

MAYBANK INVESTMENT BANK BERHAD
(15938-H)
(Incorporated in Malaysia)

CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

<u>Group</u>	<u>Note</u>	<u>31 December 2018 RM'000</u>	<u>31 December 2017 RM'000</u>
ASSETS			
Cash and short-term funds	14	834,236	703,662
Deposits and placements with a financial institution	15	858,974	807,279
Financial investments portfolio	16	588,635	429,655
Loans and advances	17	368,646	471,360
Derivative assets	21 (i)	35,623	8,855
Other assets	18	827,135	951,992
Tax recoverable		25,250	9,615
Statutory deposit with Bank Negara Malaysia		105	105
Investment in a joint venture		2,813	5,746
Property, plant and equipment		9,632	14,911
Intangible assets		15,021	16,312
Deferred tax assets		16,378	19,603
TOTAL ASSETS		3,582,448	3,439,095
LIABILITIES			
Deposits and placements from a financial institution	19	1,003,316	743,958
Derivative liabilities	21 (ii)	228,382	102,728
Other liabilities	20	1,749,769	1,947,040
Provision for zakat		656	981
TOTAL LIABILITIES		2,982,123	2,794,707
SHAREHOLDER'S EQUITY			
Share capital		222,785	222,785
Reserves		377,540	421,603
TOTAL EQUITY		600,325	644,388
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		3,582,448	3,439,095
COMMITMENTS AND CONTINGENCIES	29	1,692,394	1,468,376

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these financial statements)

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CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

<u>Bank</u>	Note	31 December 2018 RM'000	31 December 2017 RM'000
ASSETS			
Cash and short-term funds	14	795,242	663,163
Deposits and placements with a financial institution	15	858,954	807,259
Financial investments portfolio	16	588,635	429,655
Loans and advances	17	368,646	471,360
Derivative assets	21 (i)	35,623	8,855
Other assets	18	823,930	951,912
Tax recoverable		23,362	7,743
Statutory deposit with Bank Negara Malaysia		105	105
Investment in subsidiaries		203,259	203,259
Investment in a joint venture		-	5,996
Property, plant and equipment		9,617	14,896
Intangible assets		15,021	16,312
Deferred tax assets		16,378	19,603
TOTAL ASSETS		3,738,772	3,600,118
LIABILITIES			
Deposits and placements from a financial institution	19	1,003,316	743,958
Derivative liabilities	21 (ii)	228,382	102,728
Other liabilities	20	1,916,880	2,117,187
Provision for zakat		656	981
TOTAL LIABILITIES		3,149,234	2,964,854
SHAREHOLDER'S EQUITY			
Share capital		222,785	222,785
Reserves		366,753	412,479
TOTAL EQUITY		589,538	635,264
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		3,738,772	3,600,118
COMMITMENTS AND CONTINGENCIES	29	1,692,394	1,468,376

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these financial statements)

MAYBANK INVESTMENT BANK BERHAD
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(Incorporated in Malaysia)

CONDENSED FINANCIAL STATEMENTS
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

<u>Group</u>	Notes	Unaudited		Audited	
		31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Interest income	22	19,333	16,603	74,305	61,554
Interest expense	23	(13,815)	(10,189)	(51,147)	(33,670)
Net interest income		5,518	6,414	23,158	27,884
Income from Islamic Banking Scheme operations	31	14,489	15,769	51,666	85,104
Non-interest income	24	61,294	143,891	297,405	359,787
Direct costs	25	(7,791)	(16,901)	(31,128)	(37,735)
Net income		73,510	149,173	341,101	435,040
Overhead expenses	26	(86,021)	(100,228)	(290,523)	(284,238)
Operating (loss)/profit		(12,511)	48,945	50,578	150,802
(Allowance for)/writeback of impairment on loans and advances and other assets, net	27	(1,750)	3,026	(1,539)	(2,181)
		(14,261)	51,971	49,039	148,621
Share of results of a joint venture		(906)	(1,683)	(3,064)	(8,469)
(Loss)/profit before taxation and zakat		(15,167)	50,288	45,975	140,152
Taxation and zakat		3,344	(10,166)	(12,771)	(37,616)
(Loss)/profit for the period/year, attributable to equity holder of the Bank		(11,823)	40,122	33,204	102,536
Basic and diluted earnings per share (sen), attributable to equity holder of the Bank		(24)	80	66	205
Other comprehensive income/(loss):					
Item that will not be reclassified subsequently to profit or loss:					
Net gain on revaluation of financial assets at fair value through other comprehensive income		12	-	12	-
Item that may be reclassified subsequently to profit or loss:					
Net gain/(loss) on foreign exchange translation		136	(384)	(16)	(2,137)
Other comprehensive income/(loss) for the period/year, net of tax		148	(384)	(4)	(2,137)
Total comprehensive (loss)/income for the period/year, attributable to equity holder of the Bank		(11,675)	39,738	33,200	100,399

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CONDENSED FINANCIAL STATEMENTS
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

<u>Bank</u>	Notes	Unaudited		Audited	
		31 December 2018 RM'000	31 December 2017 RM'000	Cumulative 12 Months Ended 31 December 2018 RM'000	31 December 2017 RM'000
Interest income	22	19,055	16,335	73,194	60,508
Interest expense	23	(13,815)	(10,189)	(51,147)	(33,670)
Net interest income		5,240	6,146	22,047	26,838
Income from Islamic Banking Scheme operations	31	14,489	21,088	51,666	85,104
Non-interest income	24	61,293	143,423	297,362	357,696
Direct costs	25	(7,791)	(16,901)	(31,128)	(37,735)
Net income		73,231	153,756	339,947	431,903
Overhead expenses	26	(84,988)	(99,425)	(287,910)	(281,204)
Operating (loss)/profit		(11,757)	54,331	52,037	150,699
Allowance for impairment on investment in a joint venture		(2,596)	-	(5,996)	(8,000)
(Allowance for)/writeback of impairment on loans and advances and other assets, net	27	(2,068)	3,051	(1,957)	(2,156)
(Loss)/profit before taxation and zakat		(16,421)	57,382	44,084	140,543
Taxation and zakat		3,399	(10,118)	(12,559)	(37,424)
(Loss)/profit for the period/year, representing total comprehensive income for the period/year, attributable to equity holder of the Bank		(13,022)	47,264	31,525	103,119
Other comprehensive income:					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Net gain on revaluation of financial assets at fair value through other comprehensive income		12	-	12	-
Other comprehensive income for the period/year, net of tax		12	-	12	-
Total comprehensive (loss)/income for the period/year, attributable to equity holder of the Bank		(13,010)	47,264	31,537	103,119

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these financial statements)

MAYBANK INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

<u>Group</u>	-----Non-distributable----->						Distributable	
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value through other comprehensive income reserve RM'000	Exchange fluctuation reserve RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2018								
- as previously stated	222,785	-	-	5,022	-	(380)	416,961	644,388
- effect of adopting MFRS 9 (Note 34)	-	-	-	28,378	918	-	(28,159)	1,137
At 1 January 2018, as restated	222,785	-	-	33,400	918	(380)	388,802	645,525
Profit for the year	-	-	-	-	-	-	33,204	33,204
Other comprehensive income/(loss)	-	-	-	-	12	(16)	-	(4)
Total comprehensive income/(loss) for the year	-	-	-	-	12	(16)	33,204	33,200
Transfer to regulatory reserve	-	-	-	1,377	-	-	(1,377)	-
Dividends	-	-	-	-	-	-	(78,400)	(78,400)
At 31 December 2018	222,785	-	-	34,777	930	(396)	342,229	600,325
At 1 January 2017	50,116	172,669	50,116	3,497	-	1,757	265,834	543,989
Profit for the year	-	-	-	-	-	-	102,536	102,536
Other comprehensive loss	-	-	-	-	-	(2,137)	-	(2,137)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(2,137)	102,536	100,399
Transfer to regulatory reserve	-	-	-	1,525	-	-	(1,525)	-
Transfer to retained earnings	-	-	(50,116)	-	-	-	50,116	-
Transfer to share capital	172,669	(172,669)	-	-	-	-	-	-
At 31 December 2017	222,785	-	-	5,022	-	(380)	416,961	644,388

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes to these financial statements)

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CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

	←-----Non-distributable----->				Distributable		Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Fair value through other comprehensive income reserve RM'000	Retained earnings RM'000	
Bank							
At 1 January 2018							
- as previously stated	222,785	-	-	5,022	-	407,457	635,264
- effect of adopting MFRS 9 (Note 34)	-	-	-	28,378	918	(28,159)	1,137
At 1 January 2018, as restated	222,785	-	-	33,400	918	379,298	636,401
Profit for the year	-	-	-	-	-	31,525	31,525
Other comprehensive income	-	-	-	-	12	-	12
Total comprehensive income for the year	-	-	-	-	12	31,525	31,537
Transfer to regulatory reserve	-	-	-	1,377	-	(1,377)	-
Dividends	-	-	-	-	-	(78,400)	(78,400)
At 31 December 2018	222,785	-	-	34,777	930	331,046	589,538
At 1 January 2017	50,116	172,669	50,116	3,497	-	255,747	532,145
Profit for the year	-	-	-	-	-	103,119	103,119
Total comprehensive income for the year	-	-	-	-	-	103,119	103,119
Transfer to regulatory reserve	-	-	-	1,525	-	(1,525)	-
Transfer to retained earnings	-	-	(50,116)	-	-	50,116	-
Transfer to share capital	172,669	(172,669)	-	-	-	-	-
At 31 December 2017	222,785	-	-	5,022	-	407,457	635,264

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes to these financial statements)

MAYBANK INVESTMENT BANK BERHAD
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CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF CASH FLOWS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

	Note	Group		Bank	
		31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Cash flows from operating activities					
Profit before taxation and zakat		45,975	140,152	44,084	140,543
Adjustments for:					
Share of results of a joint venture		3,064	8,469	-	-
Depreciation of property, plant and equipment	26	6,701	6,380	6,701	6,380
Amortisation of computer software	26	5,049	4,334	5,049	4,334
Allowance for impairment on loans and advances and other assets, net		2,232	3,405	2,650	3,380
Allowance for impairment on investment in a joint venture		-	-	5,996	8,000
Gross dividends	24	(8,773)	(2,986)	(13,323)	(2,986)
Realised loss/(gain) from sale of financial assets at fair value through profit or loss, net	24	31,324	(42,985)	31,324	(42,985)
Unrealised gain on revaluation of financial assets at fair value through profit or loss, net	24	(142,615)	(77,841)	(142,615)	(77,841)
Realised (gain)/loss from sale of derivative financial instruments, net	24	(58,573)	55,812	(58,573)	55,812
Unrealised loss on revaluation of derivative financial instruments, net	24	120,579	54,249	120,579	54,249
Operating profit before working capital changes		4,963	148,989	1,872	148,886
Change in cash and short-term funds with original maturity more than three months		(84,661)	(636)	(84,661)	(636)
Change in deposits and placements with original maturity more than three months		(35,638)	(444,002)	(35,638)	(444,002)
Change in financial investments portfolio and derivative financial instruments		(10,809)	172,121	(10,809)	172,121
Change in loans and advances		102,753	(172,029)	102,753	(172,029)
Change in other assets		123,589	(199,550)	126,443	(200,808)
Change in deposits and placements from a financial institution		259,358	128,475	259,358	128,475
Change in other liabilities		(197,271)	563,018	(200,307)	563,778
Cash generated from operations		162,284	196,386	159,011	195,785
Taxation and zakat paid, net		(25,506)	(49,683)	(25,278)	(49,602)
Net cash generated from operating activities		136,778	146,703	133,733	146,183
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,422)	(2,143)	(1,422)	(2,143)
Purchase of computer software		(3,758)	(3,959)	(3,758)	(3,959)
Net dividends received		8,773	2,986	13,323	2,986
Net cash generated from/(used in) investing activities		3,593	(3,116)	8,143	(3,116)
Cash flows from financing activity					
Dividends paid, representing net cash used in financing activity		(78,400)	-	(78,400)	-
Net increase in cash and cash equivalents		61,971	143,587	63,476	143,067
Cash and cash equivalents at the beginning of the year		704,163	560,576	663,644	520,577
Cash and cash equivalents at the end of the year		766,134	704,163	727,120	663,644

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CONDENSED FINANCIAL STATEMENTS
AUDITED STATEMENTS OF CASH FLOWS
FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2018

	Note	Group		Bank	
		31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Cash and cash equivalents comprise:					
Cash and short-term funds	14	834,236	703,662	795,242	663,163
Deposits and placements with a financial institution	15	858,974	807,279	858,954	807,259
		<u>1,693,210</u>	<u>1,510,941</u>	<u>1,654,196</u>	<u>1,470,422</u>
Less:					
Cash and short-term funds and deposits and placements with original maturity more than three months		(927,076)	(806,778)	(927,076)	(806,778)
		<u>766,134</u>	<u>704,163</u>	<u>727,120</u>	<u>663,644</u>

(These condensed interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these financial statements)

MAYBANK INVESTMENT BANK BERHAD
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Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 ("MFRS 134") Interim Financial Reporting

1. Basis of Preparation

The audited condensed interim financial statements of the Group and of the Bank have been prepared under the historical cost convention except for the following assets and liabilities that are stated at fair values: financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and derivative financial instruments.

The audited condensed interim financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

The audited condensed interim financial statements do not include all the information and disclosure required in the audited financial statements, and should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018. These explanatory notes attached to the audited condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group and of the Bank since the year ended 31 December 2017.

The audited condensed interim financial statements include those activities relating to the Islamic banking business which have been undertaken by the Group. Islamic banking business refers generally to capital market and stockbroking activities under the principles of Shariah.

The significant accounting policies and methods of computation applied by the Group and by the Bank are consistent with those adopted in the most recent audited financial statements for the financial year ended 31 December 2018 except for adoption of the following Malaysian Financial Reporting Standards ("MFRSs") and annual improvements to MFRSs which are effective for annual periods beginning on or after 1 January 2019:

Description	Effective for annual periods beginning on or after
MFRS 9 <i>Prepayment Features with Negative Compensation</i> (Amendments to MFRS 9)	1 January 2019
MFRS 16 <i>Leases</i>	1 January 2019
MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i> (Amendments to MFRS 128)	To be announced by MASB
Annual Improvements to MFRSs 2015-2017 Cycle	
(i) MFRS 3 <i>Business Combinations</i>	1 January 2019
(ii) MFRS 11 <i>Joint Arrangements</i>	1 January 2019
(iii) MFRS 112 <i>Income Tax</i>	1 January 2019
(iv) MFRS 123 <i>Borrowing Costs</i>	1 January 2019
MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i> (Amendments to MFRS 119)	1 January 2019
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to MFRS 10 and MFRS 128: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

Adoption of the above standards and annual improvements to standards do not have any significant financial impact on the financial statements of the Group and of the Bank in the period of initial application, except for those discussed below:

MFRS 16 Leases ("MFRS 16")

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 *Leases* ("MFRS 117"). The standard will supersede MFRS 117, 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. Subsequently, lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(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 i.e. operating and finance leases.

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Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 ("MFRS 134") Interim Financial Reporting (Cont'd)

1. Basis of Preparation (Cont'd)

Revised Financial Reporting Guidelines issued by Bank Negara Malaysia ("BNM")

On 2 February 2018, BNM issued a revised Financial Reporting Guidelines. The revised guidelines apply to financial institutions in Malaysia that covers licensed banks, licensed investment banks, licensed Islamic banks and licensed insurers. The revised guidelines have superseded two guidelines issued by BNM previously, namely *Financial Reporting* dated 28 January 2015 and *Classification and Impairment Provision for Loans/Financing* dated 6 April 2015. The revised guidelines were updated to include as follows:

- (i) Require a banking institution to maintain, in aggregate, loss allowance for non-credit impaired exposures (commonly known as Stage 1 and Stage 2 provisions) and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures;

The Group and the Bank have presented these information in the Unaudited Statements of Changes in Equity and in note 34.

- (ii) Additional disclosure in annual financial statements i.e. intercompany charges with a breakdown by type of services received and geographical distribution;

The Group and the Bank will present these information in the annual financial statements for the year ending 31 December 2018 accordingly.

- (iii) Clarify on the classification of a credit facility as credit-impaired:

- (a) where the principal or interest/profit or both of the credit facility is past due for more than 90 days or 3 months. In the case of revolving credit facilities (e.g. overdraft facilities), the facility shall be classified as credit-impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
- (b) where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, and the credit facility exhibits weaknesses in accordance with the banking institution's credit risk measurement framework; or
- (c) when the credit facility is classified as rescheduled or restructured in the Central Credit Reference Information System (CCRIS) in accordance with the CCRIS reporting requirements in Appendix 1 of the revised guidelines.

The Group and the Bank have adopted the above classification criteria in deriving the credit-impaired exposures, which leads to the computation of regulatory reserves and loss allowance for credit-impaired exposures as required in (i) above.

2. Significant Accounting Policies

The audited financial statements of the Group and of the Bank for the financial year ended 31 December 2018 were prepared in accordance with MFRS, International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia. The significant accounting policies adopted in preparing these audited condensed interim financial statements are consistent with those of the audited financial statements for the financial year ended 31 December 2018 except for the adoption of the new MFRS, amendments to MFRS and annual improvements to MFRS which are effective for annual periods beginning on or after 1 January 2019 as disclosed in Note 1.

3. Significant Accounting Estimates and Judgements

The preparation of audited condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the 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.

In preparing these audited condensed interim financial statements, the significant judgements made by management in applying the Group's and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited financial statements for the financial year ended 31 December 2018.

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Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 (“MFRS 134”) Interim Financial Reporting (Cont’d)

4. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2018 was not qualified.

5. Seasonal or Cyclical Factors

The operations of the Group and of the Bank were not materially affected by any seasonal or cyclical factors in the fourth quarter ended 31 December 2018.

6. Unusual Items Due to Their Nature, Size or Incidence

During the fourth quarter ended 31 December 2018, there were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group and of the Bank.

7. Changes in Estimates

There were no material changes in estimates during the fourth quarter ended 31 December 2018.

8. Changes in Debt and Equity Securities

There were no issuances, cancellations, share buy-backs, resale of shares bought back and repayment of debt and equity securities by the Group and the Bank during the fourth quarter ended 31 December 2018.

9. Changes in the Composition of the Group

There were no changes in the composition of the Group during the fourth quarter ended 31 December 2018.

10. Dividends Paid

- (i) At the Annual General Meeting on 11 April 2018, a single-tier final dividend in respect of the financial year ended 31 December 2017 of approximately RM1.47 on 50,116,000 ordinary shares, amounting to a net dividend payment of RM73,900,000 was approved by the shareholder and subsequently paid to the shareholder on 20 April 2018.
- (ii) A single-tier interim dividend in respect of the financial year ended 31 December 2018 of approximately RM0.09 on 50,116,000 ordinary shares, amounting to a net dividend payment of RM4,500,000 was approved and subsequently paid to the shareholder on 21 September 2018.

11. Significant and Subsequent Events

There were no significant and subsequent events during the fourth quarter ended 31 December 2018.

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Explanatory Notes Pursuant to Malaysian Financial Reporting Standard 134 (“MFRS 134”) Interim Financial Reporting (Cont’d)

12. Performance Review

For the financial year ended 31 December 2018, the Group's operating profit dropped by 66.5% to RM50.6 million from RM150.8 million a year ago due to lower income.

Net income decreased by 21.6% from RM435.0 million to RM341.1 million. Non-interest income and income from Islamic Banking Scheme operations dropped by RM62.4 million to RM297.4 million and by RM33.4 million to RM51.7 million respectively from a year ago substantially due to lower fee-based income during the year. Net interest income decreased by 16.9% to RM23.2 million mainly due to higher interest expense from derivative financial instruments.

Overhead expenses increased by 2.2% or RM6.3 million to RM290.5 million from RM284.2 million in the previous corresponding year. This was mainly contributed by higher personnel expenses, marketing costs and establishment costs, partly offset by lower administration and general expenses during the year.

The Group's profit before taxation and zakat decreased by 67.2% or RM94.2 million from RM140.2 million to RM46.0 million. Profit for the year dropped by 67.6% or RM69.3 million to RM33.2 million from RM102.5 million a year ago.

13. Business Outlook

Global gross domestic product ("GDP") growth is expected to ease in 2019 to +3.6% from +3.8% in 2018 on continued normalising of monetary policies globally, which include rising interest rates and reversal of quantitative easing measures by major central banks, coupled with spill over effects from the United States ("US")-China trade war. Moderating global GDP growth is forecasted to be led by major advanced economies including the US (2019E: +2.5%; 2018E: +2.9%) and Eurozone (2019E: +1.7%; 2018: +1.9%), as well as selected BRIC (Brazil, Russia, India and China) markets such as China (2019E: +6.3%; 2018: +6.6%) and Russia (2019E: +1.5%; 2018E: +1.7%).

A similar pace of slower growth is likely to be seen in the ASEAN-6 countries (2019E: +4.8%; 2018E: +5.0%) on the back of global macroeconomic headwinds causing uncertainty. Malaysia is projected to chart stable growth at +4.9% in 2019 (2018: 4.7%) on improved growth in the mining and agriculture sectors, private investment, as well as positive net external demand. Some considerations that could impact Malaysia's economic growth include the outcome of the US-China trade talks and the Government's long term economic growth policy.

The equity market is expected to remain volatile as foreign investors await signs of the domestic economy sustaining its growth momentum, corporate earnings resuming their growth, and domestic policy risks dissipate. Supported by the strong domestic liquidity, the fixed income market outlook is mildly bullish, with potential issuances in selected sectors.

Barring any unforeseen circumstances, Maybank Investment Bank Berhad expects its financial performance for 2019 to be satisfactory against the expected growth prospects in Malaysia.

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14. Cash and short-term funds

	Group		Bank	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Cash and bank balances with financial institutions	254,289	240,105	248,316	233,926
Deposit and placements maturing within one month	579,947	463,557	546,926	429,237
Total cash and short-term funds	834,236	703,662	795,242	663,163

The monies held-in-trust for clients by the Group and by the Bank as at the reporting date are approximately RM312,325,000 (2017: RM266,353,000). These amounts are excluded from the cash and short-term funds of the Group and of the Bank in accordance with FRSIC Consensus 18 Monies Held-in-Trust by Participating Organisation at Bursa Malaysia Securities Berhad.

15. Deposits and placements with a financial institution

	Group		Bank	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Licensed bank	858,974	807,279	858,954	807,259

16. Financial investments portfolio

		Group and Bank	
		31 December 2018 RM'000	31 December 2017 RM'000
Financial assets at fair value through profit or loss	(i)	587,472	390,177
Financial assets at fair value through other comprehensive income	(ii)	1,130	-
Financial assets at amortised cost	(iii)	33	-
Financial investments available-for-sale	(iv)	-	39,445
Financial investments held-to-maturity	(v)	-	33
Total financial investments portfolio		588,635	429,655

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

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
At fair value		
Quoted financial assets:		
Shares in Malaysia	172,823	214,202
Shares outside Malaysia	159,803	144,433
	332,626	358,635
Unquoted financial assets:		
Loan stock in Malaysia	39,245	-
Structured product	215,601	31,542
	587,472	390,177

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16. Financial investments portfolio (Cont'd)

(ii) Financial assets at fair value through other comprehensive income

Group and Bank	
31 December	31 December
2018	2017
RM'000	RM'000
At fair value, or at cost for certain unquoted equity instruments, less accumulated impairment loss	
Unquoted financial assets:	
Shares in Malaysia	-
1,130	-

(iii) Financial assets at amortised cost

Group and Bank	
31 December	31 December
2018	2017
RM'000	RM'000
At amortised cost less accumulated impairment loss	
Unquoted financial assets:	
Private debt securities in Malaysia	-
33	-

(iv) Financial investments available-for-sale

Group and Bank	
31 December	31 December
2018	2017
RM'000	RM'000
At fair value, or at cost for certain unquoted equity instruments, less accumulated impairment loss	
Unquoted financial investments:	
Shares and loan stock in Malaysia	39,445
-	39,445

(v) Financial investments held-to-maturity

Group and Bank	
31 December	31 December
2018	2017
RM'000	RM'000
At amortised cost less accumulated impairment loss	
Unquoted financial investments:	
Private debt securities in Malaysia	33
-	33

17. Loans and advances

Group and Bank	
31 December	31 December
2018	2017
RM'000	RM'000
Term loans	
- Other term loans	109,256
Amount due from brokers and clients	
- Margin accounts	340,987
Staff loans	22,032
Gross loans and advances	472,275
Less: Allowance for impairment losses	
ECL allowances:	
- Stage 1 - 12 Months ECL	-
- Stage 3 - Lifetime ECL credit impaired	-
- Individual allowance	(273)
- Collective allowance	(642)
Net loans and advances	471,360

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17. Loans and advances (Cont'd)

(i) Loans and advances analysed by type of customer are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Domestic business enterprises		183,846
- Small and medium enterprises	32,442	
- Others	105,750	
Individuals	230,567	281,910
Foreign entities	474	6,519
Gross loans and advances	369,233	472,275

(ii) Loans and advances analysed by interest rate sensitivity are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Fixed rate		
- Housing loans	12,400	11,489
- Hire purchase receivables	10,800	10,280
- Other fixed rate loans	190	263
Variable rate		
- Base lending rate (BLR)-plus	256,553	340,987
- Cost-plus	89,290	109,256
Gross loans and advances	369,233	472,275

(iii) Loans and advances analysed by economic purpose are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Purchase of securities	256,553	340,987
Purchase of transport vehicles	10,800	10,280
Purchase of residential landed property	12,400	11,489
Personal use	190	263
Others	89,290	109,256
Gross loans and advances	369,233	472,275

(iv) The maturity structure of loans and advances are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Within one year	346,429	435,710
More than one year to three years	3,810	3,947
More than three years to five years	6,688	21,258
More than five years	12,306	11,360
Gross loans and advances	369,233	472,275

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17. Loans and advances (Cont'd)

(v) Movements in impaired loans and advances are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
At 1 January	641	7,083
Impaired during the year	-	15
Recovered/regularised during the year	(15)	(6,457)
Gross impaired loans and advances	<u>626</u>	<u>641</u>
Less: - Stage 3 - Lifetime ECL credit impaired	(265)	-
- Individual allowance	-	(273)
Net impaired loans and advances	<u>361</u>	<u>368</u>
Net impaired loans and advances as a percentage of gross loans and advances less Stage 3 - Lifetime ECL credit impaired/ individual allowance	<u>0.10%</u>	<u>0.08%</u>

(vi) Impaired loans and advances analysed by economic purpose are as follows:

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Purchase of securities	-	15
Purchase of transport vehicles	159	159
Purchase of residential landed property	467	467
Gross impaired loans and advances	<u>626</u>	<u>641</u>

(vii) Movements in the allowance for impairment losses are as follows:

	Stage 1	Stage 2	Stage 3	Total ECL RM'000
	12 Months ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
Group and Bank				
At 1 January 2018				
- as previously stated	642	-	273	915
- effect of adopting MFRS 9	(289)	-	-	(289)
At 1 January 2018, as restated	<u>353</u>	<u>-</u>	<u>273</u>	<u>626</u>
Amount written-back (Note 27)	(31)	-	(8)	(39)
At 31 December 2018	<u>322</u>	<u>-</u>	<u>265</u>	<u>587</u>

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Individual allowance		
At 1 January		
- as previously stated	273	6,270
- effect of adopting MFRS 9	(273)	-
At 1 January, as restated	<u>-</u>	<u>6,270</u>
Allowance made	-	7
Amount written-off	-	(6,004)
Balance as at the end of financial year	<u>-</u>	<u>273</u>

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17. Loans and advances (Cont'd)

(vii) Movements in the allowance for impairment losses are as follows (Cont'd):

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Collective allowance		
At 1 January		
- as previously stated	642	104
- effect of adopting MFRS 9	(642)	-
At 1 January, as restated	-	104
Allowance made	-	538
Balance as at the end of financial year	-	642

18. Other assets

	Group		Bank	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Amount due from brokers and clients				
- Non-margin accounts (a)	480,451	783,594	480,451	783,594
Amount due from ultimate holding company	6,903	25,609	6,903	25,609
Other debtors, deposits and prepayments	359,734	160,497	353,219	156,689
	847,088	969,700	840,573	965,892
Less: Allowance for impairment losses	(19,953)	(17,708)	(16,643)	(13,980)
	827,135	951,992	823,930	951,912

(a) Amount due from brokers and clients relates to outstanding purchase contracts entered into on behalf of clients, contra gains and losses, other fees and charges.

19. Deposits and placements from a financial institution

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Licensed bank	1,003,316	743,958

20. Other liabilities

	Group		Bank	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Provisions and accruals	89,842	113,736	89,667	113,553
Amount due to brokers and clients (a)	469,644	745,988	469,644	745,988
Deposits and other creditors	1,160,801	1,020,434	1,156,613	1,019,290
Amount due to:				
- Holding company	23,159	45,662	23,159	45,662
- Related companies	6,323	21,220	6,323	21,220
- Subsidiaries	-	-	171,474	171,474
	1,749,769	1,947,040	1,916,880	2,117,187

(a) Amount due to brokers and clients represents net amount payable to margin and non-margin clients, which include outstanding sales contracts entered into on behalf of clients, contra gains and losses, other fees and charges.

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21. Derivative financial instruments

(i) Derivative assets

	Group and Bank			
	31 December 2018		31 December 2017	
	Contract/ Notional amount RM'000	Fair value RM'000	Contract/ Notional amount RM'000	Fair value RM'000
Hedging derivatives				
Equity-related derivatives:				
Equity swaps				
- Less than one year	234,872	35,623	118,129	8,855

(ii) Derivative liabilities

	Group and Bank			
	31 December 2018		31 December 2017	
	Contract/ Notional amount RM'000	Fair value RM'000	Contract/ Notional amount RM'000	Fair value RM'000
Hedging derivatives				
Equity-related derivatives:				
Equity options				
- Less than one year	222,927	219,584	151,143	81,445
Equity swaps				
- Less than one year	65,494	8,798	145,972	21,283
	288,421	228,382	297,115	102,728

(iii) The Group and the Bank have recognised the fair value changes on the derivative financial instruments as follows (Note 24):

	Group and Bank			
	Unaudited		Audited	
	Fourth Quarter Ended		Cumulative 12 Months Ended	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Equity-related derivatives:				
Index futures	(1,074)	-	(1,153)	5
Equity options	(64,962)	(6,572)	(158,663)	(26,279)
Equity swaps	1,790	(2,266)	39,237	(27,975)
	(64,246)	(8,838)	(120,579)	(54,249)

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22. Interest income

<u>Group</u>	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than on impaired loans	7,590	8,021	30,976	33,362
- Interest income on impaired loans	26	16	91	86
Money at call and deposits and placements with financial institutions	9,931	8,207	38,940	26,700
Others	1,786	359	4,298	1,406
Total interest income	19,333	16,603	74,305	61,554

<u>Bank</u>	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than on impaired loans	7,590	8,021	30,976	33,362
- Interest income on impaired loans	26	16	91	86
Money at call and deposits and placements with financial institutions	9,653	7,939	37,829	25,654
Others	1,786	359	4,298	1,406
Total interest income	19,055	16,335	73,194	60,508

23. Interest expense

<u>Group and Bank</u>	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Deposits and placements from a financial institution	5,557	4,043	19,488	14,136
Derivative financial instruments	8,258	6,146	31,659	19,534
Total interest expense	13,815	10,189	51,147	33,670

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24. Non-interest income

<u>Group</u>	Unaudited		Audited	
	31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Fee and commission income:				
Arranger and upfront fees	3,923	53,680	34,747	74,907
Brokerage income	33,292	39,335	161,792	173,995
Corporate advisory fees	3,649	41,461	14,157	55,337
Placement and related fees	(135)	1,365	5,957	15,221
Underwriting commission	-	147	622	2,861
Others	3,570	2,720	10,914	13,548
	44,299	138,708	228,189	335,869
Investment income:				
Realised (loss)/gain from sale of financial assets at fair value through profit or loss, net	(6,173)	1,260	(31,324)	42,985
Unrealised gain on revaluation of financial assets at fair value through profit or loss, net	63,731	12,105	142,615	77,841
Realised gain/(loss) from sale of derivative financial instruments, net	15,732	(2,153)	58,573	(55,812)
Unrealised loss on revaluation of derivative financial instruments, net (Note 21 (iii))	(64,246)	(8,838)	(120,579)	(54,249)
Gross dividends from financial assets at fair value through profit or loss				
- Quoted in Malaysia	2,835	1,232	7,904	2,505
- Quoted outside Malaysia	274	-	869	481
	12,153	3,606	58,058	13,751
Other income:				
Foreign exchange gain, net	3,537	722	6,485	5,653
Others	1,305	855	4,673	4,514
	4,842	1,577	11,158	10,167
Total non-interest income	61,294	143,891	297,405	359,787

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24. Non-interest income (Cont'd)

	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<u>Bank</u>	RM'000	RM'000	RM'000	RM'000
Fee and commission income:				
Arranger and upfront fees	3,923	53,680	34,747	74,907
Brokerage income	33,292	39,335	161,792	173,995
Corporate advisory fees	3,648	40,993	9,564	53,249
Placement and related fees	(135)	1,365	5,957	15,221
Underwriting commission	-	147	622	2,861
Others	3,570	2,720	10,914	13,548
	<u>44,298</u>	<u>138,240</u>	<u>223,596</u>	<u>333,781</u>
Investment income:				
Realised (loss)/gain from sale of financial assets at fair value through profit or loss, net	(6,173)	1,260	(31,324)	42,985
Unrealised gain on revaluation of financial assets at fair value through profit or loss, net	63,731	12,105	142,615	77,841
Realised gain/(loss) from sale of derivative financial instruments, net	15,732	(2,153)	58,573	(55,812)
Unrealised loss on revaluation of derivative financial instruments, net (Note 21 (iii))	(64,246)	(8,838)	(120,579)	(54,249)
Gross dividends from financial assets at fair value through profit or loss				
- Quoted in Malaysia	2,835	1,232	7,904	2,505
- Quoted outside Malaysia	274	-	869	481
Subsidiary	-	-	4,550	-
	<u>12,153</u>	<u>3,606</u>	<u>62,608</u>	<u>13,751</u>
Other income:				
Foreign exchange gain, net	3,537	722	6,485	5,653
Others	1,305	855	4,673	4,511
	<u>4,842</u>	<u>1,577</u>	<u>11,158</u>	<u>10,164</u>
Total non-interest income	<u>61,293</u>	<u>143,423</u>	<u>297,362</u>	<u>357,696</u>

25. Direct costs

	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
<u>Group and Bank</u>	RM'000	RM'000	RM'000	RM'000
Dealers' incentive	5,407	13,869	18,056	25,078
Trade-related charges	2,384	3,032	13,072	12,657
	<u>7,791</u>	<u>16,901</u>	<u>31,128</u>	<u>37,735</u>

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26. **Overhead expenses**

Group	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Personnel expenses				
- Salaries, allowances and bonuses (Note (i))	63,141	70,961	211,541	199,667
- Pension costs - defined contribution plan	5,259	4,638	19,076	18,534
- Employees' Share Scheme expenses	-	1,309	486	4,982
- Other staff-related expenses	4,471	6,665	11,866	13,645
	72,871	83,573	242,969	236,828
Establishment costs				
- Depreciation of property, plant and equipment	1,612	1,641	6,701	6,380
- Amortisation of computer software	1,240	1,208	5,049	4,334
- Rental	2,383	2,299	10,037	10,557
- Repairs and maintenance of property, plant and equipment	2,563	2,115	9,882	10,616
- Information technology expenses	5,298	5,143	17,099	15,293
- Service chargeback	(7,346)	(2,699)	(30,351)	(29,373)
- Others	516	439	2,003	1,854
	6,266	10,146	20,420	19,661
Marketing costs				
- Advertisement and publicity	1,904	1,271	11,609	9,761
- Others	1,220	2,280	5,930	6,612
	3,124	3,551	17,539	16,373
Administration and general expenses				
- Fee and brokerage (Note (i))	1,932	932	2,037	4,002
- Administrative expenses	1,147	1,079	3,601	3,743
- General expenses (Note (i))	681	947	3,957	3,631
	3,760	2,958	9,595	11,376
Total overhead expenses	86,021	100,228	290,523	284,238

Note (i): Dealers' incentive and trade-related charges have been reclassified to Note 25 Direct costs as these are directly attributable expenses in generating brokerage income.

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26. **Overhead expenses (Cont'd)**

<u>Bank</u>	Unaudited		Audited	
	Fourth Quarter Ended 31 December 2018 RM'000	31 December 2017 RM'000	Cumulative 12 Months Ended 31 December 2018 RM'000	31 December 2017 RM'000
Personnel expenses				
- Salaries, allowances and bonuses (Note (i))	63,141	70,961	211,541	199,667
- Pension costs - defined contribution plan	5,259	4,638	19,076	18,534
- Employees' Share Scheme expenses	-	1,309	486	4,982
- Other staff related expenses	4,471	6,665	11,865	13,644
	<u>72,871</u>	<u>83,573</u>	<u>242,968</u>	<u>236,827</u>
Establishment costs				
- Depreciation of property, plant and equipment	1,612	1,641	6,701	6,380
- Amortisation of computer software	1,240	1,208	5,049	4,334
- Rental	2,383	2,299	10,037	10,557
- Repairs and maintenance of property, plant and equipment	2,563	2,114	9,881	10,613
- Information technology expenses	5,298	5,143	17,099	15,293
- Service chargeback	(8,346)	(3,489)	(32,820)	(32,319)
- Others	516	439	2,003	1,854
	<u>5,266</u>	<u>9,355</u>	<u>17,950</u>	<u>16,712</u>
Marketing costs				
- Advertisement and publicity	1,904	1,271	11,609	9,761
- Others	1,220	2,293	5,939	6,642
	<u>3,124</u>	<u>3,564</u>	<u>17,548</u>	<u>16,403</u>
Administration and general expenses				
- Fee and brokerage (Note (i))	1,913	910	1,945	3,922
- Administrative expenses	1,133	1,076	3,542	3,709
- General expenses (Note (i))	681	947	3,957	3,631
	<u>3,727</u>	<u>2,933</u>	<u>9,444</u>	<u>11,262</u>
Total overhead expenses	<u>84,988</u>	<u>99,425</u>	<u>287,910</u>	<u>281,204</u>

Note (i): Dealers' incentive and trade-related charges have been reclassified to Note 25 Direct costs as these are directly attributable expenses in generating brokerage income.

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27. (Allowance for)/writeback of impairment on loans and advances and other assets, net

<u>Group</u>	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
(Allowance for)/writeback of impairment on loans and advances:				
- Individual allowance	-	(7)	-	(7)
- Collective allowance	-	151	-	(538)
- Stage 1 - 12 months ECL (Note 17 (vii))	(33)	-	31	-
- Stage 3 - Lifetime ECL credit impaired (Note 17 (vii))	1	-	8	-
Bad debts recovered	128	190	693	1,224
(Allowance for)/writeback of impairment on other assets, net	(1,846)	2,692	(2,271)	(2,860)
Total	(1,750)	3,026	(1,539)	(2,181)

<u>Bank</u>	Unaudited		Audited	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
(Allowance for)/writeback of impairment on loans and advances:				
- Individual allowance	-	(7)	-	(7)
- Collective allowance	-	151	-	(538)
- Stage 1 - 12 months ECL (Note 17 (vii))	(33)	-	31	-
- Stage 3 - Lifetime ECL credit impaired (Note 17 (vii))	1	-	8	-
Bad debts recovered	128	190	693	1,224
(Allowance for)/writeback of impairment on other assets, net	(2,164)	2,717	(2,689)	(2,835)
Total	(2,068)	3,051	(1,957)	(2,156)

28. Capital adequacy

(i) Capital Adequacy Framework

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies. The capital adequacy ratios of the Bank consist of capital base and risk-weighted assets derived from the Bank.

The computation of capital adequacy ratios are based on Bank Negara Malaysia ("BNM") Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework (Basel II - Risk Weighted Assets) issued on 2 February 2018 respectively.

The Group and the Bank adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The minimum regulatory capital adequacy requirements for Common Equity Tier 1 ("CET1"), Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total risk-weighted assets respectively.

The capital adequacy ratios of the Group and of the Bank are as follows:

	Group	Bank
	%	%
<u>At 31 December 2018</u>		
CET1 capital ratio	24.574	22.976
Tier 1 capital ratio	24.574	22.976
Total capital ratio	26.198	24.616
<u>At 31 December 2017</u>		
CET1 capital ratio	31.322	29.674
Tier 1 capital ratio	31.322	29.674
Total capital ratio	31.525	29.674

28. Capital adequacy (Cont'd)

(I) Capital Adequacy Framework (Cont'd)

The components of capital of the Group and of the Bank are as follows (Cont'd):

	Group RM'000	Bank RM'000
<u>At 31 December 2018</u>		
Paid-up share capital	222,785	222,785
Other reserves	342,763	331,976
CET1 capital before regulatory adjustments	565,548	554,761
Less: Deferred tax assets	(16,378)	(16,378)
Intangible assets	(15,021)	(15,021)
Investment in subsidiaries and a joint venture ¹	(2,813)	(31,784)
CET1 capital/Tier 1 capital	531,336	491,578
Tier 2 capital		
General provisions	35,099	35,099
Tier 2 capital	35,099	35,099
Total capital	566,435	526,677
<u>At 31 December 2017</u>		
Paid-up share capital	222,785	222,785
Other reserves	416,581	407,457
CET1 capital before regulatory adjustments	639,366	630,242
Less: Deferred tax assets	(19,603)	(19,603)
Intangible assets	(16,312)	(16,312)
Investment in subsidiaries and a joint venture ¹	(4,597)	(32,758)
CET1 capital/Tier 1 capital	598,854	561,569
Tier 2 capital		
Regulatory reserve	5,022	5,022
Less: Regulatory adjustment applied in Tier 2 capital	(1,149)	(5,022)
Tier 2 capital	3,873	-
Total capital	602,727	561,569

¹ Excludes the cost of investment in a subsidiary, Maysec Sdn. Bhd. of RM171,475,000 as its business, assets and liabilities had been transferred to the Bank on 30 December 2006.

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28. Capital adequacy (Cont'd)

(II) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows:

<u>Group</u>	Gross credit exposures RM'000	Net credit exposures RM'000	Risk- weighted assets RM'000	Capital requirements RM'000
31 December 2018				
Exposure Class				
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	492,339	492,339	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	1,739,668	1,739,668	690,438	55,235
Corporates	138,225	75,269	75,269	6,022
Regulatory retail	232,748	120,882	116,043	9,283
Higher risk assets	40,375	40,375	60,563	4,845
Other assets	595,058	595,058	346,334	27,707
Total on-balance sheet exposures	3,238,413	3,063,591	1,288,647	103,092
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	1,169,101	1,169,101	161	13
Total off-balance sheet exposures	1,169,101	1,169,101	161	13
Total on and off-balance sheet exposures	4,407,514	4,232,692	1,288,808	103,105
(ii) <u>Market Risk</u>				
Interest rate risk	-	-	-	-
Equity position risk	-	-	4,038	323
Foreign currency risk	-	-	106,003	8,480
Options risk	-	-	15,212	1,217
Total	-	-	125,253	10,020
(iii) <u>Operational Risk</u>	-	-	748,111	59,849
Total RWA and capital requirements	4,407,514	4,232,692	2,162,172	172,974

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28. Capital adequacy (Cont'd)

(II) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows: (Cont'd)

<u>Group</u>	<u>Gross credit exposures</u>	<u>Net credit exposures</u>	<u>Risk-weighted assets</u>	<u>Capital requirements</u>
31 December 2017 Exposure Class	RM'000	RM'000	RM'000	RM'000
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	415,652	415,652	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	1,399,983	1,399,983	535,897	42,872
Corporates	184,052	98,545	98,545	7,884
Regulatory retail	287,564	112,698	107,567	8,605
Higher risk assets	39,445	39,445	59,168	4,733
Other assets	379,562	379,562	221,484	17,719
Total on-balance sheet exposures	2,706,258	2,445,885	1,022,661	81,813
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	1,053,132	1,053,132	449	36
Total off-balance sheet exposures	1,053,132	1,053,132	449	36
Total on and off-balance sheet exposures	3,759,390	3,499,017	1,023,110	81,849
(ii) <u>Market Risk</u>				
Interest rate risk	-	-	550	44
Equity position risk	-	-	14,488	1,159
Foreign currency risk	-	-	66,778	5,342
Options risk	-	-	43,087	3,447
Total	-	-	124,903	9,992
(iii) <u>Operational Risk</u>				
	-	-	763,899	61,112
Total RWA and capital requirements	3,759,390	3,499,017	1,911,912	152,953

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28. Capital adequacy (Cont'd)

(II) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows: (Cont'd)

<u>Bank</u>	Gross credit exposures RM'000	Net credit exposures RM'000	Risk- weighted assets RM'000	Capital requirements RM'000
31 December 2018				
Exposure Class				
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	492,339	492,339	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	1,700,698	1,700,698	682,644	54,612
Corporates	138,225	75,269	75,269	6,022
Regulatory retail	232,748	120,882	116,043	9,283
Higher risk assets	40,375	40,375	60,563	4,845
Other assets	591,797	591,797	343,075	27,445
Total on-balance sheet exposures	3,196,182	3,021,360	1,277,594	102,207
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	1,169,101	1,169,101	161	13
Total off-balance sheet exposures	1,169,101	1,169,101	161	13
Total on and off-balance sheet exposures	4,365,283	4,190,461	1,277,755	102,220
(ii) <u>Market Risk</u>				
Interest rate risk	-	-	-	-
Equity position risk	-	-	4,038	323
Foreign currency risk	-	-	101,335	8,106
Options risk	-	-	15,212	1,217
Total	-	-	120,585	9,646
(iii) <u>Operational Risk</u>				
	-	-	741,195	59,296
Total RWA and capital requirements	4,365,283	4,190,461	2,139,534	171,162

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28. Capital adequacy (Cont'd)

(II) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follows: (Cont'd)

<u>Bank</u>	Gross credit exposures	Net credit exposures	Risk-weighted assets	Capital requirements
31 December 2017	RM'000	RM'000	RM'000	RM'000
Exposure Class				
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	415,652	415,652	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	1,359,507	1,359,507	527,801	42,224
Corporates	184,052	98,545	98,545	7,884
Regulatory retail	287,564	112,698	107,566	8,605
Higher risk assets	39,445	39,445	59,168	4,733
Other assets	379,430	379,430	221,353	17,708
Total on-balance sheet exposures	2,665,650	2,405,277	1,014,433	81,154
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	1,053,132	1,053,132	449	36
Total off-balance sheet exposures	1,053,132	1,053,132	449	36
Total on and off-balance sheet exposures	3,718,782	3,458,409	1,014,882	81,190
(ii) <u>Market Risk</u>				
Interest rate risk	-	-	550	44
Equity position risk	-	-	14,488	1,159
Foreign currency risk	-	-	61,911	4,953
Options risk	-	-	43,087	3,447
Total	-	-	120,036	9,603
(iii) <u>Operational Risk</u>				
	-	-	757,556	60,604
Total RWA and capital requirements	3,718,782	3,458,409	1,892,474	151,397

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29. Commitments and contingencies

Group and Bank	31 December 2018			31 December 2017		
	Notional amount RM'000	Credit equivalent amount* RM'000	Risk-weighted amount* RM'000	Notional amount RM'000	Credit equivalent amount* RM'000	Risk-weighted amount RM'000
<u>Credit-related</u>						
Revocable commitments to extend credit:						
- Maturity not exceeding one year	1,168,779	-	-	1,052,235	-	-
- Maturity exceeding one year	322	161	161	897	449	449
	1,169,101	161	161	1,053,132	449	449
<u>Derivative financial instruments</u>						
Equity-related contracts						
- Less than one year	523,293	-	-	415,244	-	-
Total commitments and contingencies	1,692,394	161	161	1,468,376	449	449

* The credit equivalent amount and the risk-weighted amount are derived at using the credit evaluation conversion factors and risk weights respectively as specified by BNM for regulatory capital adequacy purposes.

Contingent liabilities

The Group and the Bank are defending all of the claims under litigation, through their solicitors, the outcomes of which are subject matter for the Courts to eventually determine.

Case 1

On 5 November 2012, four (4) holders of a bond ("Bondholders") issued by a company filed a claim against the Bank and five (5) other defendants to recover their losses arising from the limited recovery made by the Bondholders following the default of the company's bonds. The claims by the Bondholders, inter alia, include the sum of RM156.3 million or any other sum that the Court deems fit.

Following an order in terms of a joinder application by two (2) applicants to be added as 5th and 6th plaintiffs to the suit, the quantum of the claim increased from RM156.3 million to RM177.3 million to reflect the 5th and 6th plaintiffs' respective claims. On 17 September 2014, a 7th plaintiff was added and joined to the suit with no change to the quantum claimed of RM177.3 million.

On 4 September 2015, the trial of the matter concluded. On 17 February 2016 and 24 February 2016, parties attended Court for oral submissions.

On 24 July 2017, the High Court found in favour of the Bondholders for the sum of RM177,248,747.31 against the Defendants in the following proportion:

- (a) 1st, 2nd and 3rd Defendants – 100% liable;
- (b) The Bank (4th Defendant) – 50% liable;
- (c) The 5th Defendant – 30% liable; and
- (d) The 6th Defendant – 20% liable.

On 5 October 2017, upon hearing further clarification and submissions on the judgment sum, applicable interest and costs, the High Court held:

- (a) The Judgment against the Defendants is for the sum of RM177,248,747.31;
- (b) The total damages that the Bondholders can recover from the Defendants shall not exceed the aggregate sum of RM177,248,747.31;
- (c) Interest shall be calculated on the reduced sum of RM148,653,953.20 at the rate of 5% per annum from 1 November 2011 until full and final settlement; and

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29. Commitments and contingencies (Cont'd)

Contingent liabilities (Cont'd)

Case 1 (Cont'd)

On 5 October 2017, upon hearing further clarification and submissions on the judgment sum, applicable interest and costs, the High Court held: (cont'd)

- (d) Costs as awarded against the Defendants in favour of the Plaintiffs:
- (i) 1st – 3rd Defendants : RM350,000;
 - (ii) The 3rd Defendant to pay costs of RM100,000 for the dismissal of his counterclaim;
 - (iii) The Bank to pay costs of RM300,000;
 - (iv) The 5th Defendant to pay costs of RM150,000; and
 - (v) The 6th Defendant to pay costs of RM200,000 and reimburse the Plaintiffs' expert witness costs of RM250,000.

The Bank and the other Defendants have filed their separate and respective appeals to the Court of Appeal ("the Appeals").

The Court of Appeal heard the Appeals on 12, 13, 15, 22, 23, 27 – 29 November 2018. The Appeals are now pending decision and clarification at a date to be notified by the Court of Appeal.

The Bank's solicitors are optimistic of the Bank's chances of succeeding in its appeal to the Court of Appeal.

Case 2

The Bank and four (4) other financial institutions (collectively known as "the Banks") are holders of 48.54% of the Redeemable Convertible Secured Notes ("the Notes") issued by a company ("the Borrower"). The Notes are secured by various security including charges over lands granted by the Borrower and other 3rd parties in favour of the trustee for the Banks ("the Trustee"). Upon the Borrower's default of its payment obligations, the Banks commenced action to recover the sums due under the Notes.

Subsequently, a company ("the 1st Defendant") and an individual ("the 2nd Defendant") (collectively known as "the Defendants") agreed to resolve the claims of the Banks with the 1st Defendant agreeing to purchase from the Banks all the Notes held by the Banks at a total purchase price of RM146,458,246.20. The Banks and the 1st Defendant entered into a Sale and Purchase Agreement in August 2014 ("the SPA") and the 2nd Defendant executed a guarantee in favour of the Banks guaranteeing all sums due under the SPA.

The Defendants subsequently defaulted on their payment obligations under the SPA and on 5 June 2015, the Banks commenced action against the Defendants for specific performance of the SPA or in the alternative, damages for breach of the SPA (as against the 1st Defendant) and for the balance purchase price (as against the 2nd Defendant).

On 22 July 2015, by way of a counterclaim against the Banks and the Trustee, the Defendants prayed for 11 declarations against the Banks and the Trustee and among other prayers, claimed that the Defendants are entitled to the restoration of the sums of RM14,645,824.62 (10% deposit payment) and RM1 million (ex-gratia payment) paid by the 1st and 2nd Defendants respectively, being the sums forfeited by the Banks upon breach of the SPA as well as for interest, costs and damages to be assessed.

The Banks filed an application for summary judgement against the Defendants and an application to strike out the Defendants' counterclaim. The Defendants had on 19 August 2015 filed an injunction application to restrain the Trustee from proceeding with foreclosure proceedings and the Bank from enforcing the Put Option Judgement pending disposal of the counterclaim action against the Banks and the Trustee.

The Banks opposed the injunction application and on 3 September 2015, the court dismissed the injunction application with costs ("High Court Order"). The Defendants appealed to the Court of Appeal against the High Court Order ("Appeal") and in the interim applied to the Court of Appeal for an interim injunction pending disposal of the Appeal. On 8 September 2015, the Court of Appeal dismissed the motion for interim injunction with costs.

On 5 October 2015, the High Court allowed the Banks' application for summary judgement and application to strike out the counterclaim with costs. Accordingly, the Defendants' counterclaim against the Banks have been struck out ("Striking Out Order") and judgement has been entered against the Defendants for the balance purchase price under the SPA ("Summary Judgement").

On 23 October 2015, the Defendants filed their respective appeals to the Court of Appeal against the Striking Out Order and the Summary Judgement ("the Appeals").

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29. Commitments and contingencies (Cont'd)

Contingent liabilities (Cont'd)

Case 2 (cont'd)

On 6 December 2016, the Court of Appeal unanimously dismissed the Appeals with costs of RM20,000 to be paid by the Defendants to the Banks for each of the Appeals ("COA Decision").

On 30 December 2016 and 5 January 2017, the 1st Defendant and 2nd Defendant filed their respective applications to the Federal Court for leave to appeal to the Federal Court against the COA Decision ("FC Leave Application"). On 26 April 2017, the Federal Court allowed the FC Leave Application. The 1st Defendant and the 2nd Defendant can now file their appeals to the Federal Court against the Summary Judgment ("FC Appeals"). On 15 March 2018, the Federal Court unanimously dismissed the FC Appeals with costs of RM20,000 for each appeal respectively. The Company and the Guarantor filed their respective motions to the Federal Court to review the Federal Court Decision ("FC Review Application"). On 28 January 2019, the Federal Court dismissed the FC Review Application with costs of RM30,000.

Separately, in respect of the suit filed by another noteholder against the Trustee and the Banks to seek various declarations on or in respect of resolutions relating to the recovery of outstanding amounts owed under the Notes, the suit is now pending hearing of the appeal to the Federal Court on 1 March 2019. The Guarantor also obtained an ex parte Receiving Order on the grounds that there is a purported scheme of arrangement for the creditors' consideration. The Banks successfully set aside the Receiving Order on 17 May 2017. The Guarantor has appealed to the Court of Appeal against the setting aside of the Receiving Order.

The above matters are currently pending hearings before/decision from the respective Courts.

The Bank's solicitors are of the view that the Bank has a fairly good chance in succeeding before the Federal Court.

30. Segment information

Segment information is presented in respect of the Group's business segments.

The business segments are prepared based on internal management reports, which are used by senior management for decision-making and performance management. The amounts for each business segment are shown after the allocation of certain centralised cost, funding income and the applicable transfer pricing where appropriate. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on consolidation. All inter-segment transactions are conducted at arm's length basis on normal commercial terms that are not more favourable than those generally available to the public.

Financial results and other information by business segments include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

The Group's business segments are defined and categorised as follows:

(i) Pillar 1 - Investment banking and advisory

Investment banking and advisory focus on business needs of mainly large corporate customers and financial institutions. The products and services offered to customers include corporate advisory services, bond issuance, equity issuance, syndicated acquisition advisory services and debt restructuring advisory services.

(ii) Pillar 2 - Equities

Equities primarily engage in the shares and futures broking services, derivative financial instruments, custodian and nominee services.

(iii) Others

Others includes share of results from investment in a joint venture.

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30. Segment information (Cont'd)

The following table provides analysis of the Group's financial results and other information by business segments:

Group	Pillar 1	Pillar 2	Others	Total
31 December 2018	RM'000	RM'000	RM'000	RM'000
Net interest income	325	22,833	-	23,158
Income from Islamic Banking Scheme operations	46,702	4,964	-	51,666
Non-interest income	60,816	236,589	-	297,405
Direct costs	-	(31,128)	-	(31,128)
Net income	<u>107,843</u>	<u>233,258</u>	-	<u>341,101</u>
Results				
Segment results	107,843	233,258	-	341,101
Overhead expenses	(105,335)	(185,188)	-	(290,523)
(Allowance for)/writeback of impairment on loans and advances and other assets, net	(1,627)	88	-	(1,539)
Share of results of a joint venture	-	-	(3,064)	(3,064)
Profit/(loss) before taxation	<u>881</u>	<u>48,158</u>	<u>(3,064)</u>	<u>45,975</u>
Taxation and zakat				(12,771)
Profit for the year				<u><u>33,204</u></u>
Other segment information				
Depreciation of property, plant and equipment	282	3,220	3,199	6,701
Amortisation of computer software	424	2,923	1,702	5,049
Group				
31 December 2017	RM'000	RM'000	RM'000	RM'000
Net interest income	1,219	26,665	-	27,884
Income from Islamic Banking Scheme operations	79,809	5,295	-	85,104
Non-interest income	161,377	198,410	-	359,787
Direct costs	-	(37,735)	-	(37,735)
Net income	<u>242,405</u>	<u>192,635</u>	-	<u>435,040</u>
Results				
Segment results	242,405	192,635	-	435,040
Overhead expenses	(138,740)	(145,498)	-	(284,238)
(Allowance for)/writeback of impairment on loans and advances and other assets, net	(2,655)	474	-	(2,181)
Share of results of a joint venture	-	-	(8,469)	(8,469)
Profit/(loss) before taxation	<u>101,010</u>	<u>47,611</u>	<u>(8,469)</u>	<u>140,152</u>
Taxation and zakat				(37,616)
Profit for the year				<u><u>102,536</u></u>
Other segment information				
Depreciation of property, plant and equipment	376	3,121	2,883	6,380
Amortisation of computer software	424	2,638	1,272	4,334

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31. The operations of Islamic Banking Scheme ("IBS")

Audited Statements of Financial Position as at 31 December 2018

	Notes	Group and Bank	
		31 December 2018 RM'000	31 December 2017 RM'000
ASSETS			
Cash and short-term funds	(a)	17,582	2,757
Other assets	(b)	417,245	371,079
Total assets		434,827	373,836
LIABILITIES			
Other liabilities	(c)	225,008	162,214
Provision for taxation and zakat	(d)	2,661	10,157
Total liabilities		227,669	172,371
ISLAMIC BANKING CAPITAL FUND			
Islamic banking fund		5,000	5,000
Retained earnings		202,158	196,465
		207,158	201,465
Total liabilities and Islamic banking capital fund		434,827	373,836

Statements of Comprehensive Income

For the Fourth Quarter Ended 31 December 2018

Group and Bank	Notes	Unaudited		Audited	
		Fourth Quarter Ended		Cumulative 12 Months Ended	
		31 December 2018 RM'000	31 December 2017 RM'000	31 December 2018 RM'000	31 December 2017 RM'000
Income derived from investment of Islamic banking fund	(e)	14,489	21,088	51,666	85,104
Direct costs		(1,537)	(1,803)	(3,462)	(4,816)
Net income attributable to the Group and to the Bank		12,952	19,285	48,204	80,288
Overhead expenses	(f)	(16,784)	(10,714)	(39,632)	(41,676)
Operating profit		(3,832)	8,571	8,572	38,612
Allowance for impairment on other assets		(328)	(520)	(218)	(380)
(Loss)/profit before taxation and zakat		(4,160)	8,051	8,354	38,232
Taxation		998	(1,932)	(2,005)	(9,176)
Zakat		151	(122)	(656)	(1,143)
(Loss)/profit for the period/year, representing total comprehensive income for the period/year, attributable to equity holder of the Bank		(3,011)	5,997	5,693	27,913

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31. The operations of Islamic Banking Scheme ("IBS") (Cont'd)

Audited Statements of Changes in Equity
For the Fourth Quarter Ended 31 December 2018

Group and Bank	Islamic banking capital fund RM'000	Distributable retained earnings RM'000	Total RM'000
At 1 January 2018	5,000	196,465	201,465
Profit for the year	-	5,693	5,693
Total comprehensive income for the year	-	5,693	5,693
At 31 December 2018	5,000	202,158	207,158
At 1 January 2017	5,000	168,552	173,552
Profit for the year	-	27,913	21,917
Total comprehensive income for the year	-	27,913	27,913
At 31 December 2017	5,000	196,465	201,465

Audited Statements of Cash Flows
For the Fourth Quarter Ended 31 December 2018

	Group and Bank	
	31 December 2018 RM'000	31 December 2017 RM'000
Cash flows from operating activities		
Profit before taxation and zakat, representing operating profit before working capital changes	8,354	38,232
Increase in receivables	(46,166)	(44,792)
Increase in payables	62,794	7,229
Taxation and zakat paid, net	(10,157)	(792)
Net cash generated from/(used in) operating activities	14,825	(123)
Net increase/(decrease) in cash and cash equivalents	14,825	(123)
Cash and cash equivalents at beginning of the year	2,757	2,880
Cash and cash equivalents at end of the year	17,582	2,757

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31. The operations of Islamic Banking Scheme ("IBS") (Cont'd)

(a) Cash and short-term funds

	Group and Bank	
	31 December	31 December
	2018	2017
	RM'000	RM'000
Cash and bank balances with financial institutions	17,582	2,757

(b) Other assets

	Group and Bank	
	31 December	31 December
	2018	2017
	RM'000	RM'000
Debtors	417,245	371,079

(c) Other liabilities

	Group and Bank	
	31 December	31 December
	2018	2017
	RM'000	RM'000
Provisions and accruals*	225,008	162,214

* Include prohibited sources/means to charitable causes amounting to RM1,497 (2017: RM432).

(d) Provision for taxation and zakat

	Group and Bank	
	31 December	31 December
	2018	2017
	RM'000	RM'000
Taxation	2,005	9,176
Zakat	656	981
	2,661	10,157

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31. The operations of Islamic Banking Scheme ("IBS") (Cont'd)

(e) Income derived from investment of Islamic banking capital fund

<u>Group and Bank</u>	Unaudited		Audited	
	Fourth Quarter Ended		Cumulative 12 Months Ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Profit income from financial assets at fair value through profit or loss	-	-	3	212
Realised gain from sale of financial assets at fair value through profit or loss, net	312	8,903	1,443	10,220
Fee and commission income from:				
- Arranger and upfront fees	9,428	597	33,236	37,890
- Brokerage income	813	1,679	4,965	5,295
- Corporate advisory fees	1,020	-	1,020	16,235
- Placement fees	1,250	-	3,250	750
- Others	1,669	9,909	7,752	14,517
Foreign exchange loss, net	(3)	-	(3)	(15)
Total	14,489	21,088	51,666	85,104

(f) Overhead expenses

<u>Group and Bank</u>	Unaudited		Audited	
	Fourth Quarter Ended		Cumulative 12 Months Ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (Note (i))	15,064	9,350	32,025	32,271
Establishment costs				
- Service chargeback	(3,844)	(1,153)	(3,961)	(3,605)
- Other establishment costs	2,997	1,780	6,100	7,441
Marketing costs	850	573	2,287	2,317
Administration and general expenses (Note (i))	1,717	164	3,181	3,252
Total	16,784	10,714	39,632	41,676

Note (i): Dealers' incentive and trade-related charges have been reclassified to direct costs as these are directly attributable expenses in generating income.

(g) Capital adequacy

(I) The capital adequacy ratios of the Group and of the Bank are as follows:

<u>Group and Bank</u>	31 December 2018	31 December 2017
	%	%
CET1 capital ratio	84.647	85.860
Tier 1 capital ratio	84.647	85.860
Total capital ratio	84.647	85.860

(II) The components of capital of the Group and of the Bank are as follows:

<u>Group and Bank</u>	31 December 2018	31 December 2017
	RM'000	RM'000
Tier 1 capital		
Islamic banking fund	5,000	5,000
Retained earnings	202,158	196,465
CET1 capital/Tier 1 capital/Total capital	207,158	201,465

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31. The operations of Islamic Banking Scheme ("IBS") (Cont'd)

(g) Capital adequacy (Cont'd)

(III) The breakdown of RWA by exposures in each major risk category are as follows:

<u>Group and Bank</u>	Gross credit exposures RM'000	Net credit exposures RM'000	Risk- weighted assets RM'000	Capital requirements RM'000
31 December 2018				
Exposure Class				
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	16,051	16,051	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	1,530	1,530	306	24
Other assets	575,496	575,496	147,194	11,775
Total on-balance sheet exposures	593,077	593,077	147,500	11,800
Total on and off-balance sheet exposures *	593,077	593,077	147,500	11,800
(ii) <u>Market Risk</u>				
Foreign currency risk	-	-	3	-
(iii) <u>Operational Risk</u>	-	-	97,228	7,778
Total RWA and capital requirements	593,077	593,077	244,731	19,578

<u>Group and Bank</u>	Gross credit exposures RM'000	Net credit exposures RM'000	Risk- weighted assets RM'000	Capital requirements RM'000
31 December 2017				
Exposure Class				
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,323	2,323	-	-
Banks, Development Financial Institutions and Multilateral Development Banks	431	431	86	7
Other assets	530,193	530,193	138,878	11,110
Total on-balance sheet exposures	532,947	532,947	138,964	11,117
Total on and off-balance sheet exposures *	532,947	532,947	138,964	11,117
(ii) <u>Market Risk</u>				
Foreign currency risk	-	-	3	-
(iii) <u>Operational Risk</u>	-	-	95,677	7,654
Total RWA and capital requirements	532,947	532,947	234,644	18,771

* There are no off-balance sheet exposures in the current and previous financial years.

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31. The operations of Islamic Banking Scheme ("IBS") (Cont'd)

(h) Fair values of financial assets and liabilities

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date, which are considered short-term in maturity, approximate their carrying amounts as shown in the statements of financial position.

(i) Allocation of income

The policy of allocation of income to the various types of deposits and investments is subject to "The Framework of Rate of Return" issued by Bank Negara Malaysia in October 2001. The objective is to set the minimum standard and terms of reference for the Islamic banking institution in calculating and deriving the rate of return for the depositors.

(j) Shariah committee

The operation of IBS is governed by Section 28 and 29 of Islamic Financial Services Act, 2013 ("IFSA"), which stipulates that "a 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 the 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 Group's and the Bank's Shariah Committee are to advise on the overall Islamic Banking Scheme operations of the Group's and the Bank's business in order to ensure compliance with the Shariah requirements.

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

- (i) To advise the Board on Shariah matters in its business operations;
- (ii) To endorse Shariah Compliance Manual;
- (iii) To endorse and validate relevant documentations;
- (iv) To assist related parties on Shariah matters for advice upon request;
- (v) To advise on matters to be referred to the SAC;
- (vi) To provide written Shariah opinion; and
- (vii) To assist the SAC on reference for advice.

The Group and the Bank presently have seven Shariah members.

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32. Fair value of financial instruments

Fair value hierarchy

The Group and the Bank classify its financial instruments measured at fair value according to the following hierarchy, reflecting the significance of the inputs in making the fair value measurements:

(a) Level 1: Quoted prices

Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, 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.

(b) Level 2: Valuation techniques for which all significant inputs are, or are based on, observable market data

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

(c) Level 3: Valuation techniques for which significant inputs are not based on observable market data

Refers to financial instruments where fair value is measured using significant unobservable market inputs. The valuation technique is consistent with the Level 2. The chosen valuation technique incorporates the Group's and the Bank's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets, private equity investments and loans and advances priced primarily based on internal credit assessment.

The following table shows the Group's and the Bank's financial assets and liabilities that are measured at fair value analysed by level within the fair value hierarchy as at 31 December 2018 and 31 December 2017.

<u>Group and Bank</u>	<u>Valuation techniques using</u>			Total RM'000
	Quoted Market Price (Level 1) RM'000	Observable Inputs (Level 2) RM'000	Unobservable Inputs (Level 3) RM'000	
As at 31 December 2018				
Financial assets measured at fair values:				
Financial assets at fair value through profit or loss	332,626	254,846	-	587,472
Derivative assets	-	35,623	-	35,623
	332,626	290,469	-	623,095
Financial liabilities measured at fair values:				
Derivative liabilities	6,213	222,169	-	228,382
As at 31 December 2017				
Financial assets measured at fair values:				
Financial assets at fair value through profit or loss	358,635	31,542	-	390,177
Derivative assets	-	8,855	-	8,855
	358,635	40,397	-	399,032
Financial liabilities measured at fair values:				
Derivative liabilities	21,530	81,198	-	102,728

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32. Fair value of financial instruments (Cont'd)

Valuation techniques

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

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

The fair values of financial assets and financial investments are determined by reference to prices quoted by independent data providers and independent broker quotations.

(b) Derivative financial instruments

The fair values of the Group's and of the Bank's derivative financial instruments are derived using discounted cash flows analysis, option pricing and benchmarking models.

33. Credit Exposures Arising from Credit Transactions with Connected Parties

There are no credit exposures arising from credit transactions with connected parties based on requirement of Paragraph 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties as at the end of the current and previous financial years.

34. Financial Effects arising from Adoption of MFRS 9 Financial Instruments

(i) The adoption of MFRS 9 resulted in the following financial effects to the statements of financial position of the Group and of the Bank:

	As at 31 December 2017 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	As at 1 January 2018 RM'000
Group				
Statements of Financial Position				
ASSETS				
Cash and short-term funds	703,662	-	-	703,662
Deposits and placements with a financial institution	807,279	-	-	807,279
Financial investments portfolio	429,655	918	-	430,573
Loans and advances	471,360	-	289	471,649
Derivative assets	8,855	-	-	8,855
Other assets	951,992	-	-	951,992
Tax recoverable	9,615	-	(70)	9,545
Statutory deposit with Bank Negara Malaysia	105	-	-	105
Investment in a joint venture	5,746	-	-	5,746
Property, plant and equipment	14,911	-	-	14,911
Intangible assets	16,312	-	-	16,312
Deferred tax assets	19,603	-	-	19,603
TOTAL ASSETS	3,439,095	918	219	3,440,232
LIABILITIES				
Deposits and placements from a financial institution	743,958	-	-	743,958
Derivative liabilities	102,728	-	-	102,728
Other liabilities	1,947,040	-	-	1,947,040
Provision for zakat	981	-	-	981
TOTAL LIABILITIES	2,794,707	-	-	2,794,707
SHAREHOLDER'S EQUITY				
Share capital	222,785	-	-	222,785
Reserves	421,603	918	219	422,740
TOTAL EQUITY	644,388	918	219	645,525
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	3,439,095	918	219	3,440,232

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34. Financial Effects arising from Adoption of MFRS 9 Financial Instruments

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statements of financial position of the Group and of the Bank: (Cont'd)

	As at 31 December 2017 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	As at 1 January 2018 RM'000
Bank				
Statements of Financial Position				
ASSETS				
Cash and short-term funds	663,163	-	-	663,163
Deposits and placements with a financial institution	807,259	-	-	807,259
Financial investments portfolio	429,655	918	-	430,573
Loans and advances	471,360	-	289	471,649
Derivative assets	8,855	-	-	8,855
Other assets	951,912	-	-	951,912
Tax recoverable	7,743	-	(70)	7,673
Statutory deposit with Bank Negara Malaysia	105	-	-	105
Investment in subsidiaries	203,259	-	-	203,259
Investment in a joint venture	5,996	-	-	5,996
Property, plant and equipment	14,896	-	-	14,896
Intangible assets	16,312	-	-	16,312
Deferred tax assets	19,603	-	-	19,603
TOTAL ASSETS	3,600,118	918	219	3,601,255
LIABILITIES				
Deposits and placements from a financial institution	743,958	-	-	743,958
Derivative liabilities	102,728	-	-	102,728
Other liabilities	2,117,187	-	-	2,117,187
Provision for zakat	981	-	-	981
TOTAL LIABILITIES	2,964,854	-	-	2,964,854
SHAREHOLDER'S EQUITY				
Share capital	222,785	-	-	222,785
Reserves	412,479	918	219	413,616
TOTAL EQUITY	635,264	918	219	636,401
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	3,600,118	918	219	3,601,255

- (ii) The following table analyses the impact, net of tax, of transition to MFRS 9 and Revised Financial Reporting Guidelines issued by BNM on the statements of changes in equity of the Group and of the Bank:

	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	
	Group RM'000	Bank RM'000
Regulatory reserve		
Closing balance as at 31 December 2017	5,022	5,022
- Transfer from retained earnings	28,378	28,378
Opening balance as at 1 January 2018	33,400	33,400

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34. Financial Effects arising from Adoption of MFRS 9 Financial Instruments (Cont'd)

- (ii) The following table analyses the impact, net of tax, of transition to MFRS 9 and Revised Financial Reporting Guidelines issued by BNM on the statements of changes in equity of the Group and of the Bank: (Cont'd)

	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	
	Group RM'000	Bank RM'000
Fair value through other comprehensive income reserve		
Closing balance as at 31 December 2017	-	-
- Unrealised gain on financial assets at FVOCI	918	918
Opening balance as at 1 January 2018	<u>918</u>	<u>918</u>
Retained earnings		
Closing balance as at 31 December 2017	416,961	407,457
- Transfer to regulatory reserve	(28,378)	(28,378)
- Writeback of expected credit loss	289	289
- Tax in respect of writeback of expected credit loss	(70)	(70)
Opening balance as at 1 January 2018	<u>388,802</u>	<u>379,298</u>

- (iii) The following table analyses the impact of Capital Adequacy Ratios of the Group and of the Bank:

	As at 31 December 2017 RM'000	Impact of adopting MFRS 9 and Revised Financial Reporting Guidelines	As at 1 January 2018 RM'000
		RM'000	
Group			
CET1 capital	598,854	(27,241)	571,613
Tier 1 capital	598,854	(27,241)	571,613
Total capital	602,727	(27,241)	575,486
Risk-weighted assets	1,911,912	1,596	1,913,508
CET1 capital ratio (%)	31.322	(1.449)	29.873
Tier 1 capital ratio (%)	31.322	(1.449)	29.873
Total capital ratio (%)	<u>31.525</u>	<u>(1.450)</u>	<u>30.075</u>
Bank			
CET1 capital	561,569	(27,241)	534,328
Tier 1 capital	561,569	(27,241)	534,328
Total capital	561,569	(27,241)	534,328
Risk-weighted assets	1,892,474	1,596	1,894,070
CET1 capital ratio (%)	29.674	(1.463)	28.211
Tier 1 capital ratio (%)	29.674	(1.463)	28.211
Total capital ratio (%)	<u>29.674</u>	<u>(1.463)</u>	<u>28.211</u>