
Fee income:		
- Commissions	1,135	838
- Service charges and other fees	22,517	40,674
Total other operating income	<u>23,652</u>	<u>41,512</u>
Total	<u>1,526,848</u>	<u>1,613,812</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

26. Income derived from investment of shareholder's funds

	2017	2016
	RM'000	RM'000
Finance income and hibah		
Financing and advances	243,758	255,502
Financial assets at fair value through profit or loss	333	309
Financial investments available-for-sale	12,578	10,936
Financial investments held-to-maturity	3,504	-
Money at call and deposits with financial institutions	19,110	20,753
	279,283	287,500
Accretion of discount less amortisation of premium	3,048	6,136
Total finance income and hibah	282,331	293,636
Other operating income		
Fee income		
- Processing fees	1,264	2,445
- Commissions	5,501	5,701
- Service charges and other fees	7,195	8,109
Gains on sale of financial assets at fair value through profit or loss	19	138
Gains on sale of financial investments available-for-sale	377	1,237
Unrealised gains/(losses) on revaluation of:		
- Derivatives	263	(1,212)
- Financial assets at fair value through profit or loss	-	2
- Financial liabilities at fair value through profit or loss	(388)	737
(Losses)/gains on foreign exchange:		
- Realised	(439)	12,044
- Unrealised	(44)	(8,307)
Realised gain on derivatives	701	834
Total other operating income	14,449	21,728
Total	296,780	315,364

Included in finance income are income on impaired assets amounting to RM1.7 million (2016: RM2.1 million).

Maybank Islamic Berhad
(Incorporated in Malaysia)

27. Allowances for impairment losses on financing and advances

	2017	2016
	RM'000	RM'000
Allowances for/(writeback of) impairment losses on financing and advances:		
Individual allowance		
- Allowance made (Note 8 (viii))	149,083	460,108
- Amount written back (Note 8 (viii))	(75,632)	(22,583)
Collective allowance made (Note 8 (viii))	178,642	107,237
Impaired financing and advances		
- Written off	9,371	8,451
- Recovered	(51,576)	(171,411)
Allowances for impairment losses on other debts	175	34
	210,063	381,836

28. Profit distributed to depositors

	2017	2016
	RM'000	RM'000
Deposits from customers		
- Non-mudharabah fund	2,971,929	2,709,496
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	640,642	418,057
- Non-mudharabah fund	332,169	285,331
	972,811	703,388
Financial liabilities at fair value through profit or loss		
- Non-mudharabah fund	44,894	50,341
	3,989,634	3,463,225
Personnel expenses:		
- Salaries and wages	19,804	19,799
- Allowances and bonuses	10,272	9,965
- Social security cost	131	121
- Pension cost - defined contribution plan	4,646	4,528
- Share/Options granted under ESS	511	1,007
- Other staff related expenses	5,415	5,460
	40,779	40,880

Maybank Islamic Berhad
(Incorporated in Malaysia)

29. Overhead expenses

	2017	2016
	RM'000	RM'000
Establishment costs:		
- Rental of premises	1,715	1,715
- Repairs, servicing and maintenance	22	29
- Information technology expenses	2,696	2,756
- Others	4	-
	<u>4,437</u>	<u>4,500</u>
Marketing costs:		
- Advertisement and publicity	2,168	2,216
- Others	9,058	10,800
	<u>11,226</u>	<u>13,016</u>
Administration and general expenses:		
- Fees and brokerage	63,910	50,239
- Administrative expenses	316	2,108
- General expenses	90,093	41,963
- Auditors' remuneration		
- Audit	451	463
- Regulatory-related services	308	331
- Directors' fees and other remunerations (Note 30)	826	920
- Shared service costs paid/payable to Maybank	1,128,005	1,078,690
	<u>1,283,909</u>	<u>1,174,714</u>
Total	<u>1,340,351</u>	<u>1,233,110</u>

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

	2017	2016
	RM'000	RM'000
Chief executive officer:		
Salary and other remuneration, including meeting allowance	2,489	1,778
ESS expenses	230	439
Estimated monetary value of benefit-in-kind	10	10
Pension cost - defined contribution plan	378	280
	<u>3,107</u>	<u>2,507</u>
Non-executive directors:		
Fees	719	836
Other remunerations	88	84
Estimated monetary value of benefit-in-kind	19	-
	<u>826</u>	<u>920</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

30. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

	2017	2016
	RM'000	RM'000
Shariah committee members	651	726
Total	4,584	4,153
Total (excluding benefit-in-kind)	4,555	4,143

The total remuneration of the directors are as follows:

2017	Fees	Salary and/ or other emoluments*	Benefits- in-kind	Total
	RM'000	RM'000	RM'000	RM'000
Non-executive directors:				
En Zainal Abidin b. Jamal ¹	158	10	13	181
Dato' Dr Muhammad Afifi al-Akiti	141	16	3	160
En Dali b Sardar	145	26	3	174
En Nor Hizam bin Hashim	133	21	-	154
Datin Paduka Jam'iah Abdul Hamid ²	53	5	-	58
Datuk Mohd Anwar Yahya ²	53	4	-	57
Dato' Zulkiflee Abbas Abdul Hamid ³	36	6	-	42
Total directors' remuneration	719	88	19	826

* Includes bonus, pension cost, ESS, duty allowances, social allowances, leave passage, and meeting allowances.

¹ Appointed as Chairman on 1 June 2017

² Appointed on 17 July 2017

³ Resigned on 3 April 2017

Maybank Islamic Berhad
(Incorporated in Malaysia)

30. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the directors are as follows (cont'd.):

2016	Fees RM'000	Salary and/ or other emoluments* RM'000	Total RM'000
Non-executive directors:			
En Zainal Abidin b. Jamal	181	15	196
Dato' Dr Muhammad Afifi al-Akiti	121	14	135
En Dali b Sardar	142	23	165
Tan Sri Datuk Dr Hadenan bin A. Jalil ¹	58	4	62
En Nor Hizam bin Hashim ²	24	3	27
Dato' Seri Ismail bin Shahudin ³	124	1	125
Tan Sri Dato Ahmad Fuzi Abdul Razak ⁴	96	7	103
Dato' Zulkiflee Abbas Abdul Hamid ⁵	90	17	107
Total directors' remuneration	836	84	920

* Includes bonus, pension cost, ESS, duty allowances, social allowances, leave passage, and meeting allowances.

** Includes the arrears payment for the financial year ended 31 December 2015.

¹ Retired on 6 April 2016

² Appointed on 18 October 2016

³ Demised on 30 July 2016

⁴ Resigned on 27 September 2016

⁵ Appointed on 11 April 2016

The total remuneration of the Shariah committee members are as follows:

2017	Fees RM'000	Salary and/ or other emoluments* RM'000	Total RM'000
Dr. Aznan Hasan	105	32	137
Dr. Ahcene Lahsasna	64	27	91
Dr. Ismail bin Mohd @ Abu Hassan	28	12	40
Dr. Marjan Binti Muhammad	84	32	116
Dr. Mohamed Fairouz Bin Abdul Khir	84	28	112
Ustaz Mohd Kamal Mokhtar	84	32	116
Dr. Mohammad Deen bin Mohd Napiah	28	11	39
Total Shariah committee remuneration	477	174	651

Maybank Islamic Berhad
(Incorporated in Malaysia)

30. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the Shariah committee members are as follows (cont'd.):

2016	Fees RM'000	Salary and/ or other emoluments* RM'000	Total RM'000
Dr. Aznan Hasan	105	18	123
Dr. Ahcene Lahsasna	84	15	99
Dr. Ismail bin Mohd @ Abu Hassan	84	18	102
Dr. Marjan Binti Muhammad	84	16	100
Dr. Mohamed Fairouz Bin Abdul Khir	84	17	101
Ustaz Mohd Kamal Mokhtar	84	15	99
Dr. Mohammad Deen bin Mohd Napiah	84	18	102
Total Shariah committee remuneration	<u>609</u>	<u>117</u>	<u>726</u>

* Includes bonus, pension cost, ESS, duty allowances, social allowances, leave passage, and meeting allowances.

31. Finance cost

	2017 RM'000	2016 RM'000
Islamic Subordinated Sukuk	117,750	122,267
Capital Securities	2,441	-
Term Funding	16,901	-
	<u>137,092</u>	<u>122,267</u>

32. Taxation

	2017 RM'000	2016 RM'000
Malaysian income tax	521,885	427,419
(Over)/Under provision in prior years	(11,080)	7
	<u>510,805</u>	<u>427,426</u>
Deferred tax (Note 18):		
Relating to origination and reversal of temporary differences	<u>(655)</u>	<u>18</u>
	<u>510,150</u>	<u>427,444</u>

Domestic current income tax is calculated at the statutory tax rate of 24% of the estimated chargeable profit for the financial year.

Maybank Islamic Berhad
(Incorporated in Malaysia)

32. Taxation (cont'd.)

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:

	2017	2016
	RM'000	RM'000
Profit before taxation	<u>2,265,760</u>	<u>1,781,770</u>
Taxation at Malaysian statutory tax rate of 24%	543,782	427,625
Tax exempted income	(21,643)	-
Expenses not deductible for tax purposes	2,236	1,138
(Over)/Under provision of tax expense in prior years	(11,080)	7
Origination and reversal of temporary differences	(655)	18
Effect of zakat deduction	(2,490)	(1,344)
Tax expense for the financial year	<u>510,150</u>	<u>427,444</u>

33. Earnings per share ("EPS")

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

	2017	2016
Net profit for the financial year attributable to equity holder of the Bank (RM'000)	<u>1,737,084</u>	<u>1,337,727</u>
Weighted average number of ordinary shares in issue ('000)	<u>281,556</u>	<u>269,969</u>
Basic/diluted EPS (sen)	<u>617.0</u>	<u>495.5</u>

34. Dividends

	2017	2016
	RM'000	RM'000
Interim tax exempt (single-tier) dividend of RM2.70, on 281,556,000 ordinary shares in respect of the financial year ended 31 December 2017	760,201	-
Final tax exempt (single-tier) dividend of RM2.76, on 281,556,000 ordinary shares in respect of the financial year ended 31 December 2016	777,095	-
Interim tax exempt (single-tier) dividend of RM2.12, on 263,958,750 ordinary shares in respect of the financial year ended 31 December 2016	-	559,592
Final tax exempt (single-tier) dividend of RM2.14, on 263,958,750 ordinary shares in respect of the financial year ended 31 December 2015	-	564,872
	<u>1,537,296</u>	<u>1,124,464</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

34. Dividends (cont'd.)

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2017 of RM3.46 per share on 281,556,000 ordinary shares, amounting to a dividend payable of RM974,183,760 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholder, will be accounted for in the statements of changes in equity as an appropriation of retained profits in the next financial year ending 31 December 2018.

35. Significant related party transactions and balances

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

	2017	2016
	RM'000	RM'000
Holding company		
Income:		
Income on deposits and placement with banks and other financial institutions	<u>130</u>	<u>493</u>
Expenditure:		
Profit distributed to depositors	892,278	669,760
Finance cost	99,008	74,584
Shared service cost paid/payable to Maybank	1,128,005	1,078,690
Other expenses	<u>2,123</u>	<u>2,435</u>
	<u>2,121,414</u>	<u>1,825,469</u>
Related companies		
Income:		
Income from financing and advances	825	1,353
Commission	<u>39,827</u>	<u>30,807</u>
	<u>40,652</u>	<u>32,160</u>
Expenditure:		
Profit distributed to depositors	26,158	34,247
Information technology expenses	2,437	1,997
Fees and brokerage	5,540	1,553
General expenses	<u>1,802</u>	<u>35</u>
	<u>35,937</u>	<u>37,832</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

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

	2017	2016
	RM'000	RM'000
Holding company		
Amount due from:		
Current accounts and deposits	78,243	81,166
Derivative assets	413,436	368,313
Others	6,224,345	3,756,777
	<u>6,716,024</u>	<u>4,206,256</u>
Amount due to:		
Current accounts and deposits	22,683,772	25,426,424
Negotiable instruments of deposits		
- Remaining maturity less than one year	-	1,000,000
- Remaining maturity more than one year	-	2,008,661
Derivative liabilities	523,400	529,392
Subordinated sukuk	1,725,450	1,761,116
Capital securities	1,002,441	-
Term funding	4,945,437	-
	<u>30,880,500</u>	<u>30,725,593</u>
Related companies		
Amount due from:		
Current accounts and deposits	-	30,495
Amount due to:		
Fixed return investment deposits	930,451	1,180,330
	<u>930,451</u>	<u>1,180,330</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)

35. 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 30. The movement in share options of key management personnel is as follows:

	2017	2016
	'000	'000
At 1 January	766	912
Vested and exercisable	200	-
Adjustment*	-	(84)
Expired	-	(62)
At 31 December	966	766

* Adjustment relates to changes in key management personnel during the financial year.

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

(d) Government-related entities

Permodalan Nasional Berhad ("PNB"), a government-linked entity is a shareholder of Maybank with significant influence on Maybank, from its direct shareholding of 7.40% (2016: 6.48%) and indirect shareholding of 33.97% (2016: 35.54%) via Amanah Raya Trustee Berhad (Amanah Saham Bumiputera) as at 31 December 2017. PNB and entities directly controlled by PNB are collectively referred to as government-related entities to the Bank.

All the transactions entered into by the Bank with the government-related entities are conducted in the ordinary course of the Bank's business on terms comparable to those with other entities that are not government-related. The Bank has established credit policies, pricing strategy and approval process for financing and advances, which are independent of whether the counterparties are government-related entities or not.

Maybank Islamic Berhad
(Incorporated in Malaysia)

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

(d) Government-related entities (cont'd.)

(i) *Individually significant transaction with PNB due to its size of transaction:*

	2017	2016
	RM'000	RM'000
Transactions during the financial year:		
Financing income	<u>91,358</u>	<u>143,534</u>
Balances as at reporting dates:		
Financing and advances	<u>4,751,507</u>	<u>5,151,495</u>

(ii) *Collectively, but not individually, significant transactions*

There was no collectively significant transactions with other government-related entities during the financial year ended 31 December 2017 and 31 December 2016.

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

	2017	2016
Outstanding credit exposure with connected parties (RM'000)	<u>3,753,533</u>	<u>3,339,693</u>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	<u>2.2%</u>	<u>2.3%</u>
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	<u>-</u>	<u>-</u>

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

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

(e) Credit exposure arising from credit transactions with connected parties (cont'd.)

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 Parties.

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 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 financing commitments.

Maybank Islamic Berhad
(Incorporated in Malaysia)

36. 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 are as follows:

	Full commitment RM'000	2017 Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	2016 Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<u>Contingent liabilities</u>						
Direct credit substitutes	1,483,863	1,438,157	1,292,069	1,243,371	1,243,371	1,275,387
Certain transaction-related contingent items	3,485,433	1,717,826	1,278,929	2,339,735	1,155,527	861,936
Short-term self-liquidating trade-related contingencies	188,659	36,697	28,596	295,126	50,777	35,283
	5,157,955	3,192,680	2,599,594	3,878,232	2,449,675	2,172,606
<u>Commitments</u>						
Irrevocable commitments to extend credit:						
- maturity within one year	19,981,036	4,218,895	2,330,534	21,396,850	4,788,406	2,352,723
- maturity more than one year	7,694,750	2,676,066	1,093,008	8,679,087	2,728,616	1,321,241
	27,675,786	6,894,961	3,423,542	30,075,937	7,517,022	3,673,964
Miscellaneous commitments and contingencies	126,710	-	-	56,028	-	-
Total credit-related commitments and contingencies	32,960,451	10,087,641	6,023,136	34,010,197	9,966,697	5,846,570

Maybank Islamic Berhad
(Incorporated in Malaysia)

36. Commitments and contingencies (cont'd.)

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. (cont'd.)

The risk-weighted exposures of the Bank as at 31 December are as follows (cont'd.):

	Full commitment RM'000	2017 Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	2016 Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<u>Derivative financial instruments</u>						
Foreign exchange related contracts:						
- less than one year	9,870,342	407,037	83,392	9,348,315	456,329	116,847
- one year to less than five years	4,784,493	182,470	103,359	2,372,829	137,963	53,150
Profit rate related contracts:						
- less than one year	-	-	-	1,000,000	612	710
- one year to less than five years	3,808,120	683,383	284,177	2,822,620	424,297	191,104
- more than five years	2,040,000	72,276	41,970	2,513,954	102,199	92,637
Total treasury-related commitments and contingencies	20,502,955	1,345,166	512,898	18,057,718	1,121,400	454,448
Total commitments and contingencies	53,463,406	11,432,807	6,536,034	52,067,915	11,088,097	6,301,018

* 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 for regulatory capital adequacy purposes.

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

37. Financial risk management policies

(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 business sectors and support sectors. A dedicated Board-level Risk Management Committee provides risk oversight of all material risks across the Group.

The Management-level Risk Management Committees, which include the Group Executive Risk Committee, Group Operational Risk Management Committee, Group Asset and Liability Management Committee ("ALCO") and Group Management Credit Committee, are responsible for the management of all material risks within the Group.

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

- (a) Establishment of a risk appetite and strategy which articulates the nature, type and level of risk the Group is willing to assume and must be approved by the Board.
- (b) Capital management driven by the Group's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Group operates.
- (c) Proper governance and oversight through a clear, effective and robust Group governance structure with well-defined, transholding company and consistent lines of responsibility established within the Group.
- (d) Promote of a strong risk culture which supports and provides appropriate standards and incentives for professional and responsible behaviour.
- (e) Implementation of integrated risk frameworks and policies to ensure that risk management practices and processes are effective at all levels.
- (f) Execution of sound risk management processes to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Group.
- (g) Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (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 MFRS 139 RM'000	Total RM'000
2017							
Assets							
Cash and short-term funds	-	-	-	17,134,359	17,134,359	-	17,134,359
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-
Financial investments portfolio*	240,571	9,882,004	2,731,560	-	12,854,135	-	12,854,135
Financing and advances	-	-	-	162,072,685	162,072,685	-	162,072,685
Derivative assets	487,989	-	-	-	487,989	-	487,989
Other assets	-	-	-	6,249,479	6,249,479	441,503	6,690,982
Statutory deposit with Bank Negara Malaysia	-	-	-	3,242,000	3,242,000	-	3,242,000
Deferred tax assets	-	-	-	-	-	12,903	12,903
TOTAL ASSETS	728,560	9,882,004	2,731,560	188,698,523	202,040,647	454,406	202,495,053

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

787435-M

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

37. Financial risk management policies (cont'd.)

(b) Financial instrument by category (cont'd.)

	Held-for- trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
2017					
Liabilities					
Customers' funding:					
- Deposits from customers	-	129,897,440	129,897,440	-	129,897,440
- Investment accounts of customers	-	24,555,445	24,555,445	-	24,555,445
Deposits and placements of banks and other financial institutions	-	28,238,141	28,238,141	-	28,238,141
Bills and acceptances payable	-	8,854	8,854	-	8,854
Derivative liabilities	650,320	-	650,320	-	650,320
Other liabilities	-	292,360	292,360	18,033	310,393
Provision for taxation and zakat	-	-	-	148,373	148,373
Financial liabilities at fair value through profit or loss	-	892,695	892,695	-	892,695
Term funding	-	4,945,437	4,945,437	-	4,945,437
Subordinated sukuk	-	2,534,105	2,534,105	-	2,534,105
Capital securities	-	1,002,441	1,002,441	-	1,002,441
TOTAL LIABILITIES	650,320	192,366,918	193,017,238	166,406	193,183,644

787435-M

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

37. Financial risk management policies (cont'd.)

(b) Financial instrument by category (cont'd.)

	Held-for- trading RM'000	Available- for-sale RM'000	Financing and receivables RM'000	Sub-total RM'000	Assets not in scope of MFRS 139 RM'000	Total RM'000
2016						
Assets						
Cash and short-term funds	-	-	15,535,992	15,535,992	-	15,535,992
Deposits and placements with banks and other financial institutions	-	-	651,558	651,558	-	651,558
Financial investments portfolio*	252,451	8,719,654	-	8,972,105	-	8,972,105
Financing and advances	-	-	148,523,310	148,523,310	-	148,523,310
Derivative assets	515,554	-	-	515,554	-	515,554
Other assets	-	-	4,070,483	4,070,483	436,068	4,506,551
Statutory deposit with Bank Negara Malaysia	-	-	3,070,000	3,070,000	-	3,070,000
Deferred tax assets	-	-	-	-	19,487	19,487
TOTAL ASSETS	768,005	8,719,654	171,851,343	181,339,002	455,555	181,794,557

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

787435-M

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

37. Financial risk management policies (cont'd.)

(b) Financial instrument by category (cont'd.)

	Held-for- trading RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 139 RM'000	Total RM'000
2016					
Liabilities					
Customers' funding:					
- Deposits from customers	-	106,604,492	106,604,492	-	106,604,492
- Investment accounts of customers	-	31,544,587	31,544,587	-	31,544,587
Deposits and placements of banks and other financial institutions	-	30,342,006	30,342,006	-	30,342,006
Bills and acceptances payable	-	53,220	53,220	-	53,220
Derivative liabilities	535,161	-	535,161	-	535,161
Other liabilities	-	78,773	78,773	12,966	91,739
Provision for taxation and zakat	-	-	-	98,090	98,090
Financial liabilities at fair value through profit or loss	-	902,091	902,091	-	902,091
Subordinated sukuk	-	2,534,496	2,534,496	-	2,534,496
TOTAL LIABILITIES	535,161	172,059,665	172,594,826	111,056	172,705,882

37. Financial risk management policies (cont'd.)

(c) Credit risk management

1. Credit risk management overview

Credit risk definition

Credit risk is the risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms.

Management of credit risk

Corporate and institutional credit risks are assessed by business units and evaluated and approved by an independent party within the Group, where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including borrower's/customer's financial position, future cash flows, types of facilities and securities offered.

Reviews are conducted at least once a year with updated information on borrower's/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 portfolios.

Counterparty credit risk is the risk arising from the possibility that a counterparty may default on current and future payments as required by contract for treasury-related activities. Counterparty credit risk originates from the Bank's lending business, investment and treasury activities that impact the Bank's trading and banking books through dealings in foreign exchange, money market instruments, fixed income securities, commodities, equities and over-the-counter ("OTC") derivatives. The primary distinguishing feature of counterparty credit risk compared to other forms of credit risk is that the future value of the underlying contract is uncertain, and may be either positive or negative depending on the value of all future cash flows. Counterparty credit risk exposures are managed via counterparty limits either on a single counterparty basis or counterparty group basis that adheres to BNM's Single Counterparty Exposure Limits. The Bank actively monitors and manages its exposure to ensure that exposures to a single counterparty or a group of connected counterparties are within prudent limits at all times. Counterparty risk exposures which may be materially affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees.

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

37. Financial risk management policies (cont'd.)

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

1. Credit risk management overview (cont'd.)

Management of credit risk (cont'd.)

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

In managing large exposures and to avoid undue concentration of credit risk in its loans and financing portfolio, the Bank has emplaced, amongst others, the following limits and related lending guidelines, for:

- Countries;
- Business segments;
- Economic sectors;
- Single customer groups;
- Banks & non-bank financial institutions;
- Counterparties; and
- Collaterals.

The Bank has dedicated teams at Head Office and Regional Offices to effectively manage vulnerable corporate, institutional and consumer credits of the Bank. Special attention is given to these vulnerable credits where more frequent and intensive reviews are performed in order to accelerate remedial action.

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. Bank Credit Risk is responsible for developing, enhancing and communicating an effective and consistent credit risk management policies, tools and methodologies across the Bank to ensure appropriate standards are in place to identify, measure, control, monitor and report 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 ("EL") principles and internally developed Credit Risk Rating System ("CRRS").

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

37. Financial risk management policies (cont'd.)

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

1. Credit risk management overview (cont'd.)

Credit risk measurement

The Bank's retail portfolios are under Basel II Advanced Internal Ratings-Based ("AIRB") Approach. This approach calls for more extensive reliance on the Bank's own internal experience whereby estimations for all the three components of Risk-Weighted Assets ("RWA") calculation namely Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are based on its own historical data. Separate PD, EAD and LGD statistical models were developed at portfolio level; each model covering borrowers with fundamentally similar risk profiles in a portfolio. The estimates derived from the models are used as input for RWA calculations.

For non-retail portfolios, the Bank uses internal credit models for evaluating the majority of its credit risk exposures. For Corporate and Bank portfolios, the Bank has adopted the Foundation Internal Ratings-Based ("FIRB") Approach, which allows the Bank to use its internal PD estimates to determine an asset risk weighting and apply supervisory estimates for LGD and EAD.

CRRS is developed to allow the Bank to identify, assess and measure corporate, commercial and small business borrowers' credit risk. CRRS is a statistical default prediction model. The model was developed and recalibrated to suit the Bank's banking environment using internal data. The model development process was conducted and documented in line with specific criteria for model development in accordance to Basel II. The EL principles employed in the Bank enables the calculation of expected loss using PD estimates (facilitated by the CRRS), LGD and EAD.

To account for differences in risk due to industry and size, CRRS is designed to rate all corporate and commercial borrowers by their respective industry segments (i.e. manufacturing, services, trading, contractors, property developers (single project) and property investors (single property)).

For counterparty risk exposures (on-balance sheet), the Bank employs risk treatments that are in accordance with BNM Guidelines and Basel II requirements. While for off-balance sheet exposures, the Bank measures the credit risk using Credit Risk Equivalent via the Current Exposure Method. This method calculates the Bank's credit risk exposure after considering both the mark-to-market exposures and the appropriate add-on factors for potential future exposures. The add-on factors employed are in accordance with BNM Guidelines and Basel II requirements.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. 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 financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, 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	
	2017	2016
	RM'000	RM'000
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	17,134,359	15,535,992
Deposits and placements with banks and other financial institutions	-	651,558
Financial investments portfolio*	12,854,135	8,972,105
Financing and advances	162,072,685	148,523,310
Derivative assets	487,989	515,554
Other assets	6,249,479	4,070,483
Statutory deposit with Bank Negara Malaysia	3,242,000	3,070,000
	<u>202,040,647</u>	<u>181,339,002</u>
Credit exposure for off-balance sheet items:		
Direct credit substitutes	1,483,863	1,243,371
Certain transaction-related contingent items	3,485,433	2,339,735
Short-term self-liquidating trade-related contingencies	188,659	295,126
Irrevocable commitments to extend credit	27,675,786	30,075,937
Miscellaneous	126,710	56,028
	<u>32,960,451</u>	<u>34,010,197</u>
Total maximum credit risk exposure	<u>235,001,098</u>	<u>215,349,199</u>

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-for-trading.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances as at 31 December 2017 for the Bank is at 69% (31 December 2016: 68%). The financial effect of collateral held for other financial assets is not significant.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

3. Credit risk concentration profile

Concentration risk is the risk that can materialise from excessive exposures to single counterparty and persons connected to it, a particular instrument or a particular market segment/sector. The Bank analysed the concentration credit risk by geographic purpose and industry segment as follows:

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

	Cash and short-term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
2017									
Malaysia	17,134,359	-	12,854,135	162,072,685	487,989	6,249,479	3,242,000	202,040,647	32,960,451
Less: Collective allowance	-	-	-	(821,183)	-	-	-	(821,183)	-
	17,134,359	-	12,854,135	161,251,502	487,989	6,249,479	3,242,000	201,219,464	32,960,451

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

3. Credit risk concentration profile (cont'd.)

(a) Concentration of credit risk for both on-balance sheet financial assets and off-balance sheet exposures analysed by geographic purpose are as follows: (cont'd.)

	Cash and short-term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
2016									
Malaysia	15,535,992	651,558	8,972,105	149,276,136	515,554	4,070,483	3,070,000	182,091,828	34,010,197
Less: Collective allowance	-	-	-	(752,826)	-	-	-	(752,826)	-
	<u>15,535,992</u>	<u>651,558</u>	<u>8,972,105</u>	<u>148,523,310</u>	<u>515,554</u>	<u>4,070,483</u>	<u>3,070,000</u>	<u>181,339,002</u>	<u>34,010,197</u>

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

3. Credit risk concentration profile (cont'd.)

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

	Cash and short-term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
2017									
Agriculture	-	-	49,140	4,310,403	6,939	-	-	4,366,482	245,641
Mining and quarrying	-	-	-	961,634	-	-	-	961,634	427,152
Manufacturing	-	-	-	6,596,674	1,181	-	-	6,597,855	1,581,235
Construction	-	-	-	8,791,125	-	-	-	8,791,125	3,879,892
Electricity, gas and water supply	-	-	503,440	989,774	25,484	-	-	1,518,698	163,918
Wholesale, retail trade, restaurants and hotels	-	-	295,843	7,146,408	735	-	-	7,442,986	1,156,076
Finance, insurance, real estate and business	17,134,359	-	1,601,377	17,056,026	453,644	6,249,479	3,242,000	45,736,885	15,550,141
Transport, storage and communication	-	-	110,049	3,748,328	-	-	-	3,858,377	191,311
Education, health and others	-	-	-	1,500,570	-	-	-	1,500,570	231,184
Household	-	-	-	95,906,476	-	-	-	95,906,476	8,133,562
Others	-	-	10,294,286	15,065,267	6	-	-	25,359,559	1,400,339
	17,134,359	-	12,854,135	162,072,685	487,989	6,249,479	3,242,000	202,040,647	32,960,451

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

3. Credit risk concentration profile (cont'd.)

(b) Concentration of credit risk for both on-balance sheet financial assets and off-balance sheet exposures analysed by industry sector are as follows: (cont'd.)

2016	Cash and short-term funds RM'000	Deposits and placements of banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	48,947	3,941,292	8,844	-	-	3,999,083	527,883
Mining and quarrying	-	-	-	1,934,266	-	-	-	1,934,266	1,112,008
Manufacturing	-	-	-	7,228,167	11,136	-	-	7,239,303	1,581,712
Construction	-	-	-	6,848,554	-	-	-	6,848,554	4,158,303
Electricity, gas and water supply	-	-	387,326	364,743	18,356	-	-	770,425	198,459
Wholesale, retail trade, restaurants and hotels	-	-	-	6,391,692	1,523	-	-	6,393,215	1,136,454
Finance, insurance, real estate and business	15,535,992	651,558	3,925,406	17,970,942	475,680	4,070,483	3,070,000	45,700,061	13,550,531
Transport, storage and communication	-	-	109,403	4,320,214	15	-	-	4,429,632	495,818
Education, health and others	-	-	-	1,345,381	-	-	-	1,345,381	340,242
Household	-	-	-	89,148,641	-	-	-	89,148,641	9,573,130
Others	-	-	4,501,023	9,029,418	-	-	-	13,530,441	1,335,657
	15,535,992	651,558	8,972,105	148,523,310	515,554	4,070,483	3,070,000	181,339,002	34,010,197

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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

37. 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

- For mortgages - charges over residential properties;
- For auto financing - ownership claims over the vehicle financed;
- For share margin financing - pledges over securities from listed exchange;
- For commercial property financing - charges over the properties financed;
- For other financing - charges over business assets such as premises, inventories, trade receivable or deposits; and
- For derivatives - cash and securities collateral for over-the-counter ("OTC") traded derivatives.

5. Credit quality of financial assets

Credit classification for financial assets

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

- Neither past due nor impaired;
- Past due but not impaired; and
- Past due and impaired.

The four (4) risks categories set out and defined below and on the following page, from very low to high, apart from impaired, 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 financial investments. There is no direct correlation between the internal and external ratings at a granular level, except to the extent that each falls within a single credit quality band.

Risk Category (Non-Retail)	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 BB+	AA to A
Medium	11 - 15	BB+ to B+	A to BB
High	16 - 21	B+ to CCC	BB to C

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

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

Risk Category (Retail)	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 - 2	AAA to BBB-	AAA to A
Low	3 - 5	BB+ to BB-	A to BBB
Medium	6 - 8	B+ to CCC	BB to B
High	9 - 11	CCC to C	B to C

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.

Medium: 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 Note 3(i)(d).

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

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

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

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

	Neither past due nor impaired RM'000	<----- Past due but not impaired ----->			Non-impaired total RM'000	Impaired RM'000	Total RM'000
		Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000			
2017							
Cashline	5,325,539	73,951	6,007	61	80,019	194,552	5,600,110
Term financing	121,632,922	7,763,747	2,426,447	718,805	10,908,999	1,499,914	134,041,835
Other financing	23,845,565	39,345	11,226	900	51,471	16,067	23,913,103
Gross financing and advances	150,804,026	7,877,043	2,443,680	719,766	11,040,489	1,710,533	163,555,048
Less:							
- Individual allowance							(661,180)
- Collective allowance							(821,183)
							(1,482,363)
Net financing and advances							162,072,685
As a percentage of total gross financing and advances	92.20%	4.82%	1.49%	0.44%	6.75%	1.05%	100.00%

Summary of risk categories of gross financing and advances of the Bank are assessed based on credit quality classification as described in Note 37(c)(5).

	<----- Neither past due nor impaired ----->					Total RM'000
	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	
2017						
Cashline	1,363,158	1,123,276	1,289,172	319,102	1,230,831	5,325,539
Term financing	44,503,721	45,055,691	18,472,680	2,121,307	11,479,523	121,632,922
Other financing	7,443,043	6,713,594	2,326,798	415,113	6,947,017	23,845,565
Total - Neither past due nor impaired	53,309,922	52,892,561	22,088,650	2,855,522	19,657,371	150,804,026
As a percentage of total gross financing and advances	32.59%	32.34%	13.50%	1.75%	12.02%	92.20%

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management (cont'd.)

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

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

	Neither past due nor impaired RM'000	←----- Past due but not impaired ----->				Non-impaired total RM'000	Impaired RM'000	Total RM'000
		Due within 30 days RM'000	Due within 31 to 60 days RM'000	Due within 61 to 90 days RM'000				
2016								
Cashline	4,589,397	61,024	17,840	183	79,047	175,950	4,844,394	
Term financing	109,602,080	7,830,688	2,316,254	634,575	10,781,517	1,296,208	121,679,805	
Other financing	23,281,679	55,822	11,899	2,759	70,480	17,128	23,369,287	
Gross financing and advances	137,473,156	7,947,534	2,345,993	637,517	10,931,044	1,489,286	149,893,486	
Less:								
- Individual allowance							(617,350)	
- Collective allowance							(752,826)	
Net financing and advances							<u>(1,370,176)</u> <u>148,523,310</u>	
As a percentage of total gross financing and advances	91.71%	5.30%	1.57%	0.43%	7.29%	0.99%	100.00%	

Summary of risk categories of gross financing and advances of the Bank are assessed based on credit quality classification as described in Note 37(c)(5).

	←----- Neither past due nor impaired ----->					Total RM'000
	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	
2016						
Cashline	1,165,121	982,071	1,056,156	273,365	1,112,684	4,589,397
Term financing	31,320,347	43,987,191	21,248,078	1,755,804	11,290,660	109,602,080
Other financing	6,204,510	7,908,074	2,043,928	307,497	6,817,670	23,281,679
Total - Neither past due nor impaired	38,689,978	52,877,336	24,348,162	2,336,666	19,221,014	137,473,156
As a percentage of total gross financing and advances	25.81%	35.28%	16.24%	1.56%	12.82%	91.71%

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

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

	Neither past due nor impaired RM'000	Impaired RM'000	Total RM'000	Impairment allowance RM'000	Net total RM'000
2017					
Cash and short-term funds	17,134,359	-	17,134,359	-	17,134,359
Deposits and placements with banks and other financial institutions	-	-	-	-	-
Financial investments portfolio*	12,854,135	-	12,854,135	-	12,854,135
Derivative assets	487,989	-	487,989	-	487,989
Other assets	6,249,479	-	6,249,479	-	6,249,479
Statutory deposit with Bank Negara Malaysia	3,242,000	-	3,242,000	-	3,242,000
	39,967,962	-	39,967,962	-	39,967,962
As a percentage of gross balance	100.00%	-	100.00%		

	←-----Neither past due nor impaired----->						Total
	Sovereign RM'000	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	RM'000
2017							
Cash and short-term funds	16,713,583	-	420,199	-	-	577	17,134,359
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-
Financial investments portfolio*	11,355,083	1,199,317	298,985	-	-	750	12,854,135
Derivative assets	-	81	443,669	44,219	11	9	487,989
Other assets	-	-	-	-	-	6,249,479	6,249,479
Statutory deposit with Bank Negara Malaysia	3,242,000	-	-	-	-	-	3,242,000
Total - Neither past due nor impaired	31,310,666	1,199,398	1,162,853	44,219	11	6,250,815	39,967,962
As a percentage of gross balance	78.34%	3.00%	2.91%	0.11%	0.00%	15.64%	100.00%

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

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

7. Credit quality of financial assets - financial investments portfolio and other financial assets (cont'd.)

	Neither past due nor impaired RM'000	Impaired RM'000	Total RM'000	Impairment allowance RM'000	Net total RM'000
2016					
Cash and short term funds	15,535,992	-	15,535,992	-	15,535,992
Deposits and placements with banks and other financial institutions	651,558	-	651,558	-	651,558
Financial investments portfolio*	8,972,105	-	8,972,105	-	8,972,105
Derivative assets	515,554	-	515,554	-	515,554
Other assets	4,070,483	-	4,070,483	-	4,070,483
Statutory deposit with Bank Negara Malaysia	3,070,000	-	3,070,000	-	3,070,000
	<u>32,815,692</u>	<u>-</u>	<u>32,815,692</u>	<u>-</u>	<u>32,815,692</u>
As a percentage of gross balance	100.00%		100.00%		

	←-----Neither past due nor impaired-----→						Total RM'000
	Sovereign RM'000	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	
2016							
Cash and short term funds	13,583,973	-	1,951,679	-	-	340	15,535,992
Deposits and placements of banks and other financial institutions	-	-	651,558	-	-	-	651,558
Financial investments portfolio*	4,926,842	2,250,983	1,544,397	249,133	-	750	8,972,105
Derivative assets	-	1,846	396,492	111,167	6,049	-	515,554
Other financial assets	-	-	-	-	-	4,070,483	4,070,483
Statutory deposit with Bank Negara Malaysia	3,070,000	-	-	-	-	-	3,070,000
Total - Neither past due nor impaired	<u>21,580,815</u>	<u>2,252,829</u>	<u>4,544,126</u>	<u>360,300</u>	<u>6,049</u>	<u>4,071,573</u>	<u>32,815,692</u>
As a percentage of gross balance	65.76%	6.87%	13.85%	1.10%	0.02%	12.41%	100.00%

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

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

37. Financial risk management policies (cont'd.)

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

8. Credit quality of impaired financial assets

(i) Impaired financial assets analysed by geography are as follows:

	Financing and advances	
	2017	2016
	RM'000	RM'000
Malaysia	1,710,533	1,489,286

(ii) Impaired financial assets analysed by industry sectors are as follows:

	Financing and advances	
	2017	2016
	RM'000	RM'000
Agriculture	23,072	5,671
Mining and quarrying	228,539	254,583
Manufacturing	71,881	58,189
Construction	97,736	54,663
Electricity, gas and water supply	712	440
Wholesale, retail trade, restaurants and hotels	166,371	136,166
Finance, insurance, real estate and business	204,002	195,782
Transport, storage and communication	539,245	476,080
Education, health and others	12,404	7,742
Household	358,972	293,477
Others	7,599	6,493
	1,710,533	1,489,286

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (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	
	2017	2016
	RM'000	RM'000
<u>Individual allowance</u>		
At 1 January	617,350	208,683
Allowance made	149,083	460,108
Amount written back	(75,632)	(22,583)
Transferred to collective allowance	(5,191)	(3,406)
Amount written-off	(24,430)	(25,452)
At 31 December	661,180	617,350
<u>Collective allowance</u>		
At 1 January	752,826	747,774
Allowance made	178,642	107,237
Transferred from individual allowance	5,191	3,406
Amount written-off	(115,476)	(105,591)
At 31 December	821,183	752,826

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

37. Financial risk management policies (cont'd.)

(d) Market risk management

1. Market risk management overview

Market risk management

Market risk is defined as the risk of loss or adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, commodity prices and equity prices. The primary categories of market risk for the Bank are:

- (i) Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;
- (ii) Foreign exchange rate risk: arising from adverse movements in the exchange rates of two currencies; and
- (iii) Equity price risk: arising from changes in the prices of equities, equity indices and equity baskets.

2. Market risk management

Management of trading activities

The Bank's traded market risk exposures are primarily from proprietary trading, client servicing and market making. The risk measurement techniques employed by the Bank comprise both quantitative and qualitative measures.

Value at Risk ("VaR") measures the potential loss of value resulting from market movements over a specified period of time within a specified probability of occurrence under normal business situations. The method adopted is based on historical simulation, at a 99% confidence level using a 1 day holding period. The VaR model is back tested and is subject to periodic independent validation to ensure it meets its intended use.

Besides VaR, the Bank utilises other non-statistical risk measures, such as exposure to a one basis point increase in yield ("PV01") for managing portfolio sensitivity to market interest rate movements, 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)**

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

2. Market risk management framework (cont'd.)

Management and measurement of Profit Rate Risk ("PRR")/Rate of Return Risk ("RoR") in the banking book

The Bank emphasises the importance of managing PRR/RoR in the banking book as most of the balance sheet items of the Bank generate profit income and expense, which are indexed to profit rates. Volatility of earnings can pose a threat to the Bank's profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank's overall capital adequacy.

PRR/RoR in the banking book encompasses repricing risk, yield curve risk and basis risk arising from different profit rate benchmarks and embedded optionality. The objective of the Bank's PRR/RoR in the banking book framework is to ensure that all PRR/RoR in the banking book is managed within its risk appetite.

PRR/RoR in the banking book is measured and monitored proactively, using the following principal measurement techniques:

- Repricing Gap Analysis
- Dynamic Simulation
- Economic Value at Risk
- Stress Testing

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk

The Bank is exposed to various risk associated with the effects of fluctuations in the prevailing levels of market yield/profit rate on the financial position and cash flows. Yield/Profit rate risk is identified, measured, monitored and controlled through limits and procedures set 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.

2017	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	17,133,782	-	-	-	-	577	-	17,134,359	2.99%
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	240,571	240,571	1.66%
Financial investments available-for-sale	276,079	298,751	495,052	3,352,476	5,459,646	-	-	9,882,004	3.93%
Financial investments held-to-maturity	-	-	20,181	504,536	2,206,843	-	-	2,731,560	5.91%
Financing and advances									
- Non-impaired	105,999,171	9,640,262	2,487,886	14,350,615	29,366,581	-	-	161,844,515	5.09%
- Impaired*	1,049,353	-	-	-	-	-	-	1,049,353	-
- Collective allowance	-	-	-	-	-	(821,183)	-	(821,183)	-
Derivative assets	-	-	-	-	-	-	487,989	487,989	-
Other assets	-	-	-	-	-	6,690,982	-	6,690,982	-
Other non-yield/profit sensitive balances	-	-	-	-	-	3,254,903	-	3,254,903	-
Total assets	124,458,385	9,939,013	3,003,119	18,207,627	37,033,070	9,125,279	728,560	202,495,053	

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

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2017	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Liabilities and shareholder's equity									
Customer funding:									
- Deposits from customers	36,654,815	27,696,120	40,754,628	24,791,877	-	-	-	129,897,440	2.83%
- Investment accounts of customers	4,968,431	3,793,912	8,570,575	7,222,527	-	-	-	24,555,445	3.00%
Deposits and placements of banks and other financial institutions	9,171,389	5,537,942	1,458,533	7,940,707	3,741,025	388,545	-	28,238,141	2.81%
Bills and acceptances payable	-	-	-	-	-	8,854	-	8,854	0.00%
Financial liabilities at fair value through profit or loss	-	-	-	892,695	-	-	-	892,695	3.75%
Derivative liabilities	-	-	-	-	-	-	650,320	650,320	-
Term funding	249,401	496,893	4,199,143	-	-	-	-	4,945,437	3.99%
Subordinated sukuk	-	-	-	2,534,105	-	-	-	2,534,105	4.72%
Capital securities	-	-	-	1,002,441	-	-	-	1,002,441	4.95%
Other liabilities	-	-	-	-	-	310,393	-	310,393	-
Other non-yield/profit sensitive balances	-	-	-	-	-	148,373	-	148,373	-
Total liabilities	51,044,036	37,524,867	54,982,879	44,384,352	3,741,025	856,165	650,320	193,183,644	
Islamic banking capital funds	-	-	-	-	-	9,311,409	-	9,311,409	
Total liabilities and Islamic banking capital funds	51,044,036	37,524,867	54,982,879	44,384,352	3,741,025	10,167,574	650,320	202,495,053	
On-balance sheet yield/profit rate sensitivity gap	73,414,349	(27,585,854)	(51,979,760)	(26,176,725)	33,292,045	(1,042,295)	78,240	-	
Cumulative yield/profit rate sensitivity gap	73,414,349	45,828,495	(6,151,265)	(32,327,990)	964,055	(78,240)	-	-	

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2016	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	15,533,018	-	-	-	-	2,974	-	15,535,992	3.07
Deposits and placements with banks and other financial institutions	-	651,558	-	-	-	-	-	651,558	3.50
Financial assets at fair value through profit or loss	-	-	-	-	-	-	252,451	252,451	4.38
Financial investments available-for-sale	1,597,324	1,248,368	426,114	1,295,364	4,152,484	-	-	8,719,654	3.91
Financing and advances									
- Non-impaired	89,120,797	10,494,776	3,623,310	13,154,877	32,010,440	-	-	148,404,200	5.09
- Impaired*	871,936	-	-	-	-	-	-	871,936	-
- Collective allowance	-	-	-	-	-	(752,826)	-	(752,826)	-
Derivative assets	-	-	-	-	-	-	515,554	515,554	-
Other assets	-	-	-	-	-	4,506,551	-	4,506,551	-
Other non-yield/profit sensitive balances	-	-	-	-	-	3,089,487	-	3,089,487	-
Total assets	107,123,075	12,394,702	4,049,424	14,450,241	36,162,924	6,846,186	768,005	181,794,557	

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

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2016	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Liabilities and shareholder's equity									
Customer funding:									
- Deposits from customers	69,993,897	6,978,050	8,221,874	21,410,671	-	-	-	106,604,492	2.77
- Investment accounts of customers	10,366,305	1,026,110	14,940,831	5,211,341	-	-	-	31,544,587	3.27
Deposits and placements of banks and other financial institutions	9,605,321	3,949,454	5,195,637	9,659,253	1,540,438	391,903	-	30,342,006	2.81
Bills and acceptances payable	-	-	-	-	-	53,220	-	53,220	-
Financial liabilities at fair value through profit or loss	-	-	-	902,091	-	-	-	902,091	3.40
Derivative liabilities	-	-	-	-	-	-	535,161	535,161	-
Subordinated sukuk	-	-	-	2,534,496	-	-	-	2,534,496	-
Other liabilities	-	-	-	-	-	91,739	-	91,739	-
Other non-yield/profit sensitive balances	-	-	-	-	-	98,090	-	98,090	-
Total liabilities	89,965,523	11,953,614	28,358,342	39,717,852	1,540,438	634,952	535,161	172,705,882	
Islamic banking capital funds	-	-	-	-	-	9,088,675	-	9,088,675	
Total liabilities and Islamic banking capital funds	89,965,523	11,953,614	28,358,342	39,717,852	1,540,438	9,723,627	535,161	181,794,557	
On-balance sheet yield/profit rate sensitivity gap	17,157,552	441,088	(24,308,918)	(25,267,611)	34,622,486	(2,877,441)	232,844	-	
Cumulative yield/profit rate sensitivity gap	17,157,552	17,598,640	(6,710,278)	(31,977,889)	2,644,597	(232,844)	-	-	

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

4. Sensitivity analysis for profit rate risk

The table below shows the sensitivity of the Bank's profit after tax to an up and down 100 basis point parallel rate shocks.

	2017		Tax rate	2016		
	RM'000 + 100 basis points	RM'000 - 100 basis points		RM'000 + 100 basis points	RM'000 - 100 basis points	
Impact to profit before tax	24%	(279,498)	279,498	24%	(3,280)	3,280
Impact to profit after tax		<u>(212,418)</u>	<u>212,418</u>		<u>(2,493)</u>	<u>2,493</u>

Impact to profit after tax is measured using Earnings-at-Risk ("EaR") methodology which is simulated based on a set of standardised rate shock on the profit rate gap profile derived from the statement of financial position of the Bank. 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 revaluation reserve is assessed by applying up and down 100 basis points rate shock to the yield curve to model the impact on mark-to-market for financial investments of available-for-sale ("AFS") portfolio:

	2017		2016	
	RM'000 + 100 basis points	RM'000 - 100 basis points	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to revaluation reserve for AFS	<u>(557,562)</u>	<u>557,562</u>	<u>(345,309)</u>	<u>345,309</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk

Foreign exchange (“FX”) risk arises as a result of movements in relative currencies due to the Bank’s operating business activities, trading activities and structural foreign exchange exposures from foreign investments and capital management activities.

Generally, the Bank is exposed to three types of foreign exchange risk such as translation risk, transactional risk and economic risk which are managed in accordance with the market risk policy and limits. The FX translation risks are mitigated as the assets are funded in the same currency. The Bank controls its FX exposures by transacting in permissible currencies. It has an internal FX NOP to measure, control and monitor its FX risk and implements FX hedging strategies to minimise FX exposures. Stress testing is conducted periodically to ensure sufficient capital to buffer the FX risk.

The table below analyses the net foreign exchange positions of the Bank as at 31 December 2017 and 31 December 2016 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 Australian Dollar, Japanese Yen, Chinese Renminbi, Philippine Peso and Brunei Dollar.

	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
2017									
Assets									
Cash and short-term funds	16,975,061	-	47,701	4,986	90,684	-	7,539	8,388	17,134,359
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments portfolio*	12,553,049	-	-	-	301,086	-	-	-	12,854,135
Financing and advances	156,785,297	36,658	1,353,699	-	3,538,195	-	28,611	330,225	162,072,685
Derivative assets	4,287,264	836,107	1,636	-	(4,804,960)	-	24,537	143,405	487,989
Other assets	5,488,627	1,532	48,141	(345)	1,182,096	943	(4,834)	(25,178)	6,690,982
Statutory deposit with Bank Negara Malaysia	3,242,000	-	-	-	-	-	-	-	3,242,000
Deferred tax assets	12,903	-	-	-	-	-	-	-	12,903
Total assets	199,344,201	874,297	1,451,177	4,641	307,101	943	55,853	456,840	202,495,053

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2017	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
Liabilities									
Deposits from customers	126,397,010	12,130	50,860	4,040	3,380,386	-	35,164	17,850	129,897,440
Investment accounts of customers	24,555,445	-	-	-	-	-	-	-	24,555,445
Deposits and placements of banks and other financial institutions	23,861,803	23,500	1,172,017	-	2,854,341	935	-	325,545	28,238,141
Bills and acceptances payable	8,854	-	-	-	-	-	-	-	8,854
Financial liabilities at fair value through profit or loss	892,695	-	-	-	-	-	-	-	892,695
Derivative liabilities	5,964,926	835,744	184,079	-	(6,498,994)	(740)	24,409	140,896	650,320
Other liabilities	277,035	(227)	1,683	24	15,283	(10)	17,100	(495)	310,393
Provision for taxation and zakat	148,373	-	-	-	-	-	-	-	148,373
Term funding	4,945,437	-	-	-	-	-	-	-	4,945,437
Subordinated sukuk	2,534,105	-	-	-	-	-	-	-	2,534,105
Capital Securities	1,002,441	-	-	-	-	-	-	-	1,002,441
Total liabilities	190,588,124	871,147	1,408,639	4,064	(248,984)	185	76,673	483,796	193,183,644
On-balance sheet open position									
Less: Derivative assets	(4,287,264)	(836,107)	(1,636)	-	4,804,960	-	(24,537)	(143,405)	(487,989)
Add: Derivative liabilities	5,964,926	835,744	184,079	-	(6,498,994)	(740)	24,409	140,896	650,320
Net open position	192,265,786	870,784	1,591,082	4,064	(1,943,018)	(555)	76,545	481,287	193,345,975

787435-M

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

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk

2016	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	15,454,826	18,517	11,231	250	23,791	-	9,306	18,071	15,535,992
Deposits and placements with banks and other financial institutions	651,558	-	-	-	-	-	-	-	651,558
Financial investments portfolio*	8,616,740	-	-	-	355,365	-	-	-	8,972,105
Financing and advances	142,268,649	4,238	1,169,312	-	4,922,785	-	-	158,326	148,523,310
Derivative assets	(1,058,721)	862,541	114	-	645,435	-	3	66,182	515,554
Other assets	3,575,681	1,437	11,752	(9)	935,552	1,121	(915)	(18,068)	4,506,551
Statutory deposit with Bank Negara Malaysia	3,070,000	-	-	-	-	-	-	-	3,070,000
Deferred tax assets	19,487	-	-	-	-	-	-	-	19,487
Total assets	172,598,220	886,733	1,192,409	241	6,882,928	1,121	8,394	224,511	181,794,557

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2016	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
Liabilities									
Deposits from customers	104,286,350	12,741	35,251	67	2,066,076	-	11,461	192,546	106,604,492
Investment accounts of customers	31,544,587	-	-	-	-	-	-	-	31,544,587
Deposits and placements of banks and other financial institutions	24,201,656	-	962,563	-	5,018,818	324	-	158,645	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	-	53,220
Derivative liabilities	(1,206,922)	871,652	187,984	-	796,219	-	(1,870)	(111,902)	535,161
Other liabilities	91,532	207	-	-	-	-	-	-	91,739
Financial liabilities at fair value through profit or loss	902,091	-	-	-	-	-	-	-	902,091
Provision for taxation and zakat	98,090	-	-	-	-	-	-	-	98,090
Subordinated sukuk	2,534,496	-	-	-	-	-	-	-	2,534,496
Total liabilities	162,505,100	884,600	1,185,798	67	7,881,113	324	9,591	239,289	172,705,882
On-balance sheet open position	10,093,120	2,133	6,611	174	(998,185)	797	(1,197)	(14,778)	9,088,675
Less: Derivative assets	1,058,721	(862,541)	(114)	-	(645,435)	-	(3)	(66,182)	(515,554)
Add: Derivative liabilities	(1,206,922)	871,652	187,984	-	796,219	-	(1,870)	(111,902)	535,161
Net open position	9,944,919	11,244	194,481	174	(847,401)	797	(3,070)	(192,862)	9,108,282

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(d) Market risk management (cont'd.)

6. Sensitivity analysis for foreign exchange risk

Foreign exchange risk

Foreign exchange risk arises from the movements in exchange rates that adversely affect the revaluation of the Bank and the foreign currency positions. Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank on their unhedged position are as follows:

	2017		2016	
	RM'000	RM'000	RM'000	RM'000
	1% appreciation	1% depreciation	1% appreciation	1% depreciation
Impact to profit after tax	<u>(5,553)</u>	<u>5,553</u>	<u>(4,843)</u>	<u>4,843</u>

Interpretation of impact

The Bank measures the foreign exchange sensitivity based on the foreign exchange net open positions (including foreign exchange structural position) under an adverse movement in all foreign currencies against reporting currency - Ringgit Malaysia (RM). The result implies that the Bank may be subject to additional translation (loss)/gain if the RM appreciated/depreciated against other currencies and vice versa.

(e) Liquidity risk management

1. Liquidity risk management overview

Liquidity risk management

Liquidity risk is defined as the risk of an adverse impact to the Bank's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) or unexpected higher cost to meet its obligations.

The Bank has taken BNM 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.

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

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Liquidity risk management (cont'd.)

The Bank has a diversified liability structure to meet its funding requirements. The primary source of funding includes 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. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, provider, product and term thus minimising excessive funding concentration.

Management of liquidity risk

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flows;
- Managing short and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at the Bank levels to avoid undue reliance on large depositors;
- Managing liquidity exposure by domestic and significant foreign currencies;
- Diversifying funding sources to ensure proper funding mix;
- Conducting liquidity stress testing under various scenarios as part of prudent liquidity control;
- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios; and
- Conducting Contingency Funding Plan ("CFP") testing to examine the effectiveness and robustness of the plans to avert any potential liquidity disasters affecting the Bank's liquidity soundness and financial solvency.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (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 as at 31 December 2017 and 31 December 2016.

These disclosures are made in accordance with the requirement of policy document on Financial Reporting issued by BNM:

2017	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	17,134,359	-	-	-	-	-	-	-	17,134,359
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments portfolio*	450,852	364,550	474,570	40,664	2,216,050	1,640,962	7,665,737	750	12,854,135
Financing and advances	21,088,214	9,355,539	1,559,322	883,522	6,209,420	13,214,224	109,762,444	-	162,072,685
Derivative assets	28,144	70,052	80,174	50,305	169,846	72,816	16,652	-	487,989
Other financial assets	-	-	-	6,249,479	-	-	-	441,503	6,690,982
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	3,242,000	3,242,000
Deferred tax assets	-	-	-	-	-	-	-	12,903	12,903
Total assets	38,701,569	9,790,141	2,114,066	7,223,970	8,595,316	14,928,002	117,444,833	3,697,156	202,495,053

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

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

2017	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
Liabilities									
Customer funding:									
- Deposits from customers	65,706,061	26,017,323	22,145,340	14,731,846	1,273,516	23,354	-	-	129,897,440
- Investment accounts of customers	13,868,567	3,169,363	4,964,199	2,532,512	2,564	18,240	-	-	24,555,445
Deposits and placements of banks and other financial institutions	9,696,039	5,401,835	158,326	1,300,208	1,251,632	6,689,076	3,741,025	-	28,238,141
Bills and acceptances payable	8,854	-	-	-	-	-	-	-	8,854
Financial liabilities at fair value through profit or loss	-	-	-	-	-	892,695	-	-	892,695
Derivative liabilities	38,770	204,697	93,437	51,999	168,735	84,127	8,555	-	650,320
Other financial liabilities	-	-	-	310,393	-	-	-	-	310,393
Provision for taxation and zakat	-	-	-	-	-	-	-	148,373	148,373
Term funding	249,400	496,893	739,259	1,456,663	-	2,003,222	-	-	4,945,437
Subordinated sukuk	-	-	-	-	-	-	2,534,105	-	2,534,105
Capital securities	-	-	-	-	-	-	1,002,441	-	1,002,441
Total liabilities	89,567,691	35,290,111	28,100,561	20,383,621	2,696,447	9,710,714	7,286,126	148,373	193,183,644
Net liquidity gap	(50,866,122)	(25,499,970)	(25,986,495)	(13,159,651)	5,898,869	5,217,288	110,158,707	3,548,783	9,311,409

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

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

2016	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	15,535,992	-	-	-	-	-	-	-	15,535,992
Deposits and placements with banks and other financial institutions	-	651,558	-	-	-	-	-	-	651,558
Financial investments portfolio*	1,597,323	1,500,819	272,922	153,192	727,901	567,463	4,151,735	750	8,972,105
Financing and advances	17,811,521	7,843,482	2,609,471	3,064,282	4,888,094	14,057,992	98,248,468	-	148,523,310
Derivative assets	18,908	49,261	127,790	82,534	130,702	79,158	27,201	-	515,554
Other financial assets	-	-	-	4,070,483	-	-	-	436,068	4,506,551
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	3,070,000	3,070,000
Deferred tax assets	-	-	-	-	-	-	-	19,487	19,487
Total assets	34,963,744	10,045,120	3,010,183	7,370,491	5,746,697	14,704,613	102,427,404	3,526,305	181,794,557
Liabilities									
Customer funding:									
- Deposits from customers	63,430,430	25,727,205	11,298,716	6,093,985	30,863	23,293	-	-	106,604,492
- Investment accounts of customers	16,840,520	728,366	5,040,636	8,929,760	3,513	1,792	-	-	31,544,587
Deposits and placements of banks and other financial institutions	9,997,224	3,949,454	1,546,187	3,649,449	4,616,375	5,042,879	1,540,438	-	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	-	53,220
Financial liabilities at fair value through profit or loss	-	-	-	-	-	902,091	-	-	902,091
Derivative liabilities	3,983	67,556	116,227	80,323	144,378	103,551	19,143	-	535,161
Other financial liabilities	-	-	-	91,739	-	-	-	-	91,739
Provision for taxation and zakat	-	-	-	-	-	-	-	98,090	98,090
Subordinated sukuk	-	-	-	-	-	-	2,534,496	-	2,534,496
Total liabilities	90,325,377	30,472,581	18,001,766	18,845,256	4,795,129	6,073,606	4,094,077	98,090	172,705,882
Net liquidity gap	(55,361,633)	(20,427,461)	(14,991,583)	(11,474,765)	951,568	8,631,007	98,333,327	3,428,215	9,088,675

* Financial investments portfolio consists of financial assets at fair value through profit or loss and financial investments available-for-sale.

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities as at 31 December 2017 and 31 December 2016. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and profit analysis. The Bank manage inherent liquidity risk based on discounted expected cash flows.

	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
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-derivative liabilities								
Customers' funding:								
- Deposits from customers	65,714,040	26,055,326	22,260,753	14,775,853	1,273,516	23,354	-	130,102,842
- Investment accounts of customers	13,868,567	3,169,363	4,964,199	2,532,512	2,564	18,240	-	24,555,445
Deposits and placements of banks and other financial institutions	9,712,675	5,418,390	159,884	1,316,047	1,289,509	7,344,347	4,644,219	29,885,071
Bills and acceptances payable	8,854	-	-	-	-	-	-	8,854
Other financial liabilities	-	-	-	310,391	-	-	-	310,391
Financial liabilities at fair value through profit or loss	4,586	136	3,459	-	-	890,000	-	898,181
Term funding	249,401	538,893	739,259	1,498,663	252,000	2,084,000	-	5,362,216
Subordinated sukuk	-	23,250	35,625	58,875	353,250	235,500	2,651,875	3,358,375
Capital securities	-	24,750	-	24,750	148,500	49,500	1,000,000	1,247,500
	89,558,123	35,230,108	28,163,179	20,517,091	3,319,339	10,644,941	8,296,094	195,728,875

787435-M

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis

	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
Commitments and contingencies								
Direct credit substitutes	87,930	197,830	127,175	263,551	251,924	55,453	500,000	1,483,863
Certain transaction-related contingent items	263,349	191,614	182,998	243,325	1,130,333	551,663	922,151	3,485,433
Short-term self-liquidating trade-related contingencies	52,067	125,008	11,335	249	-	-	-	188,659
Irrevocable commitments to extend credit	-	-	-	19,981,036	7,694,750	-	-	27,675,786
Miscellaneous	126,710	-	-	-	-	-	-	126,710
	530,056	514,452	321,508	20,488,161	9,077,007	607,116	1,422,151	32,960,451

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

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

2016	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								
Customers' funding:								
- Deposits from customers	63,430,430	25,727,205	11,298,716	6,093,985	30,863	23,293	-	106,604,492
- Investment accounts of customers	16,840,520	728,366	5,040,636	8,929,760	3,513	1,792	-	31,544,587
Deposits and placements of banks and other financial institutions	9,997,224	3,949,454	1,546,187	3,649,449	4,616,375	5,042,879	1,540,438	30,342,006
Bills and acceptances payable	53,220	-	-	-	-	-	-	53,220
Other financial liabilities	-	-	-	626,900	-	-	-	626,900
Financial liabilities at fair value through profit or loss	-	-	-	-	-	902,091	-	902,091
Subordinated sukuk	-	-	-	-	-	-	2,534,496	2,534,496
	90,321,394	30,405,025	17,885,539	19,300,094	4,650,751	5,970,055	4,074,934	172,607,792
	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
Commitments and contingencies								
Direct credit substitutes	57,917	76,354	90,174	202,422	158,281	97,723	560,500	1,243,371
Certain transaction-related contingent items	118,574	127,138	224,591	185,830	1,177,761	368,799	137,042	2,339,735
Short-term self-liquidating trade-related contingencies	56,782	162,577	13,296	45,635	16,836	-	-	295,126
Irrevocable commitments to extend credit	-	-	-	21,396,850	8,679,087	-	-	30,075,937
Miscellaneous	56,028	-	-	-	-	-	-	56,028
	289,301	366,069	328,061	21,830,737	10,031,965	466,522	697,542	34,010,197

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

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

The tables below analyse the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities as at 31 December 2017 and 31 December 2016. The amounts disclosed in the tables are the contractual undiscounted cash flows.

2017	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								
Trading derivatives								
- Profit rate derivatives	(464)	(1,923)	(2,145)	(2,656)	(4,728)	(1,690)	1,018	(12,588)
Hedging derivatives								
- Profit rate derivatives	-	240	-	(453)	(824)	-	-	(1,037)
	<u>(464)</u>	<u>(1,683)</u>	<u>(2,145)</u>	<u>(3,109)</u>	<u>(5,552)</u>	<u>(1,690)</u>	<u>1,018</u>	<u>(13,625)</u>
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Derivatives:								
- Outflow	812,281	2,459,777	1,369,991	1,063,908	751,270	1,033,630	-	7,490,857
- Inflow	(861,720)	(2,697,090)	(1,526,156)	(1,219,485)	(1,242,982)	(1,396,409)	-	(8,943,842)
Hedging derivatives								
Derivatives:								
- Outflow	1,459	-	18,096	190,339	716,579	-	-	926,473
- Inflow	(110)	-	(3,881)	(186,211)	(818,616)	-	-	(1,008,818)
	<u>(48,090)</u>	<u>(237,313)</u>	<u>(141,950)</u>	<u>(151,449)</u>	<u>(593,749)</u>	<u>(362,779)</u>	<u>-</u>	<u>(1,535,330)</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

37. Financial risk management policies (cont'd.)

(e) Liquidity risk management (cont'd.)

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

2016	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								
Trading derivatives								
- Profit rate derivatives	(485)	(3,781)	(3,934)	(6,336)	(11,873)	(2,007)	5,289	(23,127)
Hedging derivatives								
- Profit rate derivatives	-	516	(258)	269	(1,214)	-	-	(687)
	(485)	(3,265)	(4,192)	(6,067)	(13,087)	(2,007)	5,289	(23,814)
Derivative financial liabilities								
Trading derivatives								
Foreign exchange derivatives:								
- Outflow	(229,994)	(1,302,888)	(1,345,800)	(1,235,443)	(7,200)	(83,882)	-	(4,205,207)
- Inflow	218,243	1,244,347	1,235,353	1,171,345	34,848	308,724	-	4,212,860
Hedging derivatives								
Derivatives:								
- Outflow	(108)	-	(3,866)	(4,044)	(314,128)	-	-	(322,146)
- Inflow	1,446	-	18,026	19,940	926,631	-	-	966,043
	(10,413)	(58,541)	(96,287)	(48,202)	640,151	224,842	-	651,550

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

37. Financial risk management policies (cont'd.)

(f) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank's operational risk management is premised on the three lines of defence concept. Risk taking units (Strategic Business Unit), as first line of defence are primarily responsible for the day-to-day management of operational risks within their respective business operations. They are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with the Bank's operational risk management framework.

The Operational Risk Management ("ORM") team, as the second line of defence, is responsible for the formulation and implementation of operational risk management policy within the Bank, which encompasses the operational risk management strategy and governance structure. Another key function is the development and implementation of operational risk management tools and methodologies to identify, measure, control, report and monitor operational risks.

Internal Audit plays the third line of defence by providing independent assurance in respect of the overall effectiveness of the operational risk management process, which includes performing independent review and periodic validation of the ORM policy and process as well as conducting regular review on implementation of ORM tools by ORM and the respective business units.

38. Fair values measurements

This disclosure provides information on fair value measurements for both financial instruments and non-financial assets and liabilities and is structured as follows:

- (a) Valuation principles;
- (b) Valuation techniques;
- (c) Fair value measurements and classification within the fair value hierarchy;
- (d) Transfers between Level 1 and Level 2 in the fair value hierarchy;
- (e) Movements of Level 3 instruments;
- (f) Sensitivity of fair value measurements to changes in unobservable input assumptions;
and
- (g) Financial instruments not measured at fair value.

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

38. Fair values measurements (cont'd.)

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Bank determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Bank has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the 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 a valuation adjustment, the Bank follow methodologies that consider factors such as bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

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

For disclosure purposes, the level in the hierarchy within which the instruments is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

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

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

38. Fair values measurements (cont'd.)

(a) Valuation principles (cont'd.)

- Level 2: Valuation techniques for which all significant inputs are, or are based on, observable market data

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, illiquid equities and consumer financing and advances with homogeneous or similar features in the market.

- Level 3: Valuation techniques for which significant inputs are not based on observable market data

Refers to instruments where fair value is measured using significant unobservable market inputs. The valuation techniques used are consistent with the Level 2 but incorporates the Bank's own assumptions and data. The chosen valuation technique incorporates the Banks' own assumptions and data. Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and financing and advances priced primarily based on internal credit assessment.

(b) Valuation techniques

The valuation techniques used for both the financial instruments and non-financial assets and liabilities that are not determined by reference to quoted prices (Level 1) are described below:

Derivatives, financing and advances and financial liabilities

The fair values of the Bank's derivative instruments, financing and advances and financial liabilities are derived using discounted cash flows analysis, option pricing and benchmarking models.

Financial assets designated at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity

The fair values of financial assets and financial investments are determined by reference to prices quoted by independent data providers and independent brokers.

Financial liabilities at fair value through profit or loss

The fair value of financial liabilities designated at fair value through profit or loss are derived using discounted cash flows.

Maybank Islamic Berhad
(Incorporated in Malaysia)

38. Fair values measurements (cont'd.)

(c) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below:

	Quoted Market Price Level 1 RM'000	<u>Valuation technique using Observable</u> Inputs Level 2 RM'000	<u>Unobservable</u> Inputs Level 3 RM'000	Total RM'000
As at 31 December 2017				
Financial assets measured at fair values:				
Financial assets at FVTPL	-	240,571	-	240,571
Financial investments AFS	-	9,881,254	750	9,882,004
Derivative assets	-	487,989	-	487,989
	<u>-</u>	<u>10,609,814</u>	<u>750</u>	<u>10,610,564</u>
Financial liabilities measured at fair values:				
Derivative liabilities	-	650,320	-	650,320
Financial liabilities at FVTPL	-	892,695	-	892,695
	<u>-</u>	<u>1,543,015</u>	<u>-</u>	<u>1,543,015</u>

Maybank Islamic Berhad
(Incorporated in Malaysia)

38. Fair values measurements (cont'd.)

(c) Fair value measurements and classification within the fair value hierarchy (cont'd.)

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below: (cont'd.)

	Quoted Market Price Level 1 RM'000	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
As at 31 December 2016				
Financial assets measured at fair values:				
Financial assets at FVTPL	-	252,451	-	252,451
Financial investments AFS	-	8,718,904	750	8,719,654
Derivative assets	-	515,554	-	515,554
	-	<u>9,486,909</u>	<u>750</u>	<u>9,487,659</u>
Financial liabilities measured at fair values:				
Derivative liabilities	-	535,161	-	535,161
Financial liabilities at FVTPL	-	902,091	-	-
	-	<u>1,437,252</u>	<u>-</u>	<u>1,437,252</u>

(d) Transfers between Level 1 and Level 2 in the fair value hierarchy

The accounting policy for determining when transfers between levels of the fair value hierarchy occurred is disclosed in Note 3(xiii). There were no transfers between Level 1 and Level 2 for the Bank during the financial year ended 31 December 2017.

Maybank Islamic Berhad
(Incorporated in Malaysia)

38. Fair values measurements (cont'd.)

(e) Movements of Level 3 instruments

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis.

	Financial investments	Derivative assets	Derivative liabilities	Financial investments	Derivative assets	Derivative liabilities
	AFS	assets	liabilities	AFS	assets	liabilities
	2017	2017	2017	2016	2016	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017/2016	750	-	-	500	-	43,395
Gain/(losses) recognised in income statement	-	-	-	-	-	61,481
Purchases	-	-	-	250	653	-
Settlements	-	-	-	-	(653)	(104,876)
At 31 December 2017/2016	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>	<u>-</u>	<u>-</u>
Total gain/(losses) recognised in income statement for financial instruments measured at fair value at the end of the reporting period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,481</u>
Total losses recognised in other comprehensive statement for financial instruments measured at fair value at the end of the reporting period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(f) Sensitivity of fair value measurements to changes in unobservable input assumptions

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets and financial liabilities in Level 3 of the fair value hierarchy.

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

38. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value

The on-balance sheet financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of provision for current and deferred taxation.

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 judgements 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 as 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 estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as disclosed below.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with carrying amount as shown in the statement of financial position:

	Level 1	Level 2	Level 3	Total	Carrying
2017	RM'000	RM'000	RM'000	fair value	amount
				RM'000	RM'000
Financial assets					
Financing and advances	-	36,688,103	122,362,604	159,050,707	162,072,685
Financial investments held-to-maturity	-	2,731,560	-	2,731,560	2,731,560
Financial liabilities					
Deposits from customers	-	129,886,767	-	129,886,767	129,897,440
Investment accounts of customers	-	24,555,704	-	24,555,704	24,555,445
Deposits and placements of banks and other financial institutions	-	28,163,086	-	28,163,086	28,238,141
Term funding	-	4,941,794	-	4,941,794	4,945,437
Subordinated sukuk	-	2,558,967	-	2,558,967	2,534,105
Capital securities	-	999,897	-	999,897	1,002,441

Maybank Islamic Berhad
(Incorporated in Malaysia)

38. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value (cont'd.)

2016	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	36,977,004	109,665,649	146,642,653	148,523,310
Financial liabilities					
Deposits from customers	-	106,160,062	-	106,160,062	106,604,492
Investment accounts of customers	-	31,544,591	-	31,544,591	31,544,587
Deposits and placements of banks and other financial institutions	-	30,277,560	-	30,277,560	30,342,006
Subordinated sukuk	-	2,517,123	-	2,517,123	2,534,496

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

(i) Financial investments held-to-maturity ("HTM")

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

(ii) Financing and advances

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

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

38. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value (cont'd.)

(iii) Deposits and placements of banks and other financial institutions

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying amount due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.

(iv) Term funding and subordinated sukuk

The fair values of subordinated sukuk are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for similar instruments as at reporting date.

39. Offsetting of financial assets and financial liabilities

Derivative assets and derivative liabilities are offset and the net amounts are reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Nostro foreign accounts related balances are reclassified and presented net against amount due from holding company included within other assets to better reflect the operationalisation and settlement of Nostro accounts.

Amount are not offset in the statement of financial position are related to:

- (i) the counterparties' offsetting exposures with the Bank where the right to set-off is only enforceable in the event of default, insolvency or bankruptcy by the counterparties; and
- (ii) cash and securities that are received or pledged with counterparties.

787435-M

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

39. Offsetting of financial assets and financial liabilities (cont'd.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

	Gross amount of recognised financial assets/ financial liabilities RM'000	Gross amount offset in the statement of financial position RM'000	Amount presented in the statement of financial position RM'000	Amount not offset in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Financial collateral received/ pledged RM'000	
2017						
Financial assets						
Derivative assets	487,989	-	487,989	(814)		487,175
Financial liabilities						
Derivative liabilities	650,320	-	650,320	(814)	(164,420)	485,086
2016						
Financial assets						
Derivative assets	515,554	-	515,554	-	(224,220)	291,334
Financial liabilities						
Derivative liabilities	535,161	-	535,161	-	-	535,161

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

40. Capital management

The Bank's approach to capital management is driven by its strategic objectives and takes into account all relevant regulatory, economic and commercial environments in which the Bank operates. The Bank regards having a strong capital position as essential to the Bank's business strategy and competitive position. As such, implications on the Bank's capital position are taken into account by the Board and senior management prior to implementing major business decisions in order to preserve the Bank's overall capital strength.

The Bank's key thrust of capital management are to diversify its sources of capital; to allocate and deploy 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. In addition, the Bank's capital management is also implemented with the aim to:

- Ensure adequate capital ratios at all times, at levels sufficiently above the minimum regulatory requirements across the Bank;
- Support the Bank's credit rating from local and foreign rating agencies;
- Deploy capital efficiently to businesses to support the Bank's strategic objectives and optimise returns on capital;
- Remain flexible to take advantage of future opportunities; and
- Build and invest in businesses, even in a reasonably stressed environment.

The quality and composition of capital are key factors in the Board and senior management's evaluation of the Bank's capital adequacy position. The Bank places strong emphasis on the quality of its capital and, accordingly, holds a significant amount of its capital in the form of common equity which is permanent and has the highest loss absorption capability on a going concern basis.

The Bank's capital management is guided by the Bank Capital Management Framework to ensure that capital is managed on an integrated approach and ensure a strong and flexible financial position to manage through economic cycles across the Bank.

The Bank's capital management is also supplemented by Bank Annual Capital Plan to facilitate efficient capital levels and utilisation across the Bank. The plan is updated on an annual basis covering at least a three year horizon and approved by the Board for implementation at the beginning of each financial year. The Bank Annual Capital Plan is reviewed by the Board semi-annually in order to keep abreast with the latest development on capital management and also to ensure effective and timely execution of the plans contained therein.

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

40. Capital management (cont'd.)

Pursuant to Bank Negara Malaysia's ("BNM") Capital Adequacy Framework (Capital Components) issued on 4 August 2017, all financial institutions shall hold and maintain at all times, the minimum Common Equity Tier 1 Ratio of 4.5%, Tier 1 Ratio of 6%, and Total Capital Ratio of 8%. BNM has also introduced additional capital buffer requirements which comprises Capital Conservation buffer of 2.5% of total RWA and Countercyclical Capital Buffer ranging between 0% - 2.5% of total RWA. The framework also provides further guidance on the computation approach and operations of the Countercyclical Capital Buffer ranging between 0% - 2.5%.

In addition, as banking institutions in Malaysia evolve to become key regional players and identified as systemically important, BNM will assess at a later date the need to require large banking institutions to operate at higher levels of capital, commensurate with their size, extent of cross-border activities and complexity of operations.

41. Capital adequacy

(a) Compliance and application of capital adequacy ratios

The capital adequacy ratio of the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 4 August 2017 and 2 March 2017 respectively. The total risk weighted assets are computed based on the following approaches:

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

The minimum regulatory capital adequacy requirements for CET1, Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total RWA for the current financial year ended 31 December 2017 (2016: 4.5%, 6.0% and 8.0% of total RWA).

Maybank Islamic Berhad
(Incorporated in Malaysia)

41. Capital adequacy (cont'd.)

(b) The capital adequacy ratios of the Bank

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

	2017	2016
Capital ratios		
CET1 capital ratio	14.500%	13.992%
Tier 1 capital ratio	16.150%	13.992%
Total capital ratio	<u>20.782%</u>	<u>18.553%</u>

(c) Components of Tier 1 and Tier 2 capital

	2017 RM'000	2016 RM'000
CET1/Tier 1 Capital		
Paid-up share capital	5,481,783	281,556
Share premium	-	5,200,227
Retained profits	3,351,547	2,857,087
Other reserves	<u>478,079</u>	<u>749,805</u>
CET1 capital before regulatory adjustments	9,311,409	9,088,675
Less: Regulatory adjustment applied in CET1 capital	(521,603)	(413,187)
Deferred tax assets	(12,903)	(19,487)
Regulatory reserve	(508,700)	(393,700)
Total CET1 Capital	8,789,806	8,675,488
Additional Tier 1 Capital		
Capital securities	<u>1,000,000</u>	<u>-</u>
Total Tier 1 Capital	9,789,806	8,675,488
Tier 2 capital instruments	2,500,000	2,500,000
Collective allowance ¹	20,923	23,379
Surplus of eligible provision over expected loss	<u>287,154</u>	<u>304,154</u>
Total Tier 2 capital	2,808,077	2,827,533
Total Capital	12,597,883	11,503,021

¹ Excludes collective allowances for impaired financing and advances restricted from Tier 2 capital of the Bank

Maybank Islamic Berhad
(Incorporated in Malaysia)

41. Capital adequacy (cont'd.)

(d) The breakdown of RWA by each major risk categories for the Bank are as follows:

	2017	2016
	RM'000	RM'000
Standardised Approach exposure	8,796,181	7,151,955
Internal Ratings-Based Approach exposure after scaling factor	60,246,868	64,702,050
Total risk-weighted assets for credit risk	69,043,049	71,854,005
Total risk-weighted assets for credit risk absorbed by the holding company and Investment Account Holder (IAH)^	(15,855,390)	(16,426,406)
Total risk-weighted assets for market risk	939,674	882,544
Total risk-weighted assets for operational risk	6,490,748	5,691,742
Total risk-weighted assets	60,618,081	62,001,885

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

42. Shariah disclosures

(a) Shariah governance

The Bank has put in place a sound Shariah governance framework to ensure strict adherence to Shariah requirements in its processes. A dedicated Shariah Committee ("SC") provides Shariah oversight on all material Shariah non-compliance risks across the Bank. Supporting the SC is the Shariah Risk Management and Shariah Review and Compliance ("SRC") that provides the day-to-day oversight of the Shariah compliance within the Bank. Underpinning the governance framework is the detailed policies and procedures that includes the required steps to ensure that each transaction executed by the Bank complies with Shariah requirements. A dedicated internal audit team was also established to provide the required check and balance in ensuring strict compliance with the policies and procedures.

Any transaction suspected as Shariah non-compliant will be escalated to the SC for deliberation and decision whether any Shariah requirements have been breached. Shariah Risk Management will track on the incident and rectification status, and ensure timely reporting to the SC, Board and Bank Negara Malaysia. For any Shariah non-compliant transactions, the related income will be purified by channeling the amount to an approved charitable organisation.

Maybank Islamic Berhad
(Incorporated in Malaysia)

42. Shariah disclosures (cont'd.)

(a) Shariah governance (cont'd.)

For the financial year ended 31 December 2017, the nature of transactions deliberated to SC for Shariah non-compliance are as follows:

(i) Shariah non-compliant events

	No. of event	2017 RM'000
Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	3	1
	<u>3</u>	<u>1</u>
	No. of event	2016 RM'000
Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	4	64
	<u>4</u>	<u>64</u>

Apart from the purification of income from Shariah non-compliance events, the Bank has implemented several rectification measures relating to processes, legal documents and other control mechanism to minimize reoccurrence of the Shariah non-compliance incidents.

(ii) Sources and uses of charity funds

	2017 RM'000	2016 RM'000
Sources of charity funds		
Shariah non-compliant/prohibited income	1	64
Income earned from late payment charges	-	30
Total sources of charity funds during the year	<u>1</u>	<u>94</u>
Uses of charity funds		
Contribution to non-profit organisation	1	94
Total uses of charity funds during the year	<u>1</u>	<u>94</u>
Undistributed charity funds as at 31 December 2017/2016	<u>-</u>	<u>-</u>

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

42. Shariah disclosures (cont'd.)

(b) Recognition and measurement by main class of Shariah contracts

The recognition and measurement of each main class of Shariah contract is dependent on the nature of the products, either financing or deposit product. The accounting policies for each of these products are disclosed in their respective policies.

43. Significant events

The following are the significant events of the Bank during the financial year ended 31 December 2017:

(a) Establishment of Islamic Commercial Paper/Medium Term Note Programme of up to RM10.0 billion in nominal value

On 21 February 2017, the Bank established a RM10.0 billion Islamic Commercial Paper/Islamic Medium Term Note Programme, pursuant to which the Bank may issue, from time to time, Ringgit Malaysia Islamic Commercial Papers ("RM ICPs") and/or Ringgit Malaysia Islamic Medium Term Notes ("RM IMTNs") of up to RM10.0 billion in nominal value under the Shariah principle of Wakalah Bi Al-Istithmar.

The ICP/IMTN Programme will give the Bank flexibility to raise funds via the issuance of Islamic commercial papers and/or Islamic medium term notes from time to time which can be utilised, amongst others, to fund the Bank's working capital, general banking and other Shariah compliant corporate purposes, including the refinancing of any existing financing or debt instruments issued by the Bank.

The ICP/IMTN Programme has been assigned a short-term rating of P1 and a long-term rating of AAA by RAM Rating Services Berhad.

(b) Issuance of Additional Tier 1 Sukuk Wakalah of RM1.0 billion in nominal value, pursuant to a Additional Tier 1 Sukuk Wakalah Programme of up to RM10.0 billion in nominal value ("AT1 Sukuk Wakalah Programme")

On 14 December 2017, the Bank issued RM1.0 billion of Additional Tier 1 Sukuk Wakalah ("the AT1 Sukuk Wakalah") in nominal value with a tenor of Perpetual Non-Callable five (5) years pursuant to AT1 Sukuk Wakalah Programme of up to RM10.0 billion nominal value established on 23 November 2017.

The AT1 Sukuk Wakalah bears a fixed profit rate of 4.95% per annum, payable semi-annually.

The Bank may, subject to the prior consent of BNM, redeem the AT1 Sukuk Wakalah, in whole or in part, on 14 December 2022 (first call date) and thereafter on every coupon payment date.

Details of the AT1 Sukuk Wakalah are disclosed in Note 21.