

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

**Directors' Report and Audited Financial Statements**  
**31 December 2018**

**787435-M**

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

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**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 2018.

**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**

	<b>RM'000</b>
Profit before taxation and zakat	<b>2,604,951</b>
Taxation and zakat	<b><u>(629,341)</u></b>
Profit for the year	<b><u>1,975,610</u></b>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in Notes 5, 7(ii), 7(iv), 8, 16, 27(i), 27(ii) and 27(iii) to the financial statements and the statement of changes in equity.

In the opinion of the Board of Directors, the results of the operations of the Bank during the current 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 RM2,605.0 million for the financial year ended 31 December 2018, an increase of RM339.2 million or 15% compared to the previous corresponding year.

The Bank's allowance for impairment on financing and advances increased by RM165.1 million to RM375.2 million due to higher expected credit loss during the financial year ended 31 December 2018. The Bank's financing loss coverage ratio with Regulatory Reserve stood at 136.73% as at 31 December 2018.

Total income grew by RM1,504.8 million or 17% to RM10,361.0 million from previous corresponding year, 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 RM8,831.8 million, RM1,099.1 million and RM430.1 million respectively.

**Maybank Islamic Berhad  
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**Performance review (cont'd.)**

The Bank's gross financing and advances increased by RM13.2 billion to RM176.8 billion as compared to RM163.6 billion recorded in previous financial year. As at 31 December 2018, total funding increased by 11% contributed by total customer deposits which grew by 14%, which was recorded at RM147.8 billion against RM129.9 billion in the previous financial year. Investment Account under management decreased by RM1.0 billion to close at RM23.6 billion compared to RM24.6 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 1 Capital Ratio of 16.368%, Tier 1 Capital Ratio 17.984% and Total Capital Ratio of 22.545%.

**Prospects**

Malaysia's GDP growth is expected to grow by 4.9% in 2019 (2018: 4.7%) supported by 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 Malaysian Government's long term economic growth policies. The Bank will continue building on its footprint to expand income streams through cross business collaborations and from focusing on diligent pricing of its assets and liabilities.

Moving forward into 2019, the Bank will continue to expand and deepen its presence in global markets, whilst also increasing its focus to enable a positive impact towards the economy, communities that we serve and to the environment. The Bank strives to continue pioneering innovative and inclusive financial solutions to address the needs of its customers. Through its Centre of Excellence initiatives, the Bank also seeks to support the development of the Islamic Finance industry by providing Thought Leadership insights.

**Dividends**

The amounts of dividend paid by the Bank since 31 December 2017 were as follows:

	<b>RM'000</b>
In respect of the financial year ended 31 December 2017 as reported in the directors' report of that year:	
Final tax exempt (single-tier) dividend of RM3.46 per ordinary share on 281,556,000 ordinary shares, declared on 20 February 2018 and paid on 7 June 2018	<b><u>974,184</u></b>

**Maybank Islamic Berhad  
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**Dividends (cont'd.)**

In respect of the financial year ended 31 December 2018:

Interim tax exempt (single-tier) dividend of RM2.37 per ordinary share on  
312,840,000 ordinary shares, declared on 26 July 2018 and paid on  
3 December 2018

**741,431**

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2018 of RM3.64 per ordinary share on 338,910,000 ordinary shares, amounting to a dividend payable of RM1,233,632,400 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 2019.

**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 Employees' Share Grant Plan ("ESGP") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")**

Maybank Group has implemented a new employee's share scheme named as the Maybank Group Employees' Share Grant Plan ("ESGP") and the scheme was awarded to the participating Maybank Group who fulfill the eligibility criteria. The ESGP is governed by the ESGP By-laws approved by the shareholders at an Extraordinary General Meeting held on 6 April 2017. The ESGP was implemented on 14 December 2018 for a period of seven (7) years from the effective date and is administered by the ESGP Committee.

The ESGP consists of two (2) types of performance-based awards: Employees' Share Grant Plan ("ESGP Shares") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP"). The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of the Maybank Group ESGP Committee.

The ESGP Shares is a form of Restricted Share Units ("RSU") and the ESGP Committee may, from time to time during the ESGP period, may make further ESGP grants designated as Supplemental ESGP to a selected group of eligible employees to participate in Supplemental ESGP. This selected group may consist of selected key executive, selected key retentions and selected senior external recruits, and such grants may contain terms and conditions which may vary from earlier ESGP grants made available to selected senior management.

**Maybank Islamic Berhad  
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**Maybank Group Employees' Share Grant Plan ("ESGP") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP") (cont'd.)**

The CESGP is a form of Cash-settled Performance-based Restricted Share Unit Scheme ("CRSU") and the ESGP Committee may, from time to time during the ESGP period, make further CESGP designated as Supplemental CESGP Grant to a selected group of eligible employees to participate in the ESGP. This selected group may consist of senior management, selected key retentions and selected senior external recruits, and such Supplemental CESGP grants may contain terms and conditions which may vary from earlier CESGP grants made available to selected employees.

The maximum number of ordinary shares in Maybank available under the ESGP should not exceed 3.5% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

**Maybank Group Employee Share Scheme ("ESS")**

The Maybank Group Employee Share Scheme ("ESS") expired on 23 June 2018. The ESS was governed by the by-laws approved by the holding company's i.e. Maybank's shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011 and was in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within Maybank Group.

**Issuance of share capital and debentures**

During the current financial year ended 31 December 2018, the Bank increased its share capital from RM5,481,783,000 to RM7,197,398,000 via:

- a) issuance of 31,284,000 new ordinary shares at issue price per share of RM31.14 to Maybank on the basis of one new share for every nine existing ordinary shares held in respect of the financial year ended 31 December 2017; and
- b) issuance of 26,070,000 new ordinary shares at issue price per share of RM28.44 to Maybank on the basis of one new share for every twelve existing ordinary shares held in respect of the financial year ended 31 December 2018.

During the financial year ended 31 December 2018, the Bank made issuances and redemptions of the term funding as disclose in Note 19 to the financial statements. The proceeds from the issuances were utilised to fund the working capital, general banking and other Shariah compliant corporate purposes.

**Maybank Islamic Berhad  
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**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:

Encik Zainal Abidin bin Jamal

Dato' Dr Muhammad Afifi al-Akiti

Encik Dali bin Sardar

Encik Nor Hizam bin Hashim

Datin Paduka Jam'iah Abdul Hamid

(demised on 19 November 2018)

Datuk Mohd Anwar Yahya

**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  
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**Rating by external rating agency**

Details of the Bank's ratings are as follows:

<b>Rating agency</b>	<b>Date</b>	<b>Rating classification</b>	<b>Rating received</b>
RAM Ratings Services Berhad ("RAM")	26 December 2018	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
		Outlook (Long Term)	Stable
Malaysian Rating Corporation Berhad	22 October 2018	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	MARC-1
		Outlook (Long Term)	Stable
		Intrinsic Credit Strength Rating	A-

**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.

**Maybank Islamic Berhad  
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**Other statutory information (cont'd.)**

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of 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  
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**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 and activities" 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 opinions; 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 Berhad ("Maybank Islamic" or "the Bank") aims to generate positive and sustainable impact to the economy, community and environment in the markets we operate in. Central to our purpose is upholding the objectives of Shariah in which we enjoin the welfare of humankind by way of preserving religion, life, intellect, wealth and lineage.

Objectives of Shariah:

Preservation of religion: Encouraging believers to invite others to faith, warding off aggression against the religion and accepting freedom of belief.

- We provided fund support for a Mualaf Programme, to equip converts through a structured training program that includes knowledge in the area of Fardhu Ain.

**Maybank Islamic Berhad  
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**Our Commitment Towards Sustainability (cont'd.)**

Objectives of Shariah (cont'd.):

Preservation of religion: Encouraging believers to invite others to faith, warding off aggression against the religion and accepting freedom of belief (cont'd.).

- We equipped the Bank's directors and management's members with Islamic worldview and leadership knowledge through a series of Shariah Discourse by prominent Islamic scholars.

Preservation of life: Enjoining prohibition of assault and managing all aspects of life in a manner that ensures human well-being.

- We continued to cultivate awareness towards child health and wellness across Malaysia and the ASEAN region, in collaboration with IJN Foundation through its Paediatric & Congenital Heart Centre. Up until December 2017, 66 young patients had benefited from the programme and are currently living normal lives. Amongst the treated patients, 11 were Indonesians and 8 of them were specifically flown in to Kuala Lumpur with their parents' expenses supported by the Bank. In 2018, Maybank Islamic pledged to sponsor a further total of 32 children through its Maybank Foundation Fund.
- We remain committed to provide support to human lives that are vulnerable in the wake of natural disasters. In Aceh we assisted in the rehabilitation programme and provided fund support for those affected by the 2016 earthquake.
- We are cognisant of our duty to stand against violation of human rights. We embarked on partnership programmes to create integrated healthcare facilities for Rohingya women and children refugees.
- Our goal is to support those in need in our community and ensure everyone has the bare necessities of life to maintain dignified living conditions. Our ongoing programmes to enable community empowerment include:
  - The Water, Sanitation and Hygiene (WASH) Programme for Kuala Krai and Gua Musang Communities which aims to assist in improving the health and socioeconomic well-being of communities by reducing the incidence of water and sanitation related diseases through sustainable safe water, sanitation, and hygiene practices.
  - The Maybank Islamic Community Programme in which we provided financial assistance to three (3) communities within the vicinity of the Bank, namely Flat Sri Pahang Bukit Bangsar, PPR Flat Abdullah Hukum Jalan Bangsar and Flat Sri Pantai Dalam by providing basic financial assistance, namely food and back to school amenities.
  - The Ramadhan Relief Programme is a regional food distribution community programme to almost 15,000 families through 10 countries where Maybank has presence.
  - Maybank Islamic Mastercards incorporates a 'donation' feature whereby for every spending by cardholders, the Bank will contribute 0.1% (Mastercard Ikhwan) or 0.2% on overseas spending (World Mastercard Ikhwan) for charity purposes. In the financial year 2018, Maybank Islamic Berhad had distributed (RM442,751) of the charity fund collection from the financial year 2017 Mastercard Ikhwan spending to MERCY Malaysia (RM152,376), Islamic Aid Malaysia (RM152,376) and Yayasan Pelajaran Mara (RM137,999).

**Maybank Islamic Berhad  
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**Our Commitment Towards Sustainability (cont'd.)**

Objectives of Shariah (cont'd.):

Preservation of intellect: Paving the way for people to acquire intellectual skills and knowledge and to be able to appraise right and wrong.

- We remain committed to spreading beneficial knowledge to the industry. Our esteemed panel of Shariah Scholars and industry experts conducted forums through our Leaders' Insight Series on the following topics:
  - (i) Islamic Banking and Finance: Today and Tomorrow
  - (ii) 360° on Riba
  - (iii) Islamic Finance and the Real Economy: Deciphering the Link in Between
- In fostering human development growth through education, we provided financial assistance to all 20 local Public Institutions of Higher Learning, 5 University Colleges, and international Malaysian students who are studying in Jordan and Egypt. In 2018, we have broaden the list of recipients to include an industry education centre, the International Centre for Education in Islamic Finance ("INCEIF"). We collaborated with Yayasan Pelajaran MARA by providing educational financial assistance to asnafs studying in the government and tahfidz schools, covering monthly school pocket money, structured tuition classes, school uniforms, tertiary financial support and amenities and/or hostel facilities to the under-privileged families.

Preservation of wealth: Preserved by permitting various transactions, enjoining efforts to earn it by legitimate means.

- Our financial solutions are customised to provide innovative solutions that are moulded to our Customers' life obligations and needs. We launched HouzKey, and were the first bank to initiate a rent-to-own scheme, enabling people to own houses after a certain period of lease rental arrangement.
- We collaborated with Maybank Foundation RISE program through an entrepreneurship structured training program for the underprivileged (selected among Maybank customers) so that they can increase their income and reach the desired levels of financial independence.
- We provided business capital to small entrepreneurs in PPR Batu Muda through Community Empowerment Program.
- We provided vocational and skill trainings for the handicapped victims of the Pidie Jaya earth quake in Aceh.
- We collaborated with Majlis Agama Islam dan Adat Melayu Perak on waqaf initiatives by contributing:
  - (i) the USAS (Universiti Sultan Azlan Shah) Student Residence Property.
  - (ii) Cash Waqaf, dedicated in perpetuity by way of a waqaf.
- We participated with 5 other Islamic banks in myWakaf programme championed by the Association of Islamic Banking Institutions Malaysia (AIBIM). This is a collaboration arrangement between the Islamic banks with Majlis Agama Islam Negeri (MAIN) mainly dedicated to the empowerment of communities.

**Maybank Islamic Berhad  
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**Our Commitment Towards Sustainability (cont'd.)**

Objectives of Shariah (cont'd.):

Preservation of lineage: The management of resources and the environment in trust to ensure distributive justice and preserving the rights of future generations.

- We built new houses for mualaf in Sabah who are still staying with their non-Muslim family members. This effort is to provide them with a more conducive environment to raise their children.
- Our aim is to undertake responsible measures to safeguard the welfare of future generations. Caring for the future generation include creating a safety saving net and undertaking beneficial investments. Our Wealth Management suite of products covers Wasiat, Hibah and Waqaf.

**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 15 February 2019.



Zainal Abidin bin Jamal

Kuala Lumpur, Malaysia



Datuk Mohd Anwar Yahya

**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 Datuk Mohd Anwar Yahya, 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 50 to 232 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 2018 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 15 February 2019.

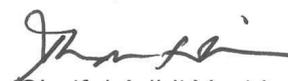
  
Zainal Abidin bin Jamal  
Kuala Lumpur, Malaysia

Datuk Mohd Anwar Yahya

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

I, Shaiful Adhli Yazid, 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 50 to 232 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 Shaiful Adhli Yazid  
at Kuala Lumpur in the Federal  
Territory on 15 February 2019

  
Shaiful Adhli Yazid

Before me,



**Maybank Islamic Berhad**  
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**CORPORATE GOVERNANCE**

**1. THE BOARD OF DIRECTORS**

**COMPOSITION OF THE BOARD**

The Board of Maybank Islamic Berhad (“Maybank Islamic” or “the Bank”) comprised five (5) directors of which four (4) 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 2018 were as follows:

<b>Name</b>	<b>Position</b>	<b>First Appointment Date</b>
<b>Chairman</b>		
Encik Zainal Abidin bin Jamal	Non-Independent Non-Executive Director	Non-Independent Non-Executive Director 28 January 2010  Chairman 1 June 2017
<b>Members</b>		
Dato' Dr Muhammad Afifi al-Akiti	Independent Non-Executive Director	15 August 2013
Encik Dali bin Sardar	Independent Non-Executive Director	11 August 2014
Encik Nor Hizam bin Hashim	Independent Non-Executive Director	18 October 2016
Datuk Mohd Anwar Yahya	Independent Non-Executive Director	17 July 2017

**Maybank Islamic Berhad  
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**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

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

**ZAINAL ABIDIN BIN JAMAL**

*Non-Independent Non-Executive Director (Chairman)*

**Nationality**

Malaysian

**Age**

64

**Appointment**

28 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**

- 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

**Maybank Islamic Berhad**  
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**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**ZAINAL ABIDIN BIN JAMAL (cont'd.)**

*Non-Independent Non-Executive Director (Chairman)*

**Directorship of Other Companies**

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

**Attendance in 2018**

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

**Declaration**

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

**DATO' DR MUHAMMAD AFIFI AL-AKITI**

*Independent Non-Executive Director*

**Nationality**

Malaysian

**Age**

42

**Appointment**

15 August 2013

**Maybank Islamic Berhad  
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**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**DATO' DR MUHAMMAD AFIFI AL-AKITI (cont'd.)**

*Independent Non-Executive Director*

**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**

- Kuwait Foundation for the Advancement of Science (KFAS) Fellow, Oxford Centre for Islamic Studies
- International Advisory Board, Abu Dhabi Educational Council (ADEC), UAE
- International Advisory Board, Sultan Omar 'Ali Saifuddien Centre for Islamic Studies, Universiti Brunei Darussalam (UBD), Brunei
- Visiting Professor, Universiti Teknologi Mara (UiTM), Malaysia
- Visiting Professor, Universiti Sains Malaysia (USM), Malaysia
- Associate Fellow, Centre for Islamic Development Management Studies ("ISDEV"), Universiti Sains Malaysia
- Deputy Editor, Journal of Islamic Studies (Oxford University Press)
- Associate Editor-in-Chief, World Journal of Islamic History and Civilization (IDOSI)
- Consultant, Qatar Foundation
- Consultant, Sultan of Brunei Foundation (Yayasan Sultan Haji Hassanal Bolkiah)
- Consultant, BBC Religion and Ethics Department
- Distinguished Visiting Professor, University Utara Malaysia (UUM), Malaysia
- Consultant, Muslim Aid, UK

**Past**

NIL

**Maybank Islamic Berhad  
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**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**DATO' DR MUHAMMAD AFIFI AL-AKITI (cont'd.)**

*Independent Non-Executive Director*

**Directorship of Other Companies**

- Oxford Islamic Finance Ltd, U.K.
- Oxford Real Estate Ltd, U.K.
- KUISAS Berhad
- LTH Oxford Ltd, Jersey
- Wilaya Trust, UK

**Attendance in 2018**

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

**Declaration**

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

**DALI BIN SARDAR**

*Independent Non-Executive Director*

**Nationality**

Malaysian

**Age**

59

**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

**Maybank Islamic Berhad  
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**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**DALI BIN SARDAR (cont'd.)**

*Independent Non-Executive Director*

**Working Experience**

**Present**

NIL

**Past**

- Relationship Manager and Vice President of Citicorp/ Citibank
- 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 Growth Capital Sdn Bhd
- Mavcap ICT Sdn Bhd
- Peranex Sdn Bhd
- NorhTec Corporation Ltd (Thailand)
- M Development Ltd (Singapore)

**Attendance in 2018**

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

**Declaration**

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

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**NOR HIZAM BIN HASHIM**

*Independent Non-Executive Director*

**Nationality**

Malaysian

**Age**

70

**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**

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

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**NOR HIZAM BIN HASHIM (cont'd.)**

*Independent Non-Executive Director*

**Directorship of Other Companies**

- Malayan Banking Berhad
- MCB Bank Limited (Pakistan)
- Minority Shareholders' Watchdog Group
- Telekom Consultancy Sdn Bhd
- Bizforte Sdn Bhd

**Attendance in 2018**

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

**Declaration**

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

**DATUK MOHD ANWAR YAHYA**

*Independent Non-Executive Director*

**Nationality**

Malaysian

**Age**

64

**Appointment**

17 July 2017

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**DATUK MOHD ANWAR YAHYA (cont'd.)**

*Independent Non-Executive Director*

**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**

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**

- Sage 3 Sdn Bhd
- Usains Holdings Sdn Bhd
- Fraser & Neave Holdings Berhad
- Felda Global Ventures Holdings Berhad
- Technology Park Malaysia Corporation Sdn Bhd
- Pelaburan Hartanah Nasional Berhad

**Attendance in 2018**

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

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**COMPOSITION OF THE BOARD (cont'd.)**

**DATUK MOHD ANWAR YAHYA (cont'd.)**

*Independent Non-Executive Director*

**Declaration**

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

**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**

The Board's duties and responsibilities include the following function:

- (a) To review and approve the Bank's strategies, business plans as well as significant policies and include, the Annual Budget and its half yearly review;
- (b) To ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems as well as ensuring that the Bank's overall operation is in compliance with Shariah principles;
- (c) To approve the recruitment, appointment, promotion, confirmation and termination of service, as well as the remuneration package, and compensation and benefits policies and the terms and conditions, including the job grade of executives in Key Management Positions;

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**ROLES AND RESPONSIBILITIES OF THE BOARD (cont'd.)**

The Board's duties and responsibilities include the following function (cont'd.):

- (d) To approve the organizational structure and ensuring that the senior management is monitoring the effectiveness of the internal control system;
- (e) To determine the general composition of the Board (size, skill and balance between executive directors and non-executive directors) in order to ensure that the Board consists of the requisite diversity of skills, experience, gender, qualification, and other core competencies required;
- (f) To approve a framework of remuneration for directors, covering fees, allowances, and benefits-in-kind (directors of all boards and committees);
- (g) To approve policies pertaining to corporate image, brand management, community relations, investor relations and shareholder communications programs;
- (h) To ensure that the Bank has a beneficial influence on the economic well-being of the communities within which it operates;
- (i) To ensure that the Board is supported by a suitably qualified and competent Company Secretary;
- (j) To ensure that the Board have access to appropriate education and training programmes to keep abreast of the latest developments in the industry, and as may be prescribed by the regulatory authorities from time to time; and
- (k) To approve the Bank's financial statements (and ensuring the reliability of the same) as well as the interim dividend and recommend the final dividend to shareholders.

**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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**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 2018 were as follows:

<b>Name</b>	<b>Position</b>	<b>Appointment Date</b>
Encik Dali bin Sardar	Chairman	28 September 2016
Dato' Dr Muhammad Afifi al-Akiti	Member	31 October 2016
Encik Nor Hizam bin Hashim	Member	26 April 2017

The specific duties of the BIC include:

- (i) Review and recommend to the Board on the matters including, but not limited to the establishment of investment objectives, strategies, policies, products, business collaborations with internal and external stake holders;
- (ii) Review and approve the changes in the existing Investment mandate, parameters, policies and procedures of Investment Account ("IA") including profit distribution policy and valuation policy;
- (iii) Ensure the investment operations are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the IA, relevant legislations and Shariah rulings and review IA performance reports on a periodic basis;
- (iv) Ensure compliance to effective 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 IA including policies and procedures to determine the significant level of IA business;

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**BOARD INVESTMENT COMMITTEE (cont'd.)**

The specific duties of the BIC include (cont'd.):

- (v) Ensure the management of the IA is conducted by personnel with the appropriate competency and investment expertise; and
- (vi) Review and approve the disclosures as per the requirements to ensure reliable, relevant and timely information are disseminated to the Investment Account Holders (“IAH”) to facilitate informed decision making and conduct regular review on the effectiveness of these policies to protect the interest of the IAH.

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 Committee<sup>1</sup>
2. Credit Review Committee<sup>2</sup>
3. Nomination and Remuneration Committee
4. Risk Management Committee<sup>2</sup>
5. Compliance Committee of the Board
6. Employee Share Grant Plan Committee

Notes:

- <sup>1</sup> The Chairman of the Audit Committee sits at the Board of Maybank Islamic Berhad.
- <sup>2</sup> Representative of the Board sits in as an invitee at the committee meetings for the deliberations on matters related to Maybank Islamic Berhad.

**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. Currently, none of the Independent Directors has reached the 9-year term in Maybank Islamic.

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**BOARD MEETINGS**

During the financial year ended 31 December 2018, 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 2018 are highlighted in the table below.

Name of Directors	Board Number of Meetings			BIC Number of Meetings		
	Held	Attended	%	Held	Attended	%
Encik Zainal Abidin bin Jamal	10	10	100			
Dato' Dr. Muhammad Afifi al-Akiti	10	10	100	4	4	100
Encik Dali bin Sardar	10	10	100	4	4	100
Encik Nor Hizam bin Hashim	10	10	100	4	4	100
Datin Paduka Jam'iah Abdul Hamid <sup>1</sup>	9	9	100			
Datuk Mohd Anwar Yahya	10	10	100			

Notes:

<sup>1</sup> Demised on 19 November 2018.

**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 to commensurate with the expertise, skills, responsibilities and the risks of being a director of a financial institution. In line with good corporate governance, 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 2018 is as disclosed in Note 30 to the financial statements.

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**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 as 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 2018 were as follow:

Maybank Group Internal Training

- Artificial Intelligence & Technology Development Leadership Programme
- Audit Committee Institute Breakfast Roundtable 2018
- Compliance Training Programme with Maybank Group Board, Group EXCOs and Senior Management
- Dialog on VBI - Strengthening the Roles and Impact of Islamic Finance via Value-based Intermediation ("VBI")
- Leaders' Insight Series - Islamic Finance and The Real Economy: Deciphering the Link In Between
- Maybank Group Annual Risk Workshop
- Maybank Islamic Board Risk Workshop
- Maybank Islamic Compliance Training Program for Board Members and Senior Management
- The Investor's Conference - Malaysia A New Dawn
- Shariah Discourse Series - Epistemic Foundation and Ethical Considerations for Leadership in Business
- Shariah Discourse Series - Knowledge as a Foundational Element in Worldview of Islam
- Shariah Discourse Series - Leadership Crisis
- Shariah Discourse Series - Understanding the Foundations of Islamic Worldview

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

**CORPORATE GOVERNANCE (cont'd.)**

**1. THE BOARD OF DIRECTORS (cont'd.)**

**DIRECTORS' TRAINING (cont'd.)**

Trainings programmes, conferences, forums and talks attended by the directors for the financial year ended 31 December 2018 were as follow (cont'd.):

External Training

(i) FIDE

- Blockchain in Financial Services Industry by IBM
- Emerging Risks, The Future Board and Return On Compliance
- FIDE Core Programme (Module A)
- FIDE Core Programme (Module B - Banks)

(ii) Other External Seminars/Conferences/Talks

- Directors' Continuing Education Program 2018 - F&N Holdings Bhd & Cocoland Holdings Bhd
- Global Islamic Finance Forum 2018 (GIFF 2018)
- IFSB Executive Forum - Effective Risk Management Oversight and Governance of Islamic Banks
- International Shariah Scholars Forum 2018 (ISSF 2018) - Islamic Social Finance: Realities and Prospects
- Islamic Finance for Board of Directors Programme
- SC - World Bank IOSCO Asia Pacific Hub Conference
- SC - World Capital Markets Symposium

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK**

**INTRODUCTION**

In 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.

Under the leverage model, Islamic business operations are residing in Maybank Group. Hence, Maybank Islamic is similarly adopting Maybank Group's 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 has the overall responsibility 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, Compliance Committee, Credit Review Committee, Nomination and Remuneration Committee and Employees' Share Grant Plan Committee.

**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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**GOVERNANCE AND OVERSIGHT (cont'd.)**

**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
<b>First Line of Defence</b>	
<p><b>Day-to-day management and ownership of risk</b></p>	<ul style="list-style-type: none"> <li>● Owns and manages day-to-day risks inherent in its business and / or activities, including that of risk taking. This includes identifying, assessing, controlling, mitigating, monitoring and reporting its risk exposures and ensuring that these activities are within the established risk strategies, risk tolerance, risk appetite, internal control frameworks, policies and procedures.</li> <li>● Executes activities within the end-to-end process, in accordance with the process designs and controls.</li> <li>● Drives and facilitates the management of risk by ensuring effective implementation and adherence to internal control framework, policies, procedures and controls, including the monitoring and reporting of risk exposures of the business/function.</li> <li>● Provides clarity to risk owners in relation to risk management practices.</li> </ul>

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**GOVERNANCE AND OVERSIGHT (cont'd.)**

**Lines of Defence (cont'd.)**

Functions	Key Responsibilities
<b>Second Line of Defence</b>	
<p><b>Oversee risks and challenge first line</b></p>	<ul style="list-style-type: none"> <li>● Establishes and owns internal control frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report a particular risk that the function is entrusted to govern.</li> <li>● Provides overall risk governance and oversight over the internal control framework including monitoring and reporting overall risk exposures of the Group/entity.</li> <li>● Reviews, analyses and challenges the first line's risk assessments and effectiveness in managing risk.</li> <li>● Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools.</li> <li>● Supports sustainable and quality asset growth with optimal returns through specific credit management functions such as credit evaluation, approval and monitoring.</li> <li>● Communicates risk strategies and create risk awareness within the organisation.</li> <li>● Ensures compliance to the applicable laws, regulations, internal policies, procedures, and limits (including risk limits). This includes maintaining policies and procedures to detect and minimise risk of non-compliances and to assess the adequacy and effectiveness of such policies and procedures on an on-going basis.</li> </ul>

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**GOVERNANCE AND OVERSIGHT (cont'd.)**

**Lines of Defence (cont'd.)**

Functions	Key Responsibilities
<b>Third Line of Defence</b>	
<b>Independent Risk assurance</b>	Provide reasonable assurance via independent assessment, review and validation, which includes the following: <ul style="list-style-type: none"> <li>• Internal control frameworks, policies and tools are sufficiently robust and consistent with regulatory standards.</li> <li>• Controls to mitigate risks are adequate and effectively executed by the first line.</li> <li>• Adequate oversight by the second line over the first line.</li> </ul>

**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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**Risk Management Framework (cont'd.)**

<b>Principles</b>	<b>Description</b>
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, policies and procedures	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 Bank.
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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**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 and strategic goals while taking into consideration constraints under stressed environment.

The risk appetite is integrated into the strategic planning process, and remains dynamic and responsive to the changing internal and external drivers such as market conditions, stakeholders' expectations and internal capabilities. In addition, the budgeting process is aligned to the risk appetite in ensuring that projected revenues arising from business transactions are consistent with the risk profile established. Our risk appetite also provides a consistent structure in understanding risk and is embedded in day to day business activities and decisions.

Guided by these principles, our risk appetite is articulated through a set of Risk Appetite Statements for all material risks across the Bank to ultimately balance the strategic objectives of the Bank.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**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 and compliance 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 and regulations. This commitment is clearly demonstrated through the establishment and strengthening of policies, processes and controls in managing and preventing non-compliances.

**Cyber and Technology Risk Management Policy and Guideline**

The Cyber Risk Management Policy is established based on the National Institute of Standards and Technology, US (NIST) standards which emphasises on controls from identifying risks, building resilience, detecting cyber threats and effectively responding to cyber related events. The policy encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Guideline and covers both business and technology drivers from an end to end perspective, which focuses on the key layers of People, Process and Technology.

Technology Risk Management Guideline sets the standards for identifying on the risk and required controls in organisation's technology related functionalities and taking the appropriate risk remedial actions. This is established to standardise the technology operation's environment which will increase high service levels to customers as well as business units.

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

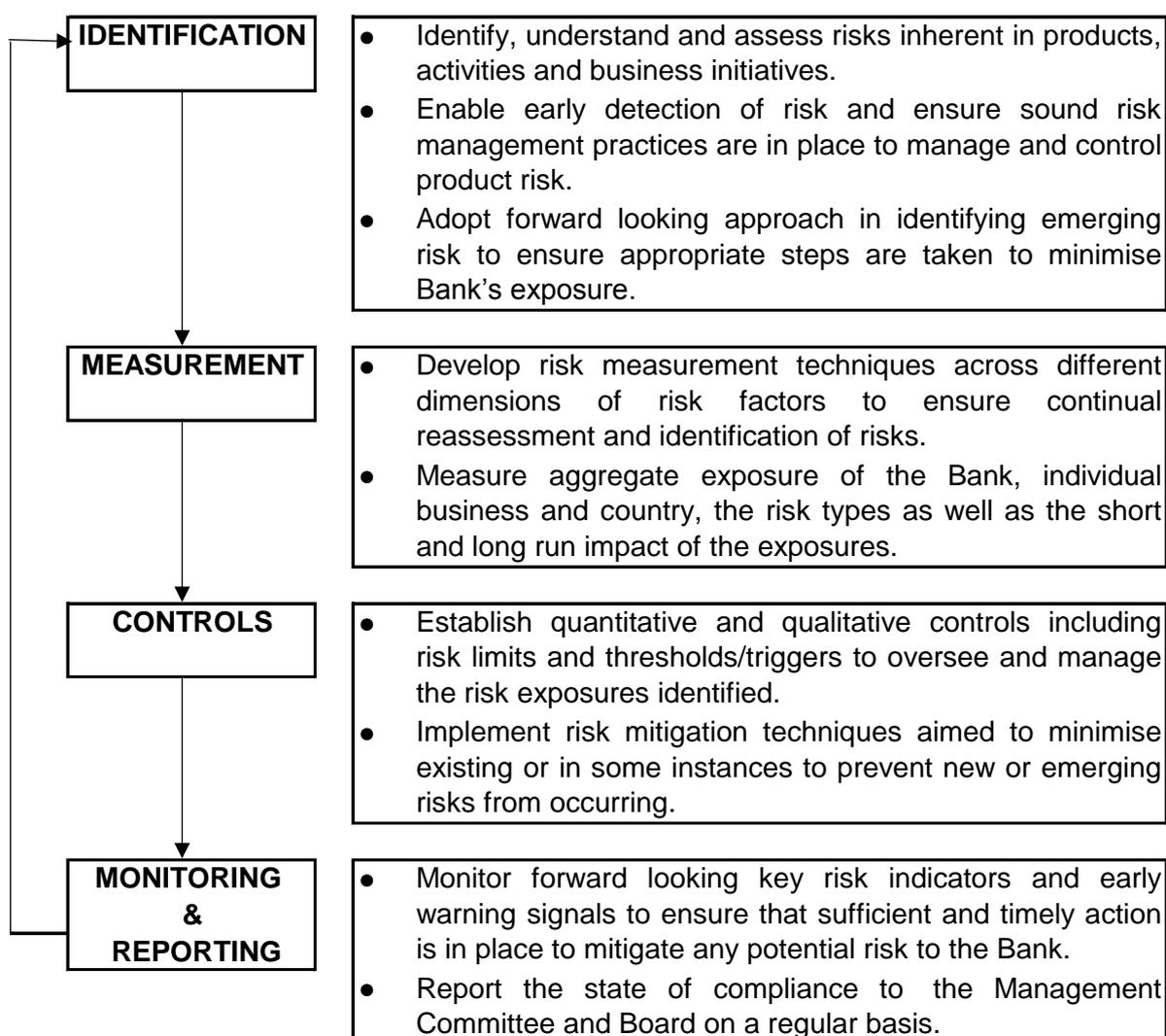
**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**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.



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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**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.

**Sustainability Management**

Operating in a sustainable manner is an organic part of the Bank's approach to its core business. Our long term financial success depends upon our ability to identify and address environmental, social and ethical issues that present risks or opportunities for our business. A five year Sustainability Plan is in place, with the aim of generating long-lasting impact and value across three pillars: Community and Citizenship, Our People and Access to Products and Services; by integrating environmental, social and governance ("ESG") practices into our 'business-as-usual' as part of our commitment to all stakeholders, which are supported by relevant policies and systems.

**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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**Management of Information Assets (cont'd.)**

With the increased adoption of technology capabilities and the increasing risk of cyber threats, information security has been among the key focus area. Technology controls are applied at various stages of the information cycle. Amongst the controls are Data Loss Protection to protect and prevent potential data loss or theft. Additionally, the establishment of Information Assets Working Group (IAWG) to deliberate and formulate data protection measures further strengthen the controls and mitigate the risk of information breach.

**Anti-Fraud Policy**

The Anti-Fraud Policy outlines the vision, principles and strategies for the Group to instil a culture of vigilance 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 high standards of integrity in every employee. Stern disciplinary action is taken against employees involved in fraud.

**Reputational Risk Policy**

Protecting our reputation is paramount to operating as an institution that provides financial services. Upholding trust forms a vital part of our obligation as a financial institution. Hence, the way in which we conduct ourselves through engagements with markets, regulators, customers, and the communities we serve is crucial. Given the importance of reputation, Reputational Risk Policy is implemented to effectively manage reputational risk and to institutionalise awareness on and its consequences. The policy outlines the roles and responsibilities of key stakeholders and the guiding principles to protect the Bank's reputation.

**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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**2. INTERNAL CONTROL FRAMEWORK (cont'd.)**

**KEY ELEMENTS OF INTERNAL CONTROL SYSTEM (cont'd.)**

**Independent Assurance by Group Audit**

The Internal Audit ("IA") function of Maybank Islamic Berhad (MIB) is undertaken by Maybank Group Audit, led by the Group Chief Audit Executive ("GCAE"). The GCAE is supported by a team of qualified auditors with the requisite knowledge in Shariah and Islamic business. To maintain its independence, the IA function is placed under the direct authority and supervision of Maybank's Audit Committee of the Board ("ACB"), with administrative reporting to the Group President & Chief Executive Officer ("GPCEO"). The IA processes and activities are guided by the Audit Charter and governed by the relevant regulatory guidelines, Group's Code of Ethics and The Institute of Internal Auditor's ("IIA") mandatory guidance established under the International Professional Practices Framework ("IPPF").

The principal responsibility of IA is to evaluate effectiveness of the governance, risk management and internal control framework and to assess whether risks, which may hinder the organisation from achieving its objectives, are adequately evaluated, managed and controlled. It provides risk-based and objective assurance, advice and insight to stakeholders with the aim of enhancing and protecting organisational values and supporting the organisation to achieve its goals.

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

**CORPORATE GOVERNANCE (cont'd.)**

**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 Maybank 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
<b>Fixed Pay</b>	<ul style="list-style-type: none"> <li>● 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.</li> </ul>
<b>Variable Pay</b>	<ul style="list-style-type: none"> <li>● Reinforce pay-for-performance culture and adherence to Maybank Group's core values.</li> <li>● Variable cash award design that is aligned with the long-term performance goals of the Maybank Group through our deferral and claw-back policies.</li> <li>● Based on overall Maybank Group's performance, business/corporate function and individual performance.</li> <li>● Performance is measured via Balanced Scorecard approach.</li> <li>● Deferral Policy: Any variable bonus award in excess of certain threshold will be deferred over a period of time.</li> </ul>

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

**CORPORATE GOVERNANCE (cont'd.)**

**3. REMUNERATION (cont'd.)**

**REWARDS AND REMUNERATION (cont'd.)**

<b>Key Elements</b>	<b>Purpose</b>
<b>Variable Pay (cont'd.)</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Long Term Incentive Awards</b>	<ul style="list-style-type: none"> <li>Attract and retain employees who have a direct line of sight to the Maybank Group's long-term performance.</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Employee benefits provide employees with financial protection, access to health care, paid time-off, staff financing 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.</li> </ul>
<b>Development and Career Opportunities</b>	<ul style="list-style-type: none"> <li>Opportunities provided to employees to chart their careers across different businesses and geographies.</li> </ul>

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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**3. REMUNERATION (cont'd.)**

**REWARDS AND REMUNERATION (cont'd.)**

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

The Bank's Total Compensation, a mixture of fixed and variable components (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's 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 Key Performance Indicators ("KPI") 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.

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

**CORPORATE GOVERNANCE (cont'd.)**

**3. REMUNERATION (cont'd.)**

**REWARDS AND REMUNERATION (cont'd.)**

**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 financial year ended 31 December 2018 compensation outcome for those identified as senior officers of Maybank Islamic is as follow:

Total value of remuneration awards for the financial year	Senior Officers			
	Unrestricted		Deferred	
<b>Fixed remuneration</b>				
- Cash-based	12 headcounts	7,999,535	-	-
- Shares and share-linked instruments	-	-	-	-
- Others	12 headcounts	478,483	-	-
<b>Variable remuneration</b>				
- Cash-based	12 headcounts	3,693,564	-	-
- Shares and share-linked instruments	6 headcounts	1,553,991	-	-
<b>Definition</b>	Senior officers of the Identified entities & senior officers of BNM-regulated companies refers to Chief Executive Officer 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 Most Compassionate, the Most Merciful

All praise is due to Allah, the Cherisher of the Worlds, and peace and blessings 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 2018 until 31 December 2018. During the year, the Shariah Committee had convened 26 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 mechanisms 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 2018, 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 2018, 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;
- (e) The Shariah non-compliance events and disposal of any earnings from prohibited sources/means by the Bank during the year ended 31 December 2018 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 2018 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  
15 February 2019

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

**Report on 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 2018 of the Bank, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 50 to 232.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the financial 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 *Auditors' 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 and will not express any form of assurance conclusion thereon.

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**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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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**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 judgement 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.

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**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



Dato' Megat Iskandar Shah bin Mohamad Nor  
No. 03083/07/2019 J  
Chartered Accountant

Kuala Lumpur, Malaysia  
15 February 2019

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

**Statement of financial position as at 31 December 2018**

	Note	2018 RM'000	2017 RM'000
<b>Assets</b>			
Cash and short-term funds	5	21,922,103	17,134,359
Deposits and placements with banks and other financial institutions	6	251,328	-
Financial investments at fair value through profit or loss	7(i)	995,072	240,571
Financial investments at fair value through other comprehensive income	7(ii)	12,447,389	-
Financial investments available-for-sale	7(iii)	-	9,882,004
Financial investments at amortised cost	7(iv)	6,454,985	-
Financial investments held-to-maturity	7(v)	-	2,731,560
Financing and advances	8	174,268,203	162,072,685
Derivative assets	9	403,993	487,989
Other assets	10	4,242,911	6,690,982
Statutory deposit with Bank Negara Malaysia	11	4,205,000	3,242,000
Deferred tax assets	18	24,077	12,903
<b>Total assets</b>		<b>225,215,061</b>	<b>202,495,053</b>
<b>Liabilities</b>			
Customers' funding:			
- Deposits from customers	12	147,781,749	129,897,440
- Investment accounts of customers <sup>1</sup>	13	23,565,061	24,555,445
Deposits and placements of banks and other financial institutions	14	32,174,135	28,238,141
Bills and acceptances payable		11,050	8,854
Financial liabilities at fair value through profit or loss	15	385,687	892,695
Derivative liabilities	9	391,949	650,320
Other liabilities	16	2,129,694	310,393
Provision for taxation and zakat	17	23,450	148,373
Term funding	19	4,738,180	4,945,437
Subordinated sukuk	20	2,534,301	2,534,105
Capital securities	21	1,002,441	1,002,441
<b>Total liabilities</b>		<b>214,737,697</b>	<b>193,183,644</b>

<sup>1</sup> Investment accounts of customers are used to fund financing and advances as disclosed in Note 8.

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

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

**Statement of financial position as at 31 December 2018 (cont'd.)**

	<b>Note</b>	<b>2018</b> <b>RM'000</b>	<b>2017</b> <b>RM'000</b>
<b>Equity attributable to equity holder of the Bank</b>			
Share capital	22	<b>7,197,398</b>	5,481,783
Retained profits	23	<b>2,970,618</b>	3,351,547
Other reserves	23	<b>309,348</b>	478,079
		<b><u>10,477,364</u></b>	<u>9,311,409</u>
<b>Total liabilities and shareholder's equity</b>		<b><u>225,215,061</u></b>	<u>202,495,053</u>
<b>Commitments and contingencies</b>	36	<b><u>59,033,318</u></b>	<u>53,463,406</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 2018**

	Note	2018 RM'000	2017 RM'000
Income derived from investment of depositors' funds	24	8,831,807	7,032,548
Income derived from investment of investment account funds	25	1,099,068	1,526,848
Income derived from investment of shareholder's funds	26	430,134	296,780
Allowances for impairment losses on financing and advances, net	27(i)	(375,246)	(210,063)
Writeback of impairment losses on financial investments, net	27(ii)	7,537	-
Writeback of impairment losses on other financial assets, net	27(iii)	167	-
<b>Total distributable income</b>		<b>9,993,467</b>	8,646,113
Profit distributed to depositors	28	(5,029,737)	(3,989,634)
Profit distributed to investment account holders		(597,724)	(913,276)
<b>Total net income</b>		<b>4,366,006</b>	3,743,203
Overhead expenses	29	(1,417,570)	(1,340,351)
Finance cost	31	(343,485)	(137,092)
<b>Profit before taxation and zakat</b>		<b>2,604,951</b>	2,265,760
Taxation	32	(605,683)	(510,150)
Zakat		(23,658)	(18,526)
<b>Profit for the year</b>		<b>1,975,610</b>	1,737,084
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	33	<b>655.4</b>	617.0

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

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

**Statement of comprehensive income**  
**For the year ended 31 December 2018**

	Note	2018 RM'000	2017 RM'000
<b>Profit for the year</b>		<b>1,975,610</b>	<b>1,737,084</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net gain on financial investments at fair value through other comprehensive income		<b>25,103</b>	-
- Net gain from change in fair value		<b>27,873</b>	-
- Changes in expected credit losses		<b>3,920</b>	-
- Income tax effect	18	<b>(6,690)</b>	-
Net gain on financial investments available-for-sale		-	22,946
- Net gain from change in fair value		-	30,185
- Income tax effect	18	-	(7,239)
Other comprehensive income for the financial year, net of tax		<b>25,103</b>	22,946
<b>Total comprehensive income for the year, net of tax</b>		<b>2,000,713</b>	1,760,030
<b>Total comprehensive income attributable to:</b>			
Equity holder of the Bank		<b>2,000,713</b>	1,760,030

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

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Maybank Islamic Berhad  
(Incorporated in Malaysia)

Statement of changes in equity  
For the year ended 31 December 2018

	←----- Non-distributable ----->			Distributable		
	Share capital (Note 22) RM'000	Equity contribution from the holding company (Note 23) RM'000	Fair Value Through Other Comprehensive Income reserve (Note 23) RM'000	Regulatory reserve (Note 23) RM'000	Retained profits (Note 23) RM'000	Total equity  RM'000
<b>At 1 January 2018</b>						
- as previously stated	5,481,783	1,697	(32,318)	508,700	3,351,547	9,311,409
- effect of adopting MFRS 9 (Note 2.3(i))	-	-	1,350	(493,501)	(342,607)	(834,758)
<b>At 1 January 2018, as restated</b>	<b>5,481,783</b>	<b>1,697</b>	<b>(30,968)</b>	<b>15,199</b>	<b>3,008,940</b>	<b>8,476,651</b>
Profit for the year	-	-	-	-	1,975,610	1,975,610
Other comprehensive income	-	-	25,103	-	-	25,103
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>25,103</b>	<b>-</b>	<b>1,975,610</b>	<b>2,000,713</b>
Transfer to regulatory reserve	-	-	-	298,317	(298,317)	-
Issue of ordinary shares	1,715,615	-	-	-	-	1,715,615
Dividend on ordinary shares (Note 34)	-	-	-	-	(1,715,615)	(1,715,615)
<b>Total transactions with shareholder/ other equity movements</b>	<b>1,715,615</b>	<b>-</b>	<b>-</b>	<b>298,317</b>	<b>(2,013,932)</b>	<b>-</b>
<b>At 31 December 2018</b>	<b>7,197,398</b>	<b>1,697</b>	<b>(5,865)</b>	<b>313,516</b>	<b>2,970,618</b>	<b>10,477,364</b>

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

**Statement of changes in equity (cont'd.)**  
**For the year ended 31 December 2018 (cont'd.)**

	←----- 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	Available- for-sale reserve (Note 23) RM'000	Regulatory reserve (Note 23) RM'000	Retained profits (Note 23) RM'000	Total equity RM'000	
<b>At 1 January 2017</b>	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	
<b>Total comprehensive income for the year</b>	-	-	-	-	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)	
<b>Total transactions with shareholder/ other equity movements</b>	5,200,227	(5,200,227)	-	(409,672)	-	115,000	(1,242,624)	(1,537,296)	
<b>At 31 December 2017</b>	5,481,783	-	1,697	-	(32,318)	508,700	3,351,547	9,311,409	

<sup>1</sup>Available-for-sale reserve was transferred to fair value through other comprehensive income reserve effective 1 January 2018.

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 2018**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities</b>		
Profit before taxation and zakat	<b>2,604,951</b>	2,265,760
Adjustments for:		
Amortisation of premium less accretion of discount	<b>(49,197)</b>	(75,266)
Allowances for impairment losses on financing and advances	<b>418,692</b>	261,639
Writeback of impairment losses on financial investments	<b>(7,537)</b>	-
Writeback of impairment losses on other financial assets	<b>(167)</b>	-
Unrealised gains on revaluation of derivatives	<b>(26,892)</b>	(6,508)
Unrealised losses on revaluation of financial investments at fair value through profit or loss	<b>207</b>	9
Unrealised losses on revaluation of financial liabilities at fair value through profit or loss	<b>6,187</b>	9,582
Gains on disposal of financial investments at fair value through other comprehensive income	<b>(5,870)</b>	(9,317)
Losses/(gains) on disposal of financial investment at fair value through profit or loss	<b>2,242</b>	(459)
(Gains)/losses on foreign exchange translations	<b>(134,656)</b>	11,926
Share options granted under ESS	-	511
Finance cost	<b>343,485</b>	137,092
Operating profit before working capital changes	<b>3,151,445</b>	2,594,969
Change in deposits and placements with banks and other financial institutions	<b>(251,328)</b>	651,558
Change in cash and short-term funds with original maturity of more than three months	<b>(50,452)</b>	201,263
Change in financial investments portfolio	<b>(6,975,086)</b>	(3,767,262)
Change in financing and advances	<b>(13,664,593)</b>	(13,811,014)
Change in derivative assets and liabilities	<b>(147,483)</b>	149,232
Change in other assets	<b>2,482,449</b>	(2,184,431)
Change in statutory deposit with Bank Negara Malaysia	<b>(963,000)</b>	(172,000)
Change in deposits from customers	<b>17,884,309</b>	23,292,948
Change in deposits and placements of banks and other financial institutions	<b>4,070,651</b>	(2,115,791)
Change in investment accounts of customers	<b>(990,384)</b>	(6,989,142)
Change in financial liabilities at fair value through profit or loss	<b>(513,195)</b>	(18,528)
Change in bills and acceptances payable	<b>2,196</b>	(44,366)
Change in other liabilities	<b>1,794,642</b>	218,143
Cash generated from/(used in) operating activities	<b>5,830,171</b>	(1,994,421)
Taxes and zakat paid	<b>(542,331)</b>	(479,048)
<b>Net cash generated from/(used in) operating activities</b>	<b>5,287,840</b>	(2,473,469)

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**Statement of cash flows (cont'd.)**  
**For the year ended 31 December 2018 (cont'd.)**

	Note	2018 RM'000	2017 RM'000
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares		1,715,615	-
Dividend paid		(1,715,615)	(1,537,296)
Dividend paid for capital securities		(49,500)	-
Dividend paid for subordinated sukuk		(117,750)	(118,141)
Issuance of capital securities		-	1,000,000
(Redemption)/drawdown of term funding		(207,063)	4,942,215
Dividend paid for term funding		(176,235)	(13,679)
<b>Net cash (used in)/generated from financing activities</b>		<u>(550,548)</u>	<u>4,273,099</u>
<b>Net increase in cash and cash equivalents</b>		<b>4,737,292</b>	1,799,630
Cash and cash equivalents at beginning of year		<u>17,134,359</u>	15,334,729
<b>Cash and cash equivalents at end of year</b>		<u><b>21,871,651</b></u>	<u>17,134,359</u>
Cash and cash equivalents comprise:			
Cash and short term funds	5	21,922,103	17,134,359
Deposits and placements with banks and other financial institutions	6	<u>251,328</u>	-
		<b>22,173,431</b>	17,134,359
Less: Cash and short-term funds and deposits and placements with original maturity of more than three months		<u>(301,780)</u>	-
		<u><b>21,871,651</b></u>	<u>17,134,359</u>

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

**Maybank Islamic Berhad  
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**Notes to the financial statements - 31 December 2018**

**1. Corporate information**

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 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 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 15 February 2019.

**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 2016 in Malaysia.

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 2.2.

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.

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**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.

From 1 January 2018, the Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measured at either:

- Amortised cost, as explained in Note 2.2(i)(b)(1);
- Fair value through other comprehensive income ("FVOCI"), as explained in Note 2.2(i)(b)(2); or
- Fair value through profit or loss ("FVTPL"), as explained in Note 2.2(i)(b)(3).

Before 1 January 2018, the Bank classified its financial assets as financing and receivables (amortised cost), FVTPL, held-to-maturity (amortised cost) or available-for-sale, as explained in Note 2.2(i)(b)(1), 2.2(i)(b)(3), 2.2(i)(b)(4) and 2.2(i)(b)(5) respectively.

Included in financial assets are the following:

**(1) Financial assets at amortised cost**

From 1 January 2018, the Bank measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit ("SPPP") on the principal amount outstanding.

**Maybank Islamic Berhad  
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**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 amortised cost (cont'd.)**

The details of these conditions are outlined below:

i) The SPPP test

As a second step of its classification process, the Bank assess the contractual terms of financial assets to identify whether they meet the SPPP test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are SPPP on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

ii) Business model assessment

The Bank determine its business model at the level that best reflects how groups of financial assets are managed to achieve its business objective.

**Maybank Islamic Berhad  
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**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 amortised cost (cont'd.)**

The details of these conditions are outlined below:

**ii) Business model assessment (cont'd.)**

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

Included in financial assets at amortised cost are cash and short-term funds, deposits and placements with financial institutions, financial assets purchased under resale agreements, financial investments and financing and advances as disclosed in the respective notes to the financial statements.

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**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.)**

**(2) Fair value through other comprehensive income ("FVOCI")**

The Bank applies the new category under MFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets meet the SPPP test.

These instruments largely comprises of financial assets that had previously been classified as financial investments available-for-sale under MFRS 139.

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Finance income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank hold more than one investment in the same security, they are deemed to be disposed-off on a first-in-first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition).

Included in financial asset FVOCI are financial investments and financing and advances to customers.

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

Before 1 January 2018, financial assets at FVTPL include financing and advances to customers, 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.

From 1 January 2018, financial assets at FVTPL are those that are held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under MFRS 9. Management designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the accounting mismatch 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.

Included in financial assets at FVTPL are financial investments, financial assets designated upon initial recognition and derivatives.

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'.

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**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.)**

**(4) Financial investments held-to-maturity ("HTM") (*Policy applicable before 1 January 2018*)**

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 profit 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 profit 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.

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.

**(5) Financial investments available-for-sale ("AFS") (*Policy applicable before 1 January 2018*)**

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

- Amortised cost ("AC")
- Fair value through profit or loss ("FVTPL")
- Held-to-maturity ("HTM")

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.

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**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.)**

**(5) Financial investments available-for-sale ("AFS") (*Policy applicable before 1 January 2018*) (cont'd.)**

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 there is substantial modification of terms and conditions or factors other than substantial modification.

**(1) Derecognition due to substantial modification of terms and conditions**

The Bank derecognises a financial asset, such as a financing to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognised financing are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be purchased or originated credit-impaired ("POCI").

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate ("EPR"), the Bank record a modification gain or loss, to the extent that an impairment loss has not already been recorded.

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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(c) Derecognition (cont'd.)**

**(2) Derecognition other than for substantial modification**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) The rights to receive cash flows from the financial asset have expired; or
- (ii) The transfer of financial asset is as set out below and the transfer qualifies for derecognition.

The Bank have transferred the financial asset if, and only if, either:

- The Bank have transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retain the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assume a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank have no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount financed plus accrued profit at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Bank have to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including profit earned, during the period between the collection date and the date of required remittance to the eventual recipients.

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(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.)**

**(2) Derecognition other than for substantial modification (cont'd.)**

A transfer only qualifies for derecognition if either the Bank have:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and have retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(d) Impairment of financial assets (*Policy applicable from 1 January 2018*)**

The MFRS 9 impairment requirements are based on an Expected Credit Loss (“ECL”) model that replaces the Incurred Loss model under the MFRS 139. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable financing commitments and financial guarantee contracts, which include financing and advances and debt instruments held by the 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 expected credit loss involves increased complexity and judgement that include:

**(i) Determining a 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. The 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 applies a three-stage approach based on the change in credit quality since initial recognition:

<b>3-Stage approach</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
	<b>Performing</b>	<b>Under-performing</b>	<b>Non-performing</b>
<b>ECL Approach</b>	12-month ECL	Lifetime ECL	Lifetime ECL
<b>Criterion</b>	No significant increase in credit risk	Credit risk increased significantly	Credit-impaired assets
<b>Recognition of profit income</b>	On gross carrying amount	On gross carrying amount	On net carrying amount

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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(d) Impairment of financial assets (*Policy applicable from 1 January 2018*)  
(cont'd.)**

**(ii) 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 an exposure at default model ("EAD"). The model is to leverage as much as possible on the Bank's existing Basel II models and performed the required adjustments to produce MFRS 9 compliant model.

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Bank have decided to continue measure the impairment mainly on an individual transaction basis for financial assets that are deemed to be individually significant, and collectively assess for other financial assets per Group's policy.

**(iii) Expected life**

Lifetime ECL must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolver financial instruments such as credit cards and cashline. The expected life for these revolver facilities generally refers to its behavioural life.

**(iv) Financial investments at FVOCI**

The ECL for financial investments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(d) Impairment of financial assets (*Policy applicable from 1 January 2018*)  
(cont'd.)**

(v) Forward-looking information

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

Where applicable, the Bank incorporate forward-looking adjustments in credit risk factors of PD and LGD used in ECL calculation; taking into account the impact of multiple probability-weighted future forecast economic scenarios.

Embedded in ECL is a broad range of forward-looking information as economic inputs, such as:

- Gross Domestic Product ("GDP") growth;
- Unemployment rates;
- House Price Indices; and
- Bank Negara Malaysia ("BNM") policy rates

The Bank applies the following three alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

*Base scenario:* This scenario reflects that current macroeconomic conditions continue to prevail; and

**Maybank Islamic Berhad  
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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(d) Impairment of financial assets (*Policy applicable from 1 January 2018*)  
(cont'd.)**

(v) Forward-looking information (cont'd.)

The Bank applies the following three alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL (cont'd.):

*Upside and Downside scenarios:* These scenarios are set relative to the base scenario, reflecting best and worst-case macroeconomic conditions based on subject matter expert's best judgement from current economic conditions.

(vi) Valuation of collateral held as security for financial assets

The Bank's accounting policy for collateral assigned to it through its financing arrangements under MFRS 9 is the same as it was under MFRS 139.

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)**

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.)**

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)  
(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 assesses if objective evidences of impairment exist for financing and advances which are deemed to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the 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.

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**2. Accounting policies (cont'd.)**

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

**(i) Financial assets (cont'd.)**

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)  
(cont'd.)**

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

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

**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.

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.

**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.)**

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)  
(cont'd.)**

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

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

**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'.

**(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 borrower 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 profit 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.

**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.)**

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)  
(cont'd.)**

**(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.

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.

**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.)**

**(e) Impairment of financial assets (*Policy applicable before 1 January 2018*)  
(cont'd.)**

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

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 investments 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.

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.

**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.)**

**(f) Modification of financing**

The Bank sometimes renegotiate or otherwise modify the contractual cash flows of financing to customers. When this happens, the Bank assess whether or not the new terms are substantially different to the original terms. The Bank do this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the financing;
- Significant extension of the financing term when the customer is not in financial difficulty;
- Significant change in the profit rate;
- Change in the currency the financing is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognise the original financial asset and recognise a 'new' asset at fair value and recalculate a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the income statements as a gain or loss on derecognition.

**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.)**

**(f) Modification of financing (cont'd.)**

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the income statements. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

**(g) Reclassification of financial assets (*Policy applicable before 1 January 2018*)**

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 financial year ended 31 December 2017.

**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.)**

**(h) Reclassification of financial assets (*Policy applicable from 1 January 2018*)**

From 1 January 2018, reclassification of financial assets is permissible when and only when there is change in business model for managing financial assets.

The Bank does not consider the following changes in circumstances as reclassifications:

- an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- changes in measurement where the Bank adopt fair value option.

Subsequent to initial recognition, the Bank did not reclassify its financial assets in 2018.

**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.

With the adoption of MFRS 9 effective 1 January 2018, the Bank do not change the initial recognition and subsequent measurement of financial liabilities at FVTPL.

**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 has adopted Fair Value Option ("FVO") for certain financial liabilities under MFRS 139. The Bank has designated certain financial liabilities namely, structured deposits containing embedded derivatives at FVTPL upon inception. This FVO adoption will be applied prospectively. As a result of this adoption, the Bank has 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.

MFRS 9 does not deviate away from the treatment on initial recognition and subsequent measurement of financial liabilities.

However, the changes in fair value are presented differently as follows:

- (i) change in fair value due to own credit risk - presented in other comprehensive income; and
- (ii) change in fair value due to market risk or other factors - presented in income statement.

**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**

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 and 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 is 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 sukuk, capital securities and term fundings.

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.

**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.)**

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 these 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.

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 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 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 (Policy applicable before 1 January 2018)**

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) Embedded derivatives (Policy applicable from 1 January 2018)**

From 1 January 2018, embedded derivatives are no longer separated from a host financial asset. Instead, the Bank classify financial assets based on the business model and their contractual terms as outlined in Note 2.2(i).

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts under MFRS 9 is the same as when it was under MFRS 139.

**(vii) 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.

**(viii) 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.

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

**2. Accounting policies (cont'd.)**

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

**(viii) Cash and short-term funds (cont'd.)**

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 three (3) months or less.

**(ix) 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 ("VIU"). When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered to be impaired and is written-down to its recoverable amount.

The Bank bases its VIU 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 VIU, 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.

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

**2. Accounting policies (cont'd.)**

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

**(x) 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.

**(xi) 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.

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

**2. Accounting policies (cont'd.)**

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

**(xi) Foreign currencies (cont'd.)**

**(b) Foreign currency transactions (cont'd.)**

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.

**(xii) 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.

**(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.

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

**2. Accounting policies (cont'd.)**

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

**(xii) Income and deferred taxes (cont'd.)**

**(b) Deferred tax (cont'd.)**

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.

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.

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

**2. Accounting policies (cont'd.)**

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

**(xiii) 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.

**(xiv) Fair value measurement**

The Bank measures financial instruments such as financial assets at FVTPL, financial liabilities designated at FVTPL, financial investments FVOCI, 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.

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.

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

**2. Accounting policies (cont'd.)**

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

**(xiv) Fair value measurement (cont'd.)**

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).

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**2. Accounting policies (cont'd.)**

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

**(xv) 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 income from financing 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.

**(xvi) 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.

**(xvii) Financing and related expense recognition**

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

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**2. Accounting policies (cont'd.)**

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

**(xviii) 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**

**(1) Employees' Share Grant Plan ("ESGP Shares")**

The ESGP Shares is awarded to the eligible Executive Directors and employees of the participating Maybank Group excluding dormant subsidiaries. The ESGP Shares may be settled by way of issuance and allotment of new Maybank shares or by way of cash settlement as determined by the ESGP Committee.

The total fair value of ESGP Shares granted to eligible employees is recognised as an employee cost with a corresponding increase in the reserve within equity over the vesting period and taking into account the probability that the ESGP Shares will vest. The fair value of ESGP Shares is measured at grant date, taking into account, the market and non-market vesting conditions upon which the ESGP Shares were granted.

Upon vesting of ESGP Shares, the Bank will recognise the impact of the actual numbers of ESGP Shares vested as compared to original estimates.

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**2. Accounting policies (cont'd.)**

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

**(xviii) Employee benefits (cont'd.)**

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

**(2) Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")**

The CESGP is awarded to the eligible Executive Directors and employees of the participating Maybank Group, subject to achievement of performance criteria set out by the Board of Directors and prevailing market practices in the respective countries. Upon vesting, the cash amount equivalent to the value of the Maybank Reference Shares will be transferred to the eligible employees.

The total fair value of CESGP granted to eligible employees is recognised as an employee cost with a corresponding increase in the liability over the vesting period and taking into account the probability that the CESGP will vest. The fair value of CESGP is measured at grant date, taking into account, the market and non-market vesting conditions upon which the CESGP were granted.

Upon vesting of CESGP, the Bank will recognise the impact of the actual numbers of CESGP vested as compared to original estimates.

**(3) 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 on the vesting date.

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**2. Accounting policies (cont'd.)**

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

**(xviii) Employee benefits (cont'd.)**

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

**(4) 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.

**(xix) 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.

**(xx) 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.

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**2. Accounting policies (cont'd.)**

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

**(xx) 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.

**(xxi) Earnings per share ("EPS")**

The Bank presents basic and diluted (where applicable) 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.

**(xxii) Restricted Profit Sharing Investment Accounts ("RPSIA")**

RPSIA placements are used to fund specific financing assets 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 assets are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 9. 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 ECL, collective allowance and capital ratio as disclosed in Notes 8 and 41 respectively.

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**2. Accounting policies (cont'd.)**

**2.3 Changes in accounting policies and disclosures**

On 1 January 2018, the Bank adopted the following amendments to MFRS and annual improvements to MFRSs:

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
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>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
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

**MFRS 9 *Financial Instruments***

The standard introduced new requirements for classification, measurement, impairment and hedge accounting. The accounting policies that relate to the classification, measurement and impairment of financial assets are amended to comply with the standard, while the hedge accounting policies are not impacted. In accordance with the transition provisions in the standard, comparatives are not restated and the financial impact of the adoption of the standard is recognised in retained profits, fair value through other comprehensive income reserve and regulatory reserve as at 1 January 2018.

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**2. Accounting policies (cont'd.)**

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

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

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statement of financial position of the Bank.

**Statement of Financial Position**

	31 December 2017 RM'000	Reclassification and remeasurement RM'000	Expected credit losses RM'000	1 January 2018 RM'000
<b>ASSETS</b>				
Cash and short-term funds	17,134,359	-	(173)	17,134,186
Financial investments at fair value through profit or loss	240,571	-	-	240,571
Financial investments at fair value through other comprehensive income	-	9,882,004	-	9,882,004
Financial investments at amortised cost	-	2,731,560	(22,157)	2,709,403
Financial investments available-for-sale	9,882,004	(9,882,004)	-	-
Financial investments held-to-maturity	2,731,560	(2,731,560)	-	-
Financing and advances	162,072,685	(603)	(1,051,345)	161,020,737
Derivative assets	487,989	-	-	487,989
Other assets	6,690,982	-	115,662 <sup>1</sup>	6,806,644
Statutory deposits with Bank Negara Malaysia	3,242,000	-	-	3,242,000
Deferred tax assets	12,903	145	-	13,048
<b>TOTAL ASSETS</b>	<b>202,495,053</b>	<b>(458)</b>	<b>(958,013)</b>	<b>201,536,582</b>

<sup>1</sup> Tax recoverable of RM115.7 million.

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**2. Accounting policies (cont'd.)**

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

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

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statement of financial position of the Bank (cont'd.)

**Statement of Financial Position (cont'd.)**

	31 December 2017 RM'000	Reclassification and remeasurement RM'000	Expected credit losses RM'000	1 January 2018 RM'000
<b>LIABILITIES</b>				
Customers' funding:				
- Deposits from customers	129,897,440	-	-	129,897,440
- Investment accounts of customers	24,555,445	-	-	24,555,445
Deposits and placements of banks and other financial institutions	28,238,141	-	-	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	650,320	-	-	650,320
Other liabilities	310,393	-	24,660	335,053
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
<b>TOTAL LIABILITIES</b>	<b>193,183,644</b>	<b>-</b>	<b>(123,713)</b>	<b>193,059,931</b>

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**2. Accounting policies (cont'd.)**

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

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

- (i) The adoption of MFRS 9 resulted in the following financial effects to the statement of financial position of the Bank (cont'd.)

**Statement of Financial Position (cont'd.)**

	<b>31 December 2017 RM'000</b>	<b>Reclassification and remeasurement RM'000</b>	<b>Expected credit losses RM'000</b>	<b>1 January 2018 RM'000</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE BANK</b>				
Share capital	5,481,783	-	-	5,481,783
Retained profits	3,351,547	493,501	(836,108)	3,008,940
Regulatory reserve	508,700	(493,501)	-	15,199
Other reserves	(30,621)	(458)	1,808	(29,271)
<b>TOTAL SHAREHOLDER'S EQUITY</b>	<b>9,311,409</b>	<b>(458)</b>	<b>(834,300)</b>	<b>8,476,651</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>202,495,053</b>	<b>(458)</b>	<b>(958,013)</b>	<b>201,536,582</b>

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**2. Accounting policies (cont'd.)**

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

**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 Policy document issued by BNM on the statements of financial position of the Bank:

	<b>1 January 2018 RM'000</b>
<b>Regulatory reserve</b>	
Closing balance at 31 December 2017	508,700
- Transfer to retained profits	(493,501)
Opening balance at 1 January 2018	<u>15,199</u>
<b>Reserves</b>	
Closing balance at 31 December 2017	(30,621)
- Recognition of expected credit loss	1,808
- Unrealised loss on financial assets at FVOCI	(603)
- Deferred tax in respect of unrealised gain on FVOCI	145
Opening balance at 1 January 2018	<u>(29,271)</u>
<b>Retained profits</b>	
Closing balance at 31 December 2017	3,351,547
Transfer from regulatory reserve	493,501
Recognition of expected credit loss	(1,100,143)
Provision for tax	264,035
Opening balance at 1 January 2018	<u>3,008,940</u>

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**2. Accounting policies (cont'd.)**

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

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

(iii) The following table analyses the impact, net of tax, of transition to MFRS 9 and Revised Financial Reporting Policy document issued by BNM on the capital adequacy of ratio of the Bank:

	<b>31 December 2017</b>	<b>Impact of adopting MFRS 9 and Revised Financial Reporting Policy document</b>	<b>1 January 2018</b>
CET1 Capital (RM'000)	8,789,806	(662,902)	8,126,904
Tier 1 Capital (RM'000)	9,789,806	(662,902)	9,126,904
Total Capital (RM'000)	12,597,883	(662,902)	11,934,981
Risk Weighted Assets (RM'000)	60,618,081	(603)	60,617,478
CET1 Capital Ratio	14.500%	-1.093%	13.407%
Tier 1 Capital Ratio	16.150%	-1.093%	15.057%
Total Capital Ratio	20.782%	-1.093%	19.689%

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**2. Accounting policies (cont'd.)**

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

**MFRS 15 Revenue from Contracts with Customers**

MFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Under MFRS 15, 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 applies to revenue recognition under MFRS 15 is as follows:

- (1) Identify the contract(s) with a customer;
- (2) Identify the performance obligation(s) 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 include disaggregated information about revenue and information about the performance obligations remaining at the reporting date.

The new revenue standard is applicable to all entities which superseded 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 adopted 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 financing and advances and financial investment securities. The adoption of this standard has no material financial impact.

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**2. Accounting policies (cont'd.)**

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

**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 do not anticipate significant impact to the financial statements upon adoption of the amendments.

**IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration***

IC Interpretation 22 addresses the exchange rate that should be used to measure revenue (or expense) 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.

IC Interpretation 22 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. 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 statements of the reporting period in which the entity first applies the interpretation.

The adoption of the IC interpretation does not have any impact on the Bank's financial statements.

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**2. Accounting policies (cont'd.)**

**2.4 Significant changes in regulatory requirements**

**Revised Financial Reporting Policy document issued by Bank Negara Malaysia ("BNM")**

On 2 February 2018, BNM issued a revised Financial Reporting Policy document. The revised policy document apply to financial institutions in Malaysia that covers licensed banks, licensed investment banks, licensed Islamic banks and licensed insurers. The revised policy document 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 policy document 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 Bank has presented the regulatory reserves in the Statement of Changes in Equity.

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

The Bank presented these information in Note 35(a).

- (iii) Additional disclosure on placement of funds in an investment account with an Islamic banking institution:

- present the placement, as a separate line item in the statement of financial position, as either "investment account placement" or "investment account placement – (asset description)"; and
- disclose in the explanatory notes the nature of the underlying assets for the investment.

The additional disclosures are presented in Note 8.

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

- where the principal or 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;
- 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

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**2. Accounting policies (cont'd.)**

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

**Revised Financial Reporting Policy document issued by Bank Negara Malaysia ("BNM") (cont'd.)**

(iv) Clarify on the classification of a credit facility as credit-impaired (cont'd.):

- 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 policy document.

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

**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 their financial investments at FVOCI, and financial investments AC under MFRS 9 which required to recognise the ECL at each reporting date to reflect change in credit risk of the financial investments not at FVTPL. MFRS 9 incorporates forward-looking and historical, current and forecasted information into ECL estimation.

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, difficulties of the issuers or obligors, deterioration of the credit quality of the issuers or obligors; and

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**3. Significant accounting judgements, estimates and assumptions (cont'd.)**

**3.2 Impairment of financial investments portfolio (Note 7) (cont'd.)**

- (ii) Determination of ECL that reflect:
  - (a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
  - (b) The time value of money; and
  - (c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Under MFRS 139, the Bank review their 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 investment at FVTPL (Note 7), financial investment at FVOCI (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.

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**3. Significant accounting judgements, estimates and assumptions (cont'd.)**

**3.4 Impairment losses on financing and advances (Notes 8 and 27(i))**

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 borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowances.

The Bank's ECL calculations under MFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- (i) Internal credit grading model, which assigns PDs to the individual grades;
- (ii) Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- (iii) The segmentation of financial assets when their ECL is assessed on a collective basis;
- (iv) Development of ECL models, including the various formulas and the choice of inputs;
- (v) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- (vi) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Under MFRS 139, 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 allowances 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).

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**3. Significant accounting judgements, estimates and assumptions (cont'd.)**

**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.

**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 statements. The Bank intend to adopt these standards, annual improvements to standards and IC Interpretation, if applicable, when they become effective:

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
MFRS 9 <i>Prepayment Features with Negative</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)	1 January 2019
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 Taxes</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
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to MFRS 3 – <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 - <i>Definition of Material</i>	1 January 2020
Amendments to MFRS 10 and MFRS 128: <i>Sale or Contribution of Assets between an Investor and its</i>	Deferred

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

**MFRS 9 *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 profit on the principal amount outstanding (the SPPP 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 SPPP 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 are effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively. Earlier application is permitted. These amendments are not expected to have a significant impact on the Bank's financial statements.

**MFRS 16 *Leases***

MFRS 16 was issued in January 2016, 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 Bank will apply the standard from its mandatory adoption date of 1 January 2019 and this 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*.

During the financial year ended 31 December 2018, Maybank Group has developed its approach for assessing the different types of leases including the exemptions covered in the standard, incorporating forward looking information in taking certain decisions.

The overall governance of MFRS 16 project implementation is through Maybank Group's MFRS 16 Project Steering Committee which includes representation of Finance, IT and various Business sectors across the different regions and countries within the Maybank Group. In addition, the Audit Committee of the Board and the Board of Directors have provided effective oversight of the Group's progress in preparation of MFRS 16 adoption along with the regular updates on the MFRS 16 progress and readiness.

Overall, the Bank anticipates impact to the financial statements in the areas of classification and measurement for lease assets and lease liabilities. The classification and measurement requirements will affect the presentation and disclosures within the Bank's financial statements.

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

**MFRS 128 *Long-term Interests in Associates and Joint Ventures* (Amendments to MFRS 128)**

The amendments clarify that an entity applies MFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). In applying MFRS 9, an entity does not account for any losses of the associate, or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying MFRS 128 *Investments in Associates and Joint Ventures*.

Effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. As the amendments eliminate ambiguity in the wording of the standard, the directors of the Bank do not expect the amendments to have any impact on the Bank's financial statements.

**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 do 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.

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

**Annual Improvements to MFRSs 2015-2017 Cycle (cont'd.)**

**(i) Amendments to MFRS 3 *Business Combinations* and MFRS 11 *Joint Arrangements*(cont'd.)**

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

**(ii) Amendments to MFRS 112 *Income Taxes***

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 do 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 do not anticipate significant impact to the financial statements upon adoption of the amendments.

**(iv) MFRS 119 *Plan Amendment, Curtailment or Settlement* (Amendments to MFRS 119)**

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement, which occurs during the reporting period. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

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

**(iv) MFRS 119 *Plan Amendment, Curtailment or Settlement* (Amendments to MFRS 119) (cont'd.)**

The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted. These amendments will not have a significant impact on the Bank's financial statements.

**IC Interpretation 23 *Uncertainty over Income Tax Treatments***

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the estimation 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.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Bank will apply the interpretation from its effective date. Since the Bank operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

The interpretation is effective for annual periods beginning on or after 1 January 2019, but certain transition reliefs are available.

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

**Revised Conceptual Framework for Financial Reporting**

The IASB issued an update to the Conceptual Framework in April 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The main changes in the Conceptual Framework are as follows:

- Reintroduces the concept of stewardship and the information needed to assess management's stewardship;
- Reintroduces the concept of prudence;
- Defines the concept of measurement uncertainty;
- Reinstates an explicit reference to the need to "faithfully represent the substance of the phenomena that it purports to represent"; and
- Made changes to the definitions of an asset and a liability.

The revised conceptual framework is effective for annual periods beginning on or after 1 January 2020.

**Amendments to MFRS 101 and MFRS 108 – *Definition of Material***

Amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments also explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

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

***Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments clarify that:

- Gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and
- Gains and losses resulting from transactions involving the sale or contribution of assets to an associate or a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by the Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any impact on the Bank.

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**5. Cash and short-term funds**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and other financial institutions	<b>2,928</b>	577
Money at call and interbank placements with remaining maturity not exceeding one month	<b>21,919,175</b>	17,133,782
	<b><u>21,922,103</u></b>	<b><u>17,134,359</u></b>

- (a) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on cash and short term funds are as follows:

Significant changes in the cash and short-term funds for the Bank that contributed to the changes in the ECL allowances was mainly due to the following:

- The derecognition of financial assets contributed to the decrease in the ECL allowances for cash and short-term funds during the financial year.

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month ECL</b>	<b>Lifetime ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>As at 31 December 2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3(i))	<b>173</b>	-	-	<b>173</b>
At 1 January 2018, as restated	<b>173</b>	-	-	<b>173</b>
Net remeasurement of allowances	<b>(167)</b>	-	-	<b>(167)</b>
Exchange differences	<b>(6)</b>	-	-	<b>(6)</b>
At 31 December 2018	<b>-</b>	-	-	<b>-</b>

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**6. Deposits and placements with banks and other financial institutions**

	2018 RM'000	2017 RM'000
Licensed Islamic banks	150,781	-
Other financial institutions	100,547	-
	<u>251,328</u>	<u>-</u>

**7. Financial investments portfolio**

	Note	2018 RM'000	2017 RM'000
Financial investments at fair value through profit or loss	(i)	995,072	240,571
Financial investments at fair value through other comprehensive income	(ii)	12,447,389	-
Financial investments available-for-sale	(iii)	-	9,882,004
Financial investments at amortised cost	(iv)	6,454,985	-
Financial investments held-to-maturity	(v)	-	2,731,560
		<u>19,897,446</u>	<u>12,854,135</u>

**(i) Financial investments at fair value through profit or loss ("FVTPL")**

	2018 RM'000	2017 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
Malaysian Government Investment Issues	<u>745,765</u>	-
	745,765	-
<b>Unquoted securities:</b>		
<b>Outside Malaysia:</b>		
Islamic Corporate Sukuk	<u>249,307</u>	240,571
<b>Total financial investments at FVTPL</b>	<u>995,072</u>	240,571

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**7. Financial investments portfolio (cont'd.)**

**(ii) Financial investments at fair value through other comprehensive income ("FVOCI")**

	2018 RM'000	2017 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
Malaysian Government Investment Issues	9,466,355	-
Khazanah Sukuk	153,244	-
	<u>9,619,599</u>	<u>-</u>
<b>Unquoted securities:</b>		
<b>In Malaysia:</b>		
Corporate Sukuk in Malaysia	2,766,366	-
Malaysian Government Sukuk	43,767	-
Equity	1,250	-
	<u>2,811,383</u>	<u>-</u>
<b>Outside Malaysia:</b>		
Islamic Corporate Sukuk	16,407	-
	<u>2,827,790</u>	<u>-</u>
<b>Total financial investments at FVOCI</b>	<u>12,447,389</u>	<u>-</u>

(a) The maturity profile of money market instruments are as follows:

	2018 RM'000	2017 RM'000
Within one year	2,415,235	-
One year to three years	345,744	-
Three years to five years	2,149,254	-
After five years	4,709,366	-
	<u>9,619,599</u>	<u>-</u>

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**7. Financial investments portfolio (cont'd.)**

**(ii) Financial investments at fair value through other comprehensive income ("FVOCI") (cont'd.)**

(b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at FVOCI are as follows:

Significant changes in the financial investments at FVOCI for the Bank that contributed to the changes in the loss allowances was mainly due to the following:

- The overall increase in the gross carrying amount of financial investments at FVOCI was mainly contributed by Government-related securities which have minimal ECL allowances.
- The gross carrying amount for Corporate Sukuk increased due to new financial assets purchased during the financial year. These new Corporate Sukuk have low credit risk and had contributed to minimal impact on ECL allowances. The derecognition of Corporate Sukuk which have higher credit risk contributed to the overall decrease in ECL allowances.

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total RM'000
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3 (i))	1,131	155	-	1,286
At 1 January 2018, as restated	1,131	155	-	1,286
Transferred to Stage 2	(14)	14	-	-
New financial assets originated or purchased	57	-	-	57
Net remeasurement of allowances	229	30	-	259
Financial assets derecognised	(920)	(155)	-	(1,075)
Exchange differences	1	-	-	1
At 31 December 2018	484	44	-	528

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**7. Financial investments portfolio (cont'd.)**

**(ii) Financial investments at fair value through other comprehensive income ("FVOCI") (cont'd.)**

(c) Equity instrument at FVOCI is as follows:

	2018 RM'000	2017 RM'000
Raeed Holdings Berhad	<u>1,250</u>	<u>-</u>

**(iii) Financial investments available-for-sale ("AFS")**

	2018 RM'000	2017 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
Malaysian Government Investment Issues	-	7,286,200
Negotiable Islamic instruments of deposits	-	398,541
Bankers' acceptances and Islamic accepted bills	-	166,173
	<u>-</u>	<u>7,850,914</u>
<b>At fair value, or at cost for certain unquoted equity instruments, less accumulated impairment losses</b>		
<b>Unquoted securities:</b>		
Corporate Sukuk in Malaysia	-	1,969,825
Foreign Islamic Corporate Sukuk	-	16,389
Malaysian Government Sukuk	-	44,126
Equity	-	750
	<u>-</u>	<u>2,031,090</u>
<b>Total financial investments AFS</b>	<u>-</u>	<u>9,882,004</u>

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**7. Financial investments portfolio (cont'd.)**

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

The maturity profile of money market instruments is as follows:

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	-	665,402
One year to three years	-	1,778,237
Three years to five years	-	575,283
After five years	-	4,831,992
	<u>-</u>	<u>7,850,914</u>

**(iv) Financial investments at amortised cost**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>		
<b>Money market instruments:</b>		
Malaysian Government Investment Issues	<u>1,540,977</u>	<u>-</u>
<b>Unquoted Securities:</b>		
<b>In Malaysia:</b>		
Corporate Sukuk	<u>4,929,387</u>	<u>-</u>
Accumulated impairment losses	(15,379)	-
<b>Total financial investments at amortised cost</b>	<u><b>6,454,985</b></u>	<u><b>-</b></u>

(a) The maturity profile of money market instruments is as follows:

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
After five years	<u>1,540,977</u>	<u>-</u>
	<u><b>1,540,977</b></u>	<u><b>-</b></u>

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**7. Financial investments portfolio (cont'd.)**

**(iv) Financial investments at amortised cost (cont'd.)**

- (b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at amortised cost are as follows:

Significant changes in the financial investments at amortised cost for the Bank that contributed to the changes in the loss allowances were mainly due to following:

- The increase in the gross carrying amount of financial investments at amortised cost was largely contributed by Corporate Sukuk, due to new financial assets purchased during the financial year which correspondingly increased the ECL allowances. This is mitigated by the decrease in the ECL allowances mainly due to improvement in credit risk.

<b>As at 31 December 2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12-month ECL RM'000</b>	<b>Lifetime ECL not credit impaired RM'000</b>	<b>Lifetime ECL credit impaired RM'000</b>	<b>RM'000</b>
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3 (i))				<b>22,157</b>
At 1 January 2018, as restated	<b>8,493</b>	<b>13,664</b>	-	<b>22,157</b>
Net remeasurement of allowances	<b>(6,253)</b>	<b>(4,310)</b>	-	<b>(10,563)</b>
New financial assets originated or purchased	<b>5,194</b>	-	-	<b>5,194</b>
Financial assets derecognised	<b>(1,409)</b>	-	-	<b>(1,409)</b>
At 31 December 2018	<b>6,025</b>	<b>9,354</b>	-	<b>15,379</b>

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**7. Financial investments portfolio (cont'd.)**

**(v) Financial investments held-to-maturity ("HTM")**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>		
<b>Unquoted Securities:</b>		
Corporate Sukuk in Malaysia	-	2,731,560
<b>Total financial investments HTM</b>	<u>-</u>	<u>2,731,560</u>

**8. Financing and advances**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Financing and advances:		
(A) Financing and advances at FVOCI	<b>471,122</b>	-
(B) Financing and advances at amortised cost	<b>271,226,088</b>	260,890,218
	<b>271,697,210</b>	260,890,218
Unearned income	<b>(94,879,201)</b>	(97,335,170)
Gross financing and advances	<b>176,818,009</b>	163,555,048
Allowances for ECL and impairment losses:		
- Stage 1 - 12-month ECL	<b>(510,284)</b>	-
- Stage 2 - Lifetime ECL not credit impaired	<b>(983,711)</b>	-
- Stage 3 - Lifetime ECL credit impaired	<b>(1,055,811)</b>	-
- Individual allowance	-	(661,180)
- Collective allowance	-	(821,183)
Net financing and advances	<b>174,268,203</b>	162,072,685

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**8. Financing and advances (cont'd.)**

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

<b>2018</b>	<b>Bai'^</b> <b>RM'000</b>	<b>Murabahah</b> <b>RM'000</b>	<b>Musharakah</b> <b>RM'000</b>	<b>Al-Ijarah Thumma Al- Bai' ("AITAB")</b> <b>RM'000</b>	<b>Ijarah</b> <b>RM'000</b>	<b>Istisna'</b> <b>RM'000</b>	<b>Others</b> <b>RM'000</b>	<b>Total financing and advances</b> <b>RM'000</b>
Cashline	-	6,113,117	-	-	-	126	-	6,113,243
Term financing								
- House financing	15,968,002	65,870,117	2,140,367	-	-	-	627	83,979,113
- Syndicated financing	-	1,432,287	-	-	-	-	-	1,432,287
- Hire purchase receivables	-	224,525	-	37,895,766	-	-	-	38,120,291
- Lease receivables	-	-	-	-	9,450	-	-	9,450
- Other term financing	17,456,478	99,485,956	563,979	-	102,001	127,395	17,280	117,753,089
Bills receivable	-	163	-	-	-	-	799	962
Trust receipts	-	145,613	-	-	-	-	-	145,613
Claims on customers under acceptance credits	-	4,921,799	-	-	-	-	-	4,921,799
Staff financing	517,202	1,670,905	8,965	156,713	2,539	-	50,956	2,407,280
Credit card receivables	-	-	-	-	-	-	1,104,219	1,104,219
Revolving credit	-	15,681,860	-	-	-	-	-	15,681,860
Share Margin Financing	-	22,322	-	-	-	-	-	22,322
Financing to:								
- Directors of the Bank	-	2,503	-	465	-	-	8	2,976
- Directors of related companies	-	2,030	-	676	-	-	-	2,706
	<b>33,941,682</b>	<b>195,573,197</b>	<b>2,713,311</b>	<b>38,053,620</b>	<b>113,990</b>	<b>127,521</b>	<b>1,173,889</b>	<b>271,697,210</b>
Unearned income								<b>(94,879,201)</b>
Gross financing and advances <sup>^</sup>								<b>176,818,009</b>
Allowances for ECL and impairment losses:								
- Stage 1 - 12-month ECL								<b>(510,284)</b>
- Stage 2 - Lifetime ECL not credit impaired								<b>(983,711)</b>
- Stage 3 - Lifetime ECL credit impaired								<b>(1,055,811)</b>
Net financing and advances								<b>174,268,203</b>

<sup>^</sup> Bai' comprises of Bai'-Bithaman Ajil, Bai' Al-Inah and Bai'-Al-Dayn.

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

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**8. Financing and advances (cont'd.)**

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

2017	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	-	5,570,142	-	-	-	78	-	5,570,220
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
Share Margin Financing	-	29,890	-	-	-	-	-	29,890
Financing to:								
- Directors of the Bank	2,258	865	-	918	-	-	-	4,041
- Directors of related companies	-	2,761	-	303	-	-	29	3,093
	<u>39,916,952</u>	<u>178,711,121</u>	<u>3,584,198</u>	<u>37,330,301</u>	<u>124,918</u>	<u>132,079</u>	<u>1,090,649</u>	<u>260,890,218</u>
Unearned income								(97,335,170)
Gross financing and advances <sup>^</sup>								<u>163,555,048</u>
Allowances for impaired financing and advances:								
- Individual allowance								(661,180)
- Collective allowance								(821,183)
Net financing and advances								<u>162,072,685</u>

<sup>^</sup> Bai' comprises of Bai'-Bithaman Ajil, Bai' Al-Inah and Bai'-Al-Dayn

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

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**8. Financing and advances (cont'd.)**

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Domestic non-banking institutions	<b>4,616,580</b>	4,979,718
Domestic business enterprises		
- Small and medium enterprises	<b>34,744,124</b>	31,278,143
- Others	<b>17,178,166</b>	14,894,917
Government and statutory bodies	<b>13,517,323</b>	14,501,853
Individuals	<b>105,109,091</b>	96,184,530
Other domestic entities	<b>26,714</b>	25,455
Foreign entities in Malaysia	<b>1,626,011</b>	1,690,432
Gross financing and advances	<b><u>176,818,009</u></b>	<b><u>163,555,048</u></b>

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Fixed rate		
- House financing	<b>1,240,669</b>	1,197,274
- Hire purchase receivables	<b>33,187,018</b>	32,249,261
- Other financing	<b>25,597,990</b>	27,144,518
Floating rate		
- House financing	<b>40,537,477</b>	35,279,803
- Other financing	<b>76,254,855</b>	67,684,192
Gross financing and advances	<b><u>176,818,009</u></b>	<b><u>163,555,048</u></b>

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Purchase of securities	<b>23,163,495</b>	20,351,945
Purchase of transport vehicles	<b>33,118,017</b>	32,223,683
Purchase of landed properties:		
- Residential	<b>40,756,304</b>	35,968,890
- Non-residential	<b>11,874,200</b>	11,223,437
Purchase of fixed assets (excluding landed properties)	<b>54,876</b>	40,451
Personal use	<b>3,853,527</b>	3,540,216
Purchase of consumer durables	<b>302</b>	330
Constructions	<b>2,576,566</b>	3,627,019
Working capital	<b>60,261,860</b>	55,550,728
Credit/charge card	<b>1,158,862</b>	1,028,349
Gross financing and advances	<b><u>176,818,009</u></b>	<b><u>163,555,048</u></b>

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**8. Financing and advances (cont'd.)**

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Within one year	<b>33,069,988</b>	33,360,524
One year to three years	<b>6,912,461</b>	6,833,097
Three years to five years	<b>14,374,816</b>	13,228,752
After five years	<b>122,460,744</b>	110,132,675
Gross financing and advances	<b><u>176,818,009</u></b>	<u>163,555,048</u>

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January		
- as previously stated	<b>1,710,533</b>	1,489,286
- effect of adopting MFRS 9	<b>121,439</b>	-
Gross impaired financing and advances at 1 January, as restated	<b>1,831,972</b>	1,489,286
Impaired during the financial year	<b>1,367,882</b>	1,289,639
Reclassified as non-impaired	<b>(228,568)</b>	(531,863)
Amount recovered	<b>(444,519)</b>	(396,623)
Amount written-off	<b>(432,660)</b>	(139,906)
Gross impaired financing and advances at 31 December	<b>2,094,107</b>	1,710,533
Less: Stage 3 - Lifetime ECL credit impaired	<b>(1,055,811)</b>	-
Less: Individual allowance	-	(661,180)
	<b><u>1,038,296</u></b>	<u>1,049,353</u>

Calculation of ratio of net impaired financing and advances:

Gross impaired financing and advances (excluding financing funded by RPSIA and IA)	<b>2,030,688</b>	1,644,569
Less: Stage 3 - Lifetime ECL credit impaired	<b>(1,055,811)</b>	-
Less: Individual allowance	-	(661,180)
Net impaired financing and advances (excluding financing funded by RPSIA and IA)	<b><u>974,877</u></b>	<u>983,389</u>

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**8. Financing and advances (cont'd.)**

(vi) Movements in the credit impaired financing and advances are as follows (cont'd.):

Calculation of ratio of net impaired financing  
and advances (cont'd.):

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross financing and advances (excluding financing funded by RPSIA and IA)	<b>137,310,796</b>	122,304,503
Less: Allowances for impaired financing and advances at amortised cost and at fair value through other comprehensive income	<b>(2,555,005)</b>	-
Less: Individual allowance	-	(661,180)
Net financing and advances (excluding financing funded by RPSIA and IA)	<b>134,755,791</b>	<b>121,643,323</b>
Ratio of net impaired financing and advances	<b>0.72%</b>	0.81%

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Purchase of securities	<b>5,666</b>	10,490
Purchase of transport vehicles	<b>403,062</b>	149,452
Purchase of landed properties:		
- Residential	<b>278,783</b>	158,635
- Non-residential	<b>142,442</b>	91,046
Purchase of fixed assets (exclude landed properties)	<b>527</b>	-
Personal use	<b>37,998</b>	20,548
Purchase of consumer durables	<b>8</b>	8
Constructions	<b>244,765</b>	349,422
Working capital	<b>972,484</b>	920,214
Credit/charge card	<b>8,372</b>	10,718
	<b>2,094,107</b>	<b>1,710,533</b>

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**8. Financing and advances (cont'd.)**

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows:

Significant changes in the gross carrying amount of financing and advances carried at amortised cost and fair value through other comprehensive income for the Bank that contributed to the changes in the loss allowances were mainly due to the following:

- The high volume of new syndicated financing, cashline and other term financing originated during the financial year, increased the gross carrying amount by 81%, 10% and 8% respectively which correspondingly increased the ECL
- The financing and advances derecognised during the financial year arising from the financing and advances settled and matured which resulted in a decrease in ECL allowances across all stages.
- The write-off of financing and advances with a total carrying amount of RM432.7 million resulted in the reduction of Stage 3 lifetime ECL credit impaired by the same amount.

**At fair value through other comprehensive income**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	RM'000
As at 31 December 2018				
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3 (i))	522	-	-	522
At 1 January 2018, as restated	522	-	-	522
Net remeasurement of allowances	45	-	-	45
New financial assets originated or purchased	1,354	3,800	-	5,154
Financial assets derecognised	(522)	-	-	(522)
At 31 December 2018	1,399	3,800	-	5,199

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**8. Financing and advances (cont'd.)**

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

**At amortised cost**

	Stage 1	Stage 2	Stage 3	Total RM'000
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
<b>As at 31 December 2018</b>				
<b>ECL allowances</b>				
At 1 January 2018				
- as previously stated - MFRS 139				1,482,363
- effect of adopting MFRS 9 (Note 2.3(i))				1,051,345
At 1 January 2018, as restated	409,260	1,058,009	1,066,439	2,533,708
Transferred to Stage 1	410,336	(263,234)	(147,102)	-
Transferred to Stage 2	(32,812)	69,092	(36,280)	-
Transferred to Stage 3	(2,942)	(96,473)	99,415	-
Net remeasurement of allowances*	(329,067)	180,529	723,244	574,706
New financial assets originated or purchased	194,840	128,773	-	323,613
Financial assets derecognised	(69,870)	(87,251)	(267,462)	(424,583)
Changes in models/risk parameters	(69,473)	(6,305)	(1,683)	(77,461)
Amount related to Restricted Investment Accounts	-	-	50,553	50,553
Amount written-off	-	-	(432,659)	(432,659)
Exchange differences	12	571	1,346	1,929
<b>At 31 December 2018</b>	<b>510,284</b>	<b>983,711</b>	<b>1,055,811</b>	<b>2,549,806</b>

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**8. Financing and advances (cont'd.)**

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

	<b>2018**</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Individual Allowance</b>		
At 1 January	-	617,350
Allowance made (Note 27)	-	149,083
Amount written back (Note 27)	-	(75,632)
Transferred to collective allowance	-	(5,191)
Amount written-off	-	(24,430)
At 31 December	<u>-</u>	<u>661,180</u>
<b>Collective Allowance</b>		
At 1 January	-	752,826
Net allowance made* (Note 27)	-	178,642
Transferred from individual allowance	-	5,191
Amount written-off	-	(115,476)
At 31 December	<u>-</u>	<u>821,183</u>
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>

\* As at 31 December 2018, the gross exposure of the financing funded by RPSIA was RM15,942.2 million (31 December 2017: RM16,695.1 million). The expected credit loss relating to these financing amounting to RM274.5 million (31 December 2017: the individual allowance and collective allowance amounting to RM168.3 million and RM41.5 million respectively) is accounted for by the holding company.

The gross exposure of the financing funded by IA as at 31 December 2018 was RM23,565.1 million (31 December 2017: RM24,555.4 million).

\*\* Upon adoption of MFRS 9 on 1 January 2018, the Bank disclose ECL by stages as disclosed in Note 8(viii).

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**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 financial 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.

	2018			2017		
	Principal amount RM'000	<----- Fair value ----->		Principal amount RM'000	<----- Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b><u>Trading derivatives</u></b>						
<b><u>Foreign exchange related contracts</u></b>						
Currency forwards:						
- Less than one year	5,493,987	114,998	(24,049)	3,978,004	8,805	(223,594)
- One year to three years	870,321	4,883	(4,913)	623,903	8,534	(18,294)
- More than three years	60,842	49	(49)	-	-	-
	<b>6,425,150</b>	<b>119,930</b>	<b>(29,011)</b>	<b>4,601,907</b>	<b>17,339</b>	<b>(241,888)</b>
Currency swaps:						
- Less than one year	5,893,262	50,859	(135,612)	5,451,419	229,285	(152,482)
- One year to three years	27,111	44	(14)	-	-	-
	<b>5,920,373</b>	<b>50,903</b>	<b>(135,626)</b>	<b>5,451,419</b>	<b>229,285</b>	<b>(152,482)</b>
Currency spots:						
- Less than one year	191,924	69	(66)	270,312	10	(872)

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9. Derivative financial instruments (cont'd.)

	2018			2017		
	Principal amount RM'000	<----- Fair value ----->		Principal amount RM'000	<----- Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Trading derivatives (cont'd.)</b>						
<u>Foreign exchange related contracts (cont'd.)</u>						
Cross currency profit rate swaps:						
- One year to three years	639,685	36,618	(36,110)	632,421	33,862	(33,039)
- More than three years	2,065,349	59,109	(59,109)	2,013,315	65,553	(65,553)
	<b>2,705,034</b>	<b>95,727</b>	<b>(95,219)</b>	<b>2,645,736</b>	<b>99,415</b>	<b>(98,592)</b>
<u>Profit rate related contracts</u>						
Profit rate options:						
- One year to three years	680,000	1,316	(2,734)	-	-	-
- More than three years	100,000	352	(352)	1,490,000	5,463	(16,789)
	<b>780,000</b>	<b>1,668</b>	<b>(3,086)</b>	<b>1,490,000</b>	<b>5,463</b>	<b>(16,789)</b>
Profit rate swaps:						
- Less than one year	750,000	795	(765)	-	-	-
- One year to three years	182,770	1,572	(1,560)	850,000	1,849	(1,789)
- More than three years	3,885,554	19,186	(12,552)	2,900,620	18,451	(10,341)
	<b>4,818,324</b>	<b>21,553</b>	<b>(14,877)</b>	<b>3,750,620</b>	<b>20,300</b>	<b>(12,130)</b>
	<b>20,840,805</b>	<b>289,850</b>	<b>(277,885)</b>	<b>18,209,994</b>	<b>371,812</b>	<b>(522,753)</b>

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9. Derivative financial instruments (cont'd.)

	2018			2017		
	Principal amount RM'000	<----- Fair value ----->		Principal amount RM'000	<----- Fair value ----->	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b><u>Hedging derivatives</u></b>						
<u>Foreign exchange related contracts</u>						
Cross currency profit rate swaps:						
- Less than one year	1,515,787	112,648	(112,648)	170,607	-	(11,620)
- One year to three years	-	-	-	1,514,854	114,921	(114,921)
	<b>1,515,787</b>	<b>112,648</b>	<b>(112,648)</b>	<b>1,685,461</b>	<b>114,921</b>	<b>(126,541)</b>
<u>Profit rate related contracts</u>						
Profit rate swaps:						
- Less than one year	620,776	1,495	(1,416)	-	-	-
- One year to three years	-	-	-	607,500	1,256	(1,026)
	<b>620,776</b>	<b>1,495</b>	<b>(1,416)</b>	<b>607,500</b>	<b>1,256</b>	<b>(1,026)</b>
	<b>2,136,563</b>	<b>114,143</b>	<b>(114,064)</b>	<b>2,292,961</b>	<b>116,177</b>	<b>(127,567)</b>
<b>Total</b>	<b>22,977,368</b>	<b>403,993</b>	<b>(391,949)</b>	<b>20,502,955</b>	<b>487,989</b>	<b>(650,320)</b>

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**10. Other assets**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Amount due from holding company	<b>3,569,497</b>	6,224,345
Handling fees	<b>170,830</b>	171,802
Prepayments and deposits	<b>276,695</b>	269,701
Tax recoverable	<b>176,213</b>	-
Other debtors	<b>49,676</b>	25,134
	<b><u>4,242,911</u></b>	<u>6,690,982</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**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Savings deposits</b>		
Qard	<b>16,081,568</b>	14,629,050
<b>Demand deposits</b>		
Qard	<b>18,403,932</b>	18,641,198
<b>Term deposits</b>		
Murabahah	<b>111,692,152</b>	94,301,452
Qard	<b>1,604,097</b>	2,325,740
	<b>113,296,249</b>	96,627,192
	<b><u>147,781,749</u></b>	<u>129,897,440</u>

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Within six months	<b>101,144,116</b>	80,598,476
Six months to one year	<b>11,663,679</b>	14,731,846
One year to three years	<b>474,334</b>	1,273,516
Three years to five years	<b>14,120</b>	23,354
	<b><u>113,296,249</u></b>	<u>96,627,192</u>

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**12. Deposits from customers (cont'd.)**

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Business enterprises	51,815,432	53,763,542
Individuals	39,445,354	41,154,362
Government and statutory bodies	26,423,140	19,292,571
Others	30,097,823	15,686,965
	<b>147,781,749</b>	<b>129,897,440</b>

**13. Investment accounts of customers**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Mudharabah</b>		
Unrestricted Investment accounts	23,445,562	24,555,445
Restricted Investment accounts*	119,499	-
	<b>23,565,061</b>	<b>24,555,445</b>

\* Net of credit losses associated with the financing assets funded by the Restricted Investment Accounts.

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

	<b>Unrestricted investment accounts RM'000</b>	<b>Restricted investment accounts RM'000</b>	<b>Total investment accounts RM'000</b>
<b>2018</b>			
<u>Funding inflows/outflows</u>			
At 1 January	24,555,445	-	24,555,445
New placement during the financial year	36,398,700	119,447	36,518,147
Redemption during the financial year	(37,500,226)	-	(37,500,226)
Profit payable	(8,357)	52	(8,305)
At 31 December	<b>23,445,562</b>	<b>119,499</b>	<b>23,565,061</b>
<b>2017</b>			
<u>Funding inflows/outflows</u>			
At 1 January	31,544,587	-	31,544,587
New placement during the financial year	57,230,520	-	57,230,520
Redemption during the financial year	(64,204,910)	-	(64,204,910)
Profit payable	(14,752)	-	(14,752)
At 31 December	<b>24,555,445</b>	<b>-</b>	<b>24,555,445</b>

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

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

	<b>Unrestricted investment accounts RM'000</b>	<b>Restricted investment accounts RM'000</b>	<b>Total investment accounts RM'000</b>
<b>2018</b>			
Business enterprises	11,814,357	119,499	11,933,856
Individuals	10,475,578	-	10,475,578
Government and statutory bodies	128,414	-	128,414
Others	1,027,213	-	1,027,213
	<u>23,445,562</u>	<u>119,499</u>	<u>23,565,061</u>
<b>2017</b>			
Business enterprises	9,841,269	-	9,841,269
Individuals	13,255,075	-	13,255,075
Government and statutory bodies	218,371	-	218,371
Others	1,240,730	-	1,240,730
	<u>24,555,445</u>	<u>-</u>	<u>24,555,445</u>

(iii) Maturity structure of investment accounts are as follows:

	<b>Unrestricted investment accounts RM'000</b>	<b>Restricted investment accounts RM'000</b>	<b>Total investment accounts RM'000</b>
<b>2018</b>			
- without maturity	13,067,406	-	13,067,406
- with maturity	10,378,156	119,499	10,497,655
Within six months	8,233,509	119,499	8,353,008
Six months to one year	2,125,559	-	2,125,559
One year to three years	5,176	-	5,176
Three years to five years	13,912	-	13,912
	<u>23,445,562</u>	<u>119,499</u>	<u>23,565,061</u>

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

(iii) Maturity structure of investment accounts are as follows (cont'd.):

	<b>Unrestricted investment accounts RM'000</b>	<b>Restricted investment accounts RM'000</b>	<b>Total investment accounts RM'000</b>
<b>2017</b>			
- without maturity	9,948,920	-	9,948,920
- with maturity	14,606,525	-	14,606,525
Within six months	12,053,210	-	12,053,210
Six months to one year	2,532,512	-	2,532,512
One year to three years	2,563	-	2,563
Three years to five years	18,240	-	18,240
	<u>24,555,445</u>	<u>-</u>	<u>24,555,445</u>

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

	<b>Unrestricted investment accounts RM'000</b>	<b>Restricted investment accounts RM'000</b>	<b>Total investment accounts RM'000</b>
<b>2018</b>			
Retail financing	21,644,759	-	21,644,759
Non-retail financing	1,800,803	119,499	1,920,302
	<u>23,445,562</u>	<u>119,499</u>	<u>23,565,061</u>
<b>2017</b>			
Retail financing	24,554,642	-	24,554,642
Non-retail financing	803	-	803
	<u>24,555,445</u>	<u>-</u>	<u>24,555,445</u>

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

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

	<b>Investment account holder ("IAH")</b>	
	<b>Average profit sharing ratio (%)</b>	<b>Average rate of return (%)</b>
<b>2018</b>		
Unrestricted investment accounts	<b>55.00</b>	<b>2.82</b>
Restricted investment accounts	<b>99.95</b>	<b>4.31</b>
<b>2017</b>		
Unrestricted investment accounts	60.00	3.07
Restricted investment accounts	-	-

**14. Deposits and placements of banks and other financial institutions**

	<b>2018 RM'000</b>	<b>2017 RM'000</b>
<u>Mudharabah fund</u>		
Licensed banks*	<b>17,223,165</b>	18,068,219
	<b>17,223,165</b>	<b>18,068,219</b>
<u>Non-Mudharabah fund</u>		
Licensed banks	<b>11,767,354</b>	5,261,204
Licensed Islamic banks	<b>497,383</b>	1,873,521
Licensed investment banks	-	199,034
Other financial institutions	<b>2,686,233</b>	2,836,163
	<b>14,950,970</b>	<b>10,169,922</b>
<b>Total</b>	<b>32,174,135</b>	<b>28,238,141</b>

\* Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the holding company amounting to RM17,223.2 million (31 December 2017: RM18,068.2 million). These placements are used to fund certain specific financing and advances.

**15. Financial liabilities at fair value through profit or loss**

	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Structured deposits	<b>385,687</b>	892,695

The carrying amount of structured deposits designated at fair value through profit or loss of the Bank as at 31 December 2018 was RM384,986,000 (2017: RM898,182,000). The fair value changes of the financial liabilities that are attributable to the changes in own credit risk are not significant.

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**16. Other liabilities**

	2018 RM'000	2017 RM'000
Sundry creditors	1,979,769	100,133
Deposit on trade financing	25,407	10,715
Provisions and accruals	25,360	18,033
Margin account with holding company	27,450	164,420
Allowances for impairment losses on financing commitments and financial guarantee contracts *	30,942	-
Others	40,766	17,092
	<b>2,129,694</b>	<b>310,393</b>

\* Movements in the allowances for impairment losses on financing commitments and financial guarantee contracts are as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3(i))	14,888	7,550	2,222	24,660
At 1 January 2018, as restated	14,888	7,550	2,222	24,660
Transferred to Stage 1	699	(563)	(136)	-
Transferred to Stage 2	(14)	464	(450)	-
Net remeasurement of allowances	9,183	(876)	(1,256)	7,051
New financial assets originated or purchased	2,596	3,079	269	5,944
Financial assets derecognised	(3,965)	(3,187)	(388)	(7,540)
Exchange differences	805	8	14	827
At 31 December 2018	<b>24,192</b>	<b>6,475</b>	<b>275</b>	<b>30,942</b>

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**17. Provision for taxation and zakat**

	2018 RM'000	2017 RM'000
Taxation	-	130,023
Zakat	<u>23,450</u>	<u>18,350</u>
	<u>23,450</u>	<u>148,373</u>

**18. Deferred tax assets**

	2018 RM'000	2017 RM'000
At 1 January		
- as previously stated	12,903	19,487
- effect of adopting MFRS 9 (Note 2.3(i))	145	-
At 1 January, as restated	<u>13,048</u>	<u>19,487</u>
Recognised in income statement (Note 32)	17,719	655
Recognised in statement of other comprehensive income	<u>(6,690)</u>	<u>(7,239)</u>
At 31 December	<u>24,077</u>	<u>12,903</u>

Movement in deferred tax assets of the Bank are as follows:

	Impairment losses on financing, financial investment and Other financial assets RM'000	FVOCI reserve RM'000	Other temporary difference RM'000	Total RM'000
At 1 January 2018				
- as previously stated	-	10,203	2,700	12,903
- effect of adopting MFRS 9 (Note 2.3(i))	-	145	-	145
At 1 January 2018, as restated	<u>-</u>	<u>10,348</u>	<u>2,700</u>	<u>13,048</u>
Recognised in income statement (Note 32)	16,779	-	940	17,719
Recognised in statement of other comprehensive income	<u>-</u>	<u>(6,690)</u>	<u>-</u>	<u>(6,690)</u>
At 31 December 2018	<u>16,779</u>	<u>3,658</u>	<u>3,640</u>	<u>24,077</u>

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**18. Deferred tax assets (cont'd.)**

Movement in deferred tax assets of the Bank are as follows: (cont'd.)

	<b>AFS reserve RM'000</b>	<b>Other temporary difference RM'000</b>	<b>Total RM'000</b>
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	<u>(7,239)</u>	<u>-</u>	<u>(7,239)</u>
At 31 December 2017	<u>10,203</u>	<u>2,700</u>	<u>12,903</u>

**19. Term funding**

	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Unsecured term funding:		
(i) Commercial Paper		
- Less than one year	<u>2,734,958</u>	<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>2,003,222</u>
	<u>2,003,222</u>	<u>2,485,592</u>
<b>Total term funding</b>	<u><b>4,738,180</b></u>	<u><b>4,945,437</b></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.

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19. Term funding (cont'd.)

The following are the changes in the term funding include the bonds/medium term notes/sukuk issued/redeemed by the Bank:

**Issuance/Redemption of Ringgit Medium Term Notes pursuant to the RM10.0 billion Islamic Commercial Paper/ Medium Term Note Programme by Maybank Islamic Berhad**

Redemption	Maturity date	Nominal value	Description	Tenor
Redemption	16-Nov-18	RM250.0 million	Zero Coupon Notes	365 days
Redemption	19-Dec-18	RM250.0 million	Zero Coupon Notes	365 days

Additionally, the aggregate nominal value of the Islamic commercial papers issued by the Bank and outstanding as at 31 December 2018 are as follows:

Programme Name	Tenor	Nominal value
RM10.0 billion Commercial Paper/Medium Term Note Programme	68 - 364 days	RM2,750.0 million

20. Subordinated sukuk

	Note	2018 RM'000	2017 RM'000
RM1,500 million subordinated sukuk due in 2024	(i)	1,516,593	1,516,397
RM1,000 million subordinated sukuk due in 2026	(ii)	1,017,708	1,017,708
		<b>2,534,301</b>	<b>2,534,105</b>

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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.)	Nominal Value
<b><u>RM10.0 billion Subordinated Sukuk Murabahah Programme</u></b>						
(i)	Subordinated Sukuk Murabahah <sup>1</sup>	7-Apr-14	5-Apr-19	5-Apr-24	4.75	RM1,500.0 million
(ii)	Subordinated Sukuk Murabahah <sup>1</sup>	15-Feb-16	15-Feb-21	13-Feb-26	4.65	RM1,000.0 million

<sup>1</sup> 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 profit payment date thereafter.

21. Capital securities

Description	Issue date	First call date	Maturity date	2018 RM'000	2017 RM'000
<b><u>RM10.0 billion Additional Tier 1 Sukuk Wakalah Programme</u></b>					
RM1,000.0 million 4.95% Additional Tier 1 Sukuk Wakalah <sup>1</sup>	14-Dec-17	14-Dec-22	Perpetual	<b>1,002,441</b>	<b>1,002,441</b>

<sup>1</sup> 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.

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**22. Share capital**

	2018 '000	2017 '000	2018 RM'000	2017 RM'000
<b>Issued and fully paid:</b>				
At 1 January	281,556	281,556	5,481,783	281,556
Transfer from share premium	-	-	-	5,200,227
Issued during the year	57,354	-	1,715,615	-
At 31 December	<u>338,910</u>	<u>281,556</u>	<u>7,197,398</u>	<u>5,481,783</u>

During the current financial year ended 31 December 2018, the Bank increased its share capital from RM5,481,783,000 to RM7,197,398,000 via:

- a) issuance of 31,284,000 new ordinary shares at issue price per share of RM31.14 to Maybank on the basis of one new share for every nine existing ordinary shares held in respect of the financial year ended 31 December 2017; and
- b) issuance of 26,070,000 new ordinary shares at issue price per share of RM28.44 to Maybank on the basis of one new share for every twelve existing ordinary shares held in respect of the financial year ended 31 December 2018.

**23. Reserves**

	Note	2018 RM'000	2017 RM'000
<b>Non-distributable:</b>			
Equity contribution from the holding company		1,697	1,697
FVOCI reserve		(5,865)	-
AFS reserve		-	(32,318)
Regulatory reserve	(a)	<u>313,516</u>	508,700
		<b>309,348</b>	478,079
<b>Distributable:</b>			
Retained profits	(b)	<u>2,970,618</u>	3,351,547
Total reserves		<u><b>3,279,966</b></u>	<u>3,829,626</u>

**(a) Regulatory reserve**

Regulatory reserve is maintained in aggregate, loss allowance for non-credit impaired exposures (commonly known as Stage 1 and Stage 2 provisions) 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 Financial Reporting Policy document issued on 2 February 2018.

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**23. Reserves (cont'd.)**

**(b) Retained profits**

The retained profits of the Bank as at 31 December 2018 and 31 December 2017 are distributable profits and may be distributed as dividends under the single-tier system.

**24. Income derived from investment of depositors' funds**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of:		
(i) General investment deposits	<b>6,770,867</b>	5,231,322
(ii) Other deposits	<b>2,060,940</b>	1,801,226
	<b>8,831,807</b>	<b>7,032,548</b>

(i) Income derived from investment of general investment deposits

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing and advances	<b>5,480,214</b>	4,296,722
Financial investments at fair value through profit or loss	<b>7,579</b>	5,866
Financial investments at fair value through other comprehensive income	<b>320,704</b>	-
Financial investments at amortised cost	<b>178,607</b>	-
Financial investments available-for-sale	-	221,718
Financial investments held-to-maturity	-	61,763
Money at call and deposits with financial institutions	<b>363,169</b>	336,849
	<b>6,350,273</b>	4,922,918
Accretion of discount less amortisation of premium	<b>35,965</b>	53,721
<b>Total finance income and hibah</b>	<b>6,386,238</b>	<b>4,976,639</b>

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

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Other operating income</b>		
Fee income:		
- Processing fees	<b>40,849</b>	22,272
- Commissions	<b>99,055</b>	96,960
- Service charges and other fees	<b>123,036</b>	126,823
Gains on disposal of financial investments at fair value through other comprehensive income	<b>4,291</b>	-
Gains on disposal of financial investments available-for-sale	-	6,650
(Losses)/gains on disposal of financial investments at fair value through profit or loss	<b>(1,639)</b>	327
Unrealised gains/(losses) on revaluation of:		
- Derivatives	<b>19,659</b>	4,646
- Financial investments at fair value through profit or loss	<b>(151)</b>	(7)
- Financial liabilities at fair value through profit or loss	<b>(4,523)</b>	(6,839)
(Losses)/gains on foreign exchange:		
- Realised	<b>(24,710)</b>	(7,740)
- Unrealised	<b>123,149</b>	(772)
Realised gain on derivatives	<b>5,613</b>	12,363
<b>Total other operating income</b>	<b>384,629</b>	254,683
<b>Total</b>	<b>6,770,867</b>	5,231,322

Included in finance income are income on impaired assets amounting to RM41.6 million (2017: RM30.0 million).

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

(ii) Income derived from investment of other deposits

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing and advances	<b>1,668,086</b>	1,479,428
Financial investments at fair value through profit or loss	<b>2,307</b>	2,020
Financial investments at fair value through other comprehensive income	<b>97,617</b>	-
Financial investments at amortised cost	<b>54,365</b>	-
Financial investments available-for-sale	-	76,341
Financial investments held-to-maturity	-	21,266
Money at call and deposits with financial institutions	<b>110,542</b>	115,983
	<b>1,932,917</b>	1,695,038
Accretion of discount less amortisation of premium	<b>10,947</b>	18,497
<b>Total finance income and hibah</b>	<b>1,943,864</b>	1,713,535
<b>Other operating income</b>		
Fee income:		
- Processing fees	<b>12,435</b>	7,669
- Commissions	<b>30,151</b>	33,385
- Service charges and other fees	<b>37,450</b>	43,667
Gains on disposal of financial investments at fair value through other comprehensive income	<b>1,306</b>	-
Gains on disposal of financial investments available-for-sale	-	2,290
(Losses)/gains on disposal of financial investments at fair value through profit or loss	<b>(499)</b>	113
Unrealised gains/(losses) on revaluation of:		
- Derivatives	<b>5,984</b>	1,599
- Financial investments at fair value through profit or loss	<b>(46)</b>	(2)
- Financial liabilities at fair value through profit or loss	<b>(1,377)</b>	(2,355)
(Losses)/gains on foreign exchange:		
- Realised	<b>(7,521)</b>	(2,665)
- Unrealised	<b>37,485</b>	(266)
Realised gain on derivatives	<b>1,708</b>	4,256
<b>Total other operating income</b>	<b>117,076</b>	87,691
<b>Total</b>	<b>2,060,940</b>	1,801,226

Included in finance income are income on impaired assets amounting to RM12.7 million (2017: RM10.3 million).

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**25. Income derived from investment of investment account funds**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing and advances	<u>1,078,834</u>	<u>1,503,196</u>
<b>Total finance income and hibah</b>	<u>1,078,834</u>	<u>1,503,196</u>
<b>Other operating income</b>		
Fee income:		
- Commissions	1,107	1,135
- Service charges and other fees	<u>19,127</u>	<u>22,517</u>
<b>Total other operating income</b>	<u>20,234</u>	<u>23,652</u>
<b>Total</b>	<u>1,099,068</u>	<u>1,526,848</u>

**26. Income derived from investment of shareholder's funds**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing and advances	348,143	243,758
Financial investments at fair value through profit or loss	481	333
Financial investments at fair value through other comprehensive income	20,373	-
Financial investments at amortised cost	11,346	-
Financial investments available-for-sale	-	12,578
Financial investments held-to-maturity	-	3,504
Money at call and deposits with financial institutions	<u>23,071</u>	<u>19,110</u>
	<u>403,414</u>	<u>279,283</u>
Accretion of discount less amortisation of premium	<u>2,285</u>	<u>3,048</u>
<b>Total finance income and hibah</b>	<u>405,699</u>	<u>282,331</u>

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**26. Income derived from investment of shareholder's funds (cont'd.)**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Other operating income</b>		
Fee income		
- Processing fees	<b>2,595</b>	1,264
- Commissions	<b>6,293</b>	5,501
- Service charges and other fees	<b>7,816</b>	7,195
(Losses)/gains on sale of financial investments at fair value through profit or loss	<b>(104)</b>	19
Gains on disposal of financial investments at fair value through other comprehensive income	<b>273</b>	-
Gains on disposal of financial investments available-for-sale	-	377
Unrealised gains/(losses) on revaluation of:		
- Derivatives	<b>1,249</b>	263
- Financial investments at fair value through profit or loss	<b>(10)</b>	-
- Financial liabilities at fair value through profit or loss	<b>(287)</b>	(388)
(Losses)/gains on foreign exchange:		
- Realised	<b>(1,570)</b>	(439)
- Unrealised	<b>7,823</b>	(44)
Realised gain on derivatives	<b>357</b>	701
<b>Total other operating income</b>	<b>24,435</b>	14,449
<b>Total</b>	<b>430,134</b>	296,780

Included in finance income are income on impaired assets amounting to RM2.0 million (2017: RM1.7 million).

**27. Allowances for/(writeback of) impairment losses**

**(i) Allowances for impairment losses on financing and advances, net**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
(Writeback of)/allowances for impairment losses on financing and advances:		
Stage 1 - 12-month ECL, net	<b>(264,879)</b>	-
Stage 2 - Lifetime ECL not credit impaired, net	<b>218,562</b>	-
Stage 3 - Lifetime ECL credit impaired, net	<b>452,724</b>	-
Individual allowance		
- Allowance made (Note 8 (viii))	-	149,083
- Amount written back (Note 8 (viii))	-	(75,632)
Collective allowance made (Note 8 (viii))	-	178,642
Impaired financing and advances		
- Written-off	<b>12,124</b>	9,371
- Recovered	<b>(43,446)</b>	(51,576)
Allowances for impairment losses on other debts	<b>161</b>	175
	<b>375,246</b>	210,063

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**27. Allowances for/(writeback of) impairment losses (cont'd.)**

**(ii) Writeback of impairment losses on financial investments, net**

	2018 RM'000	2017 RM'000
Financial investments at fair value through other comprehensive income		
Stage 1 - 12-month ECL, net	(634)	-
Stage 2 - Lifetime ECL not credit impaired, net	(125)	-
	<u>(759)</u>	<u>-</u>
Financial investments at amortised cost		
Stage 1 - 12-month ECL, net	(2,468)	-
Stage 2 - Lifetime ECL not credit impaired, net	(4,310)	-
	<u>(6,778)</u>	<u>-</u>
	<u>(7,537)</u>	<u>-</u>

**(iii) Writeback of impairment losses on other financial assets, net**

	2018 RM'000	2017 RM'000
Cash and short-term funds		
Stage 1 - 12-month ECL, net	(167)	-
	<u>(167)</u>	<u>-</u>

**28. Profit distributed to depositors**

	2018 RM'000	2017 RM'000
Deposits from customers		
- Non-mudharabah fund	4,043,778	2,971,929
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	702,226	640,642
- Non-mudharabah fund	241,868	332,169
	<u>944,094</u>	<u>972,811</u>
Financial liabilities at fair value through profit or loss		
- Non-mudharabah fund	41,865	44,894
<b>Total</b>	<u><b>5,029,737</b></u>	<u><b>3,989,634</b></u>

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**29. Overhead expenses**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Personnel expenses:		
- Salaries and wages	<b>21,853</b>	19,804
- Allowances and bonuses	<b>13,878</b>	10,272
- Social security cost	<b>155</b>	131
- Pension cost - defined contribution plan	<b>5,650</b>	4,646
- Share/Options granted under ESS	<b>-</b>	511
- Other staff related expenses	<b>5,256</b>	5,415
	<b>46,792</b>	40,779
Establishment costs:		
- Rental of premises	<b>1,715</b>	1,715
- Repairs, servicing and maintenance	<b>47</b>	22
- Information technology expenses	<b>3,625</b>	2,696
- Others	<b>2</b>	4
	<b>5,389</b>	4,437
Marketing costs:		
- Advertisement and publicity	<b>2,079</b>	2,168
- Others	<b>9,266</b>	9,058
	<b>11,345</b>	11,226
Administration and general expenses:		
- Fees and brokerage	<b>58,006</b>	63,910
- Administrative expenses	<b>7,923</b>	8,317
- General expenses	<b>47,403</b>	82,092
- Auditors' remuneration		
- Audit	<b>536</b>	451
- Regulatory-related services	<b>333</b>	308
- Directors' fees and other remunerations (Note 30)	<b>1,179</b>	826
- Shared service costs paid/payable to Maybank	<b>1,238,664</b>	1,128,005
	<b>1,354,044</b>	1,283,909
<b>Total</b>	<b>1,417,570</b>	1,340,351

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Chief executive officer:		
Salary and other remuneration, including meeting allowance	<b>3,024</b>	2,489
ESS expenses	-	230
Estimated monetary value of benefit-in-kind	<b>53</b>	10
Pension cost - defined contribution plan	<b>484</b>	378
	<b>3,561</b>	3,107
Non-executive directors:		
Fees	<b>982</b>	719
Other remunerations	<b>154</b>	88
Estimated monetary value of benefit-in-kind	<b>43</b>	19
	<b>1,179</b>	826
Shariah committee members	<b>817</b>	651
<b>Total</b>	<b>5,557</b>	4,584
<b>Total (excluding benefit-in-kind)</b>	<b>5,461</b>	4,555

The total remuneration of the directors are as follows:

	<b>Fees</b>	<b>Meeting allowances</b>	<b>Benefits-in-kind</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2018</b>				
Non-executive directors:				
Encik Zainal Abidin bin Jamal	<b>212</b>	<b>17</b>	<b>34</b>	<b>263</b>
Dato' Dr Muhammad Afifi al-Akiti	<b>169</b>	<b>24</b>	<b>3</b>	<b>196</b>
Encik Dali bin Sardar	<b>173</b>	<b>43</b>	<b>3</b>	<b>219</b>
Encik Nor Hizam bin Hashim	<b>169</b>	<b>38</b>	-	<b>207</b>
Datin Paduka Jam'iah Abdul Hamid <sup>1</sup>	<b>117</b>	<b>15</b>	-	<b>132</b>
Datuk Mohd Anwar Yahya	<b>142</b>	<b>17</b>	<b>3</b>	<b>162</b>
<b>Total directors' remuneration</b>	<b>982</b>	<b>154</b>	<b>43</b>	<b>1,179</b>

<sup>1</sup> Demised on 19 November 2018

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

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

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

<sup>1</sup> Appointed as Chairman on 1 June 2017

<sup>2</sup> Appointed on 17 July 2017

<sup>3</sup> Resigned on 3 April 2017

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

	<b>Fees</b> <b>RM'000</b>	<b>Meeting</b> <b>allowances</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>2018</b>			
Dr. Aznan Hasan	116	37	153
Dr. Ahcene Lahsasna	88	39	127
Dr. Marjan Binti Muhammad	96	39	135
Dr. Mohamed Fairouz Bin Abdul Khir	96	37	133
Ustaz Mohd Kamal Mokhtar	96	41	137
Dr. Oni Sahroni	48	20	68
Dr. Syahnaz Sulaiman	48	16	64
<b>Total Shariah committee remuneration</b>	<b>588</b>	<b>229</b>	<b>817</b>

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**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.):

<b>2017</b>	<b>Fees RM'000</b>	<b>Meeting allowances RM'000</b>	<b>Total RM'000</b>
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
<b>Total Shariah committee remuneration</b>	<b>477</b>	<b>174</b>	<b>651</b>

**31. Finance cost**

	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Islamic Subordinated Sukuk	<b>117,750</b>	117,750
Capital Securities	<b>49,500</b>	2,441
Term Funding	<b>176,235</b>	16,901
	<b>343,485</b>	<b>137,092</b>

**32. Taxation**

	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Malaysian income tax	<b>641,904</b>	521,885
Foreign income tax	<b>50</b>	-
	<b>641,954</b>	521,885
Over provision in prior period:		
Malaysian income tax	<b>(18,552)</b>	(11,080)
	<b>623,402</b>	510,805
Deferred tax (Note 18):		
Relating to origination and reversal of temporary differences	<b>(17,719)</b>	(655)
	<b>605,683</b>	510,150

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**32. Taxation (cont'd.)**

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

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:

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before taxation	<u>2,604,951</u>	<u>2,265,760</u>
Taxation at Malaysian statutory tax rate of 24%	<b>625,188</b>	543,782
Foreign income tax	<b>50</b>	-
Tax exempted income	-	(21,643)
Expenses not deductible for tax purposes	<b>19,707</b>	2,236
Over provision of tax expense in prior years	<b>(18,552)</b>	(11,080)
Origination and reversal of temporary differences	<b>(17,719)</b>	(655)
Effect of zakat deduction	<b>(2,991)</b>	(2,490)
Tax expense for the financial year	<u><b>605,683</b></u>	<u>510,150</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.

	<b>2018</b>	<b>2017</b>
Net profit for the financial year attributable to equity holder of the Bank (RM'000)	<u>1,975,610</u>	<u>1,737,084</u>
Weighted average number of ordinary shares in issue ('000)	<u>301,455</u>	<u>281,556</u>
Basic/diluted EPS (sen)	<u>655.4</u>	<u>617.0</u>

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**34. Dividends**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Interim tax exempt (single-tier) dividend of RM2.37, on 312,840,000 ordinary shares in respect of the financial year ended 31 December 2018	<b>741,431</b>	-
Final tax exempt (single-tier) dividend of RM3.46, on 281,556,000 ordinary shares in respect of the financial year ended 31 December 2017	<b>974,184</b>	-
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
	<b><u>1,715,615</u></b>	<b><u>1,537,296</u></b>

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2018 of RM3.64 per share on 338,910,000 ordinary shares, amounting to a dividend payable of RM1,233,632,400 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 2019.

**35. Significant related party transactions and balances**

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Holding company</b>		
Income:		
Income on deposits and placement with banks and other financial institutions	-	130
Expenditure:		
Profit distributed to depositors	<b>871,134</b>	892,278
Finance cost	<b>305,463</b>	99,008
Shared service cost paid/payable to Maybank	<b>1,238,664</b>	1,128,005
Other expenses	<b>2,155</b>	2,123
	<b><u>2,417,416</u></b>	<b><u>2,121,414</u></b>

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

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Related companies</b>		
Income:		
Income from financing and advances	-	825
Commission	<b>49,923</b>	39,827
Shariah Fee	<b>483</b>	-
	<b>50,406</b>	<b>40,652</b>
Expenditure:		
Profit distributed to depositors	<b>15,348</b>	26,158
Information technology expenses*	<b>3,348</b>	2,437
Fees and brokerage*	<b>130</b>	5,540
General expenses	<b>1,833</b>	1,802
	<b>20,659</b>	<b>35,937</b>

\* Included in these expenses are services rendered in Malaysia.

- (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:

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Holding company</b>		
Amount due from:		
Current accounts and deposits	<b>51,174</b>	78,243
Derivative assets	<b>236,926</b>	413,436
Others	<b>3,569,497</b>	6,224,345
	<b>3,857,597</b>	<b>6,716,024</b>
Amount due to:		
Current accounts and deposits	<b>28,393,218</b>	22,683,772
Negotiable instruments of deposits		
- Remaining maturity less than one year	<b>597,301</b>	-
Derivative liabilities	<b>341,069</b>	523,400
Subordinated sukuk	<b>1,725,541</b>	1,725,450
Capital securities	<b>1,002,441</b>	1,002,441
Term funding	<b>4,738,180</b>	4,945,437
	<b>36,797,750</b>	<b>30,880,500</b>

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**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 (cont'd.):

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Related companies</b>		
Amount due to:		
Fixed return investment deposits	<u>449,958</u>	<u>930,451</u>
	<b>449,958</b>	<b>930,451</b>

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.

- (c) Key management personnel compensation

- (i) The remuneration of directors and other members of key management during the financial year are as disclosed in Note 30. The movement in share options of key management personnel is as follows:

	<b>2018</b>	<b>2017</b>
	<b>'000</b>	<b>'000</b>
At 1 January	<b>966</b>	766
Vested and exercisable	<u>(966)</u>	200
At 31 December	<u>-</u>	<u>966</u>

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

- (ii) The numbers of ESGP Shares awarded to key management personnel are as follows:

<b>ESGP Shares</b>	<b>Award date</b>	<b>Number of ESGP shares awarded</b>
Dato' Mohamed Rafique Merican	14.12.2018	<u>104</u>

\*The ESGP shares is accepted in financial year ending 31 December 2019.

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

(d) Government-related entities

Permodalan Nasional Berhad ("PNB"), a government-linked entity and a shareholder with significant influence on the Bank, with direct shareholding of 7.53% (2017: 7.40%) and indirect shareholding of 35.53% (2017: 33.97%) via Amanah Raya Trustee Berhad (Skim Amanah Saham Bumiputera) as at 31 December 2018. PNB and entities directly controlled by PNB are collectively referred to as government-related entities to the Group and 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.

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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Transactions during the financial year:</b>		
Financing income	<u>205,596</u>	<u>206,725</u>
<b>Balances as at reporting dates:</b>		
Financing and advances	<u>4,343,531</u>	<u>4,751,507</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 2018 and 31 December 2017.

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

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

	<b>2018</b>	<b>2017</b>
Outstanding credit exposure with connected parties (RM'000)	<b><u>5,537,105</u></b>	<b><u>3,753,533</u></b>
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	<b><u>2.8%</u></b>	<b><u>2.2%</u></b>
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	<b><u>-</u></b>	<b><u>-</u></b>

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.

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**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	2018 Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	2017 Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<b><u>Contingent liabilities</u></b>						
Direct credit substitutes	1,406,819	1,282,494	1,188,080	1,483,863	1,438,157	1,292,069
Certain transaction-related contingent items	3,382,496	1,669,190	1,292,876	3,485,433	1,717,826	1,278,929
Short-term self-liquidating trade-related contingencies	210,731	54,669	25,219	188,659	36,697	28,596
	<b>5,000,046</b>	<b>3,006,353</b>	<b>2,506,175</b>	<b>5,157,955</b>	<b>3,192,680</b>	<b>2,599,594</b>
<b><u>Commitments</u></b>						
Irrevocable commitments to extend credit:						
- maturity within one year	22,252,458	5,315,091	2,611,836	19,981,036	4,218,895	2,330,534
- maturity more than one year	8,719,317	2,599,960	1,124,353	7,694,750	2,676,066	1,093,008
	<b>30,971,775</b>	<b>7,915,051</b>	<b>3,736,189</b>	<b>27,675,786</b>	<b>6,894,961</b>	<b>3,423,542</b>
Miscellaneous commitments and contingencies	84,129	-	-	126,710	-	-
Total credit-related commitments and contingencies	<b>36,055,950</b>	<b>10,921,404</b>	<b>6,242,364</b>	<b>32,960,451</b>	<b>10,087,641</b>	<b>6,023,136</b>

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**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	2018 Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	2017 Credit equivalent amount* RM'000	Risk weighted amount* RM'000
<b><u>Derivative financial instruments</u></b>						
Foreign exchange related contracts:						
- less than one year	13,094,961	219,591	113,693	9,870,342	407,037	83,392
- one year to less than five years	3,663,308	56,062	25,064	4,784,493	182,470	103,359
Profit rate related contracts:						
- less than one year	1,370,775	141,687	25,037	-	-	-
- one year to less than five years	2,452,770	440,646	196,829	3,808,120	683,383	284,177
- more than five years	2,395,554	167,587	145,821	2,040,000	72,276	41,970
Total treasury-related commitments and contingencies	<b>22,977,368</b>	<b>1,025,573</b>	<b>506,444</b>	20,502,955	1,345,166	512,898
<b>Total commitments and contingencies</b>	<b>59,033,318</b>	<b>11,946,977</b>	<b>6,748,808</b>	53,463,406	11,432,807	6,536,034

\* 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.

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**37. Financial risk management policies**

**(a) Financial risk management overview**

Risk Management is a critical pillar of the Bank'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 Bank.

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

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 Bank is willing to assume and must be approved by the Board.
- (b) Capital management driven by the Bank's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.
- (c) Proper governance and oversight through a clear, effective and robust Bank governance structure with well-defined, transholding company and consistent lines of responsibility established within the Bank.
- (d) Promotion 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 Bank.
- (g) Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

**Maybank Islamic Berhad  
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The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 37(b)(i)).
- An explanation of the Bank's internal grading system (Note 37(e)(5)).
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Note 37(e)(1)).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 37(b)(ii)).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 37(b)(iii)).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 2.2(i)(d)(i)).

**(i) Definition of default and cure**

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- Principal or profit or both are past due for more than 90 days; or
- Account less than 90 days past due which exhibit indications of credit weaknesses; or
- Impaired financing and advances have been rescheduled and restructured, the financing and advances will continue to be classified as impaired until repayments based on 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.

The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

**Maybank Islamic Berhad  
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As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- significant deterioration in customer's credit rating from initial recognition or last reviewed date
- breach of covenant not waived by the Bank
- customer is insolvent
- it is becoming probable that the customer will enter bankruptcy
- customer's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore reclassified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated indicators at the time of the cure, and the asset no longer showing significant increase in credit risk compared to initial recognition.

**(ii) Significant increase in credit risk**

The Bank continuously monitors all financial assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 37(b)(i) are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 37(b)(iii)), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

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

**(b) Impairment assessment (Policy applicable from 1 January 2018) (cont'd.)**

**(iii) Grouping financial assets measured on a collective basis**

As explained in Note 2.2(i)(d)(ii), depending on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Financial assets subject to ECL that have been assessed individually but for which no impairment is required and all individually insignificant exposure are then assessed collectively, in groups of assets with similar credit risk characteristics.

The Bank group these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the financial assets.

**(c) Analysis of inputs to the ECL model under multiple economic scenarios (Policy applicable from 1 January 2018)**

An overview of the approach to estimating ECLs is set out in Note 2.2 Summary of significant accounting policies and in Note 3 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtain the data used from Maybank Group Economist, Maybank Kim Eng, including determining the weights attributable to the multiple scenarios as at every year end to apply on next financial year's ECL computations.

The following table shows the forecast of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations for financial year ended 31 December 2018. The figures for "Subsequent years" represent a long-term average for each scenario.

**31 December 2018**

Key Variables	ECL Scenario	Assigned Probabilities	ECL					Subsequent years
			2018	2019	2020	2021	2022	
Real GPD (%)	Base case	80	5.3	5.1	5.0	5.0	5.0	5.0
	Upside	10	5.6	5.4	5.3	5.3	5.3	5.3
	Downside	10	5.0	4.8	4.7	4.7	4.7	4.7
Property Price Index ("PPI") (%)	Base case	80	5.0	4.0	3.0	3.0	3.0	3.0
	Upside	10	5.3	4.2	3.2	3.2	3.2	3.2
	Downside	10	4.7	3.8	2.8	2.8	2.8	2.8
Overnight Policy Rate ("OPR") (%)	Base case	80	3.3	3.5	3.5	3.5	3.5	3.5
	Upside	10	3.3	3.5	3.5	3.5	3.5	3.5
	Downside	10	3.0	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (%)	Base case	80	3.3	3.3	3.2	3.2	3.1	3.1
	Upside	10	3.1	3.1	3.0	3.0	2.9	2.9
	Downside	10	3.5	3.5	3.4	3.4	3.3	3.3

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

**(d) Financial instrument by category**

<b>2018</b>	<b>Fair value through profit or loss RM'000</b>	<b>Fair value through other comprehensive income RM'000</b>	<b>At amortised costs RM'000</b>	<b>Sub-total RM'000</b>	<b>Assets not in scope of MFRS 9 RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>						
Cash and short-term funds	-	-	21,922,103	21,922,103	-	21,922,103
Deposits and placements with banks and other financial institutions	-	-	251,328	251,328	-	251,328
Financial investments portfolio*	995,072	12,447,389	6,454,985	19,897,446	-	19,897,446
Financing and advances	-	471,122	173,797,081	174,268,203	-	174,268,203
Derivative assets	403,993	-	-	403,993	-	403,993
Other assets	-	-	3,619,174	3,619,174	623,737	4,242,911
Statutory deposit with Bank Negara Malaysia	-	-	4,205,000	4,205,000	-	4,205,000
Deferred tax assets	-	-	-	-	24,077	24,077
<b>TOTAL ASSETS</b>	<b>1,399,065</b>	<b>12,918,511</b>	<b>210,249,671</b>	<b>224,567,247</b>	<b>647,814</b>	<b>225,215,061</b>

\* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost.

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

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

<b>2018</b>	<b>Fair value through profit or loss RM'000</b>	<b>Other financial liabilities RM'000</b>	<b>Sub-total RM'000</b>	<b>Liabilities not in scope of MFRS 9 RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>					
Customers' funding:					
- Deposits from customers	-	147,781,749	147,781,749	-	147,781,749
- Investment accounts of customers	-	23,565,061	23,565,061	-	23,565,061
Deposits and placements of banks and other financial institutions	-	32,174,135	32,174,135	-	32,174,135
Bills and acceptances payable	-	11,050	11,050	-	11,050
Derivative liabilities	391,949	-	391,949	-	391,949
Other liabilities	-	2,065,498	2,065,498	64,196	2,129,694
Provision for taxation and zakat	-	-	-	23,450	23,450
Financial liabilities at fair value through profit or loss	385,687	-	385,687	-	385,687
Term funding	-	4,738,180	4,738,180	-	4,738,180
Subordinated sukuk	-	2,534,301	2,534,301	-	2,534,301
Capital securities	-	1,002,441	1,002,441	-	1,002,441
<b>TOTAL LIABILITIES</b>	<b>777,636</b>	<b>213,872,415</b>	<b>214,650,051</b>	<b>87,646</b>	<b>214,737,697</b>

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

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

<b>2017</b>	<b>Held-for- trading RM'000</b>	<b>Available- for-sale RM'000</b>	<b>Held-to- maturity RM'000</b>	<b>Financing and receivables RM'000</b>	<b>Sub-total RM'000</b>	<b>Assets not in scope of MFRS 139 RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	-	-	-	17,134,359	17,134,359	-	17,134,359
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
<b>TOTAL ASSETS</b>	<b>728,560</b>	<b>9,882,004</b>	<b>2,731,560</b>	<b>188,698,523</b>	<b>202,040,647</b>	<b>454,406</b>	<b>202,495,053</b>

\* 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.

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

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

<b>2017</b>	<b>Held-for- trading RM'000</b>	<b>Other financial liabilities RM'000</b>	<b>Sub-total RM'000</b>	<b>Liabilities not in scope of MFRS 139 RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>					
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
<b>TOTAL LIABILITIES</b>	<b>650,320</b>	<b>192,366,918</b>	<b>193,017,238</b>	<b>166,406</b>	<b>193,183,644</b>

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

**(e) 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 Bank, where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including 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 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 financing 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.

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

**(e) 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 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 customer 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").

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

**(e) 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 customer 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 customers' 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 EL 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 customers by their respective industry segments (e.g. manufacturing, services, trading, contractors, property developers (single project), property investors (single property), etc.).

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

**(e) 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.

	<b>Maximum Exposure</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Credit exposure for on-balance sheet financial assets:</b>		
Cash and short-term funds	<b>21,922,103</b>	17,134,359
Deposits and placements with banks and other financial institutions	<b>251,328</b>	-
Financial investments portfolio*	<b>19,896,196</b>	12,854,135
Financing and advances	<b>174,268,203</b>	162,072,685
Derivative assets	<b>403,993</b>	487,989
Other assets	<b>3,619,174</b>	6,249,479
Statutory deposit with Bank Negara Malaysia	<b>4,205,000</b>	3,242,000
	<b><u>224,565,997</u></b>	<u>202,040,647</u>
<b>Credit exposure for off-balance sheet items:</b>		
Direct credit substitutes	<b>1,406,819</b>	1,483,863
Certain transaction-related contingent items	<b>3,382,496</b>	3,485,433
Short-term self-liquidating trade-related contingencies	<b>210,731</b>	188,659
Irrevocable commitments to extend credit	<b>30,971,775</b>	27,675,786
Miscellaneous	<b>84,129</b>	126,710
	<b><u>36,055,950</u></b>	<u>32,960,451</u>
<b>Total maximum credit risk exposure</b>	<b><u>260,621,947</u></b>	<u>235,001,098</u>

\* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments at amortised cost, financial investments available-for-sale and financial investments held-for-maturity excluding unquoted shares under MFRS 9 classification.

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

**(e) Credit risk management (cont'd.)**

**2. Maximum exposure to credit risk (cont'd.)**

**Credit exposure for on-balance sheet financial  
assets that are not subject to impairment:**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets at fair value through profit &amp; loss</b>		
- Investments	<b>995,072</b>	240,571
- Derivatives	<b>403,993</b>	487,989
	<b><u>1,399,065</u></b>	<u>728,560</u>

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 2018 for the Bank is at 71% (31 December 2017: 69%). The financial effect of collateral held for other financial assets is not significant.

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

**(e) 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 analyses 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 with 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
<b>2018</b>									
Malaysia	21,922,103	251,328	19,896,196	174,268,203	403,993	3,619,174	4,205,000	224,565,997	36,055,950
<b>2017</b>									
Malaysia	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 investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments at amortised cost, financial investments available-for-sale and financial investments held-to-maturity.

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

**(e) 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:

<b>2018</b>	<b>Cash and short-term funds RM'000</b>	<b>Deposits and placements with banks and other financial institutions RM'000</b>	<b>Financial investments portfolio* RM'000</b>	<b>Financing and advances RM'000</b>	<b>Derivative assets RM'000</b>	<b>Other assets RM'000</b>	<b>Statutory deposit with Bank Negara Malaysia RM'000</b>	<b>Total RM'000</b>	<b>Commitments and contingencies RM'000</b>
Agriculture	-	-	49,635	6,042,494	4,020	-	-	6,096,149	413,794
Mining and quarrying	-	-	-	1,359,978	-	-	-	1,359,978	355,291
Manufacturing	-	-	-	7,434,103	2,533	-	-	7,436,636	903,135
Construction	-	-	-	13,760,292	-	-	-	13,760,292	3,671,017
Electricity, gas and water supply	-	-	2,737,573	694,715	24,994	-	-	3,457,282	130,774
Wholesale, retail trade, restaurants and hotels	-	-	1,392,261	8,163,135	191	-	-	9,555,587	1,044,804
Finance, insurance, real estate and business	21,922,103	251,328	2,235,644	27,013,954	373,986	3,619,174	4,205,000	59,621,189	17,536,923
Transport, storage and communication	-	-	1,478,609	3,661,766	1	-	-	5,140,376	256,458
Education, health and others	-	-	-	1,646,378	-	-	-	1,646,378	131,167
Household	-	-	-	81,405,722	-	-	-	81,405,722	9,590,314
Others	-	-	12,002,474	23,085,666	(1,732)	-	-	35,086,408	2,022,273
	<b>21,922,103</b>	<b>251,328</b>	<b>19,896,196</b>	<b>174,268,203</b>	<b>403,993</b>	<b>3,619,174</b>	<b>4,205,000</b>	<b>224,565,997</b>	<b>36,055,950</b>

\* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost.

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

**(e) 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.):

<b>2017</b>	<b>Cash and short-term funds RM'000</b>	<b>Deposits and placements of banks and other financial institutions RM'000</b>	<b>Financial investments portfolio* RM'000</b>	<b>Financing and advances RM'000</b>	<b>Derivative assets RM'000</b>	<b>Other assets RM'000</b>	<b>Statutory deposit with Bank Negara Malaysia RM'000</b>	<b>Total RM'000</b>	<b>Commitments and contingencies RM'000</b>
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
	<b>17,134,359</b>	<b>-</b>	<b>12,854,135</b>	<b>162,072,685</b>	<b>487,989</b>	<b>6,249,479</b>	<b>3,242,000</b>	<b>202,040,647</b>	<b>32,960,451</b>

\* 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.

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

**(e) Credit risk management (cont'd.)**

**4. Collateral**

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

- For mortgages - charges over residential properties;
- For auto financing - ownership claims over the vehicle financed;
- For 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 financing. 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.

<b>Risk Category (Non-Retail)</b>	<b>Probability of default ("PD") grade</b>	<b>External credit ratings based on S&amp;P's ratings</b>	<b>External credit ratings based on RAM's ratings</b>
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

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

**(e) Credit risk management (cont'd.)**

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

**Credit classification for financial assets (cont'd.)**

<b>Risk Category (Retail)</b>	<b>Probability of default ("PD") grade</b>	<b>External credit ratings based on S&amp;P's ratings</b>	<b>External credit ratings based on RAM's ratings</b>
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 categories are 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 2.2(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.

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

**(e) Credit risk management (cont'd.)**

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts.

**Financial investments - at FVOCI**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Very Low	11,967,371	-	-	11,967,371
Low	478,768	-	-	478,768
Carrying amount - fair value	12,446,139	-	-	12,446,139
Expected credit loss	(484)	(44)	-	(528)

**Financial investments - at amortised cost**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Very Low	2,929,961	-	-	2,929,961
Low	1,870,347	1,419,818	-	3,290,165
Medium	250,238	-	-	250,238
	5,050,546	1,419,818	-	6,470,364
Less:				
Expected credit loss	(6,025)	(9,354)	-	(15,379)
Net carrying amount	5,044,521	1,410,464	-	6,454,985

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

**(e) Credit risk management (cont'd.)**

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

**Financing and advances - at FVOCI**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
<b>2018</b>				
Low	46,000	-	-	46,000
Medium	115,903	125,000	-	240,903
Unrated	184,219	-	-	184,219
Carrying amount - fair value	346,122	125,000	-	471,122
Expected credit loss	(1,399)	(3,800)	-	(5,199)

**Financing and advances - at amortised cost**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
<b>2018</b>				
Very Low	61,973,810	177,510	-	62,151,320
Low	56,142,283	3,465,864	-	59,608,147
Medium	24,603,431	9,212,911	-	33,816,342
High	772,343	4,513,880	-	5,286,223
Unrated	12,853,986	536,763	-	13,390,749
Impaired	-	-	2,094,106	2,094,106
	156,345,853	17,906,928	2,094,106	176,346,887
Less:				
Expected credit loss	(510,284)	(983,711)	(1,055,811)	(2,549,806)
Net carrying amount	155,835,569	16,923,217	1,038,295	173,797,081

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

**(e) Credit risk management (cont'd.)**

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

**Cash and short-term funds**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Sovereign	20,315,211	-	-	20,315,211
Low	1,603,963	-	-	1,603,963
Unrated	2,929	-	-	2,929
Net carrying amount	21,922,103	-	-	21,922,103

**Deposits and placements with financial institutions**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Low	251,328	-	-	251,328
Net carrying amount	251,328	-	-	251,328

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

**(e) Credit risk management (cont'd.)**

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

**Statutory deposits with central bank**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Sovereign	4,205,000	-	-	4,205,000
Net carrying amount	4,205,000	-	-	4,205,000

**Other financial assets**

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
2018				
Unrated	4,242,911	-	-	4,242,911
Net carrying amount	4,242,911	-	-	4,242,911

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

**(e) Credit risk management (cont'd.)**

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

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

**Loan commitments**

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	
	<b>ECL</b>	<b>not credit</b>	<b>credit</b>	
	<b>RM'000</b>	<b>impaired</b>	<b>impaired</b>	<b>Total</b>
<b>2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Very Low	609,675	-	-	609,675
Low	1,092,804	164,627	-	1,257,431
Medium	686,256	258,387	-	944,643
High	-	228	-	228
Unrated	146,307	19,303	-	165,610
Impaired	-	-	339	339
	<b>2,535,042</b>	<b>442,545</b>	<b>339</b>	<b>2,977,926</b>
Less:				
Expected credit loss	(24,192)	(6,475)	(275)	(30,942)
Net carrying amount	<b>2,510,850</b>	<b>436,070</b>	<b>64</b>	<b>2,946,984</b>

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

**(e) Credit risk management (cont'd.)**

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

The following table sets out information about the credit quality of financial assets measured at FVTPL:

<b>2018</b>	<b>Financial investments RM'000</b>
<b>At FVTPL</b>	
Very Low	745,765
Low	249,307
Carrying amount - fair value	<u>995,072</u>

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

**(e) Credit risk management (cont'd.)**

**6. Credit quality of financial assets - comparative information under MFRS 139**

**Gross financing and advances to customers**

2017	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				
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(e)(5).

2017	<----- Neither past due nor impaired ----->					Total RM'000
	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	
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%

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37. Financial risk management (cont'd.)

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

6. Credit quality of financial assets - comparative information under MFRS 139 (cont'd.)

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
<b>2017</b>					
Cash and short-term funds	17,134,359	-	17,134,359	-	17,134,359
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
	<u>39,967,962</u>	<u>-</u>	<u>39,967,962</u>	<u>-</u>	<u>39,967,962</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	
<b>2017</b>							
Cash and short-term funds	16,713,583	-	420,199	-	-	577	17,134,359
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	<u>31,310,666</u>	<u>1,199,398</u>	<u>1,162,853</u>	<u>44,219</u>	<u>11</u>	<u>6,250,815</u>	<u>39,967,962</u>
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.

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

**(e) Credit risk management (cont'd.)**

**7. Credit quality of impaired financial assets**

(i) Impaired financial assets analysed by geography are as follows:

	<b>Financing and advances</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysia	<b>2,094,107</b>	1,710,533

(ii) Impaired financial assets analysed by industry sectors are as follows:

	<b>Financing and advances</b>	
	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Agriculture	<b>33,189</b>	23,072
Mining and quarrying	<b>296,632</b>	228,539
Manufacturing	<b>96,713</b>	71,881
Construction	<b>333,584</b>	97,736
Electricity, gas and water supply	<b>20,346</b>	712
Wholesale, retail trade, restaurants and hotels	<b>171,093</b>	166,371
Finance, insurance, real estate and business	<b>96,484</b>	204,002
Transport, storage and communication	<b>488,122</b>	539,245
Education, health and others	<b>15,516</b>	12,404
Household	<b>542,341</b>	358,972
Others	<b>87</b>	7,599
	<b>2,094,107</b>	1,710,533

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

**(f) Market risk management**

**1. Market risk management overview**

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 profit 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.

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

**(f) Market risk management (cont'd.)**

**2. Market risk management (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

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

**(f) 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 repriced or matured, whichever is earlier.

	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 %
<b>2018</b>									
<b>Assets</b>									
Cash and short-term funds	21,919,175	-	-	-	-	2,928	-	21,922,103	3.24%
Deposits and placements with banks and other financial institutions	-	251,328	-	-	-	-	-	251,328	3.76%
Financial investments at fair value through profit or loss	-	-	-	-	-	-	995,072	995,072	3.18%
Financial investments at fair value through other comprehensive income	10,194	469,069	2,733,842	3,791,560	5,442,724	-	-	12,447,389	4.06%
Financial investments at amortised cost	-	-	95,407	1,498,350	4,861,228	-	-	6,454,985	5.38%
Financing and advances									
- Non-impaired	121,550,596	5,270,560	2,672,553	15,503,032	29,727,161	-	-	174,723,902	5.19%
- Impaired*	1,038,296	-	-	-	-	-	-	1,038,296	-
- 12-month ECL and lifetime ECL not credit impaired	-	-	-	-	-	(1,493,995)	-	(1,493,995)	-
Derivative assets	-	-	-	-	-	-	403,993	403,993	-
Other assets	-	-	-	-	-	4,242,911	-	4,242,911	-
Other non-yield/profit sensitive balances	-	-	-	-	-	4,229,077	-	4,229,077	-
<b>Total assets</b>	<b>144,518,261</b>	<b>5,990,957</b>	<b>5,501,802</b>	<b>20,792,942</b>	<b>40,031,113</b>	<b>6,980,921</b>	<b>1,399,065</b>	<b>225,215,061</b>	

\* This is arrived after deducting the stage 3 - lifetime ECL credit impaired from the gross impaired financing and advances.

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

## (f) Market risk management (cont'd.)

## 3. Profit rate risk (cont'd.)

2018	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 %
<b>Liabilities and shareholder's equity</b>									
Customers' funding:									
- Deposits from customers	58,173,144	29,743,313	36,911,444	8,898,940	14,054,908	-	-	147,781,749	3.01%
- Investment accounts of customers	3,848,649	2,930,004	8,522,215	3,460,920	4,803,273	-	-	23,565,061	2.79%
Deposits and placements of banks and other financial institutions	5,655,028	6,114,040	5,058,624	9,954,739	4,909,155	482,549	-	32,174,135	3.34%
Bills and acceptances payable	-	-	-	-	-	11,050	-	11,050	-
Financial liabilities at fair value through profit or loss	-	-	-	385,687	-	-	-	385,687	3.79%
Derivative liabilities	-	-	-	-	-	-	391,949	391,949	-
Term funding	748,078	1,986,880	-	2,003,222	-	-	-	4,738,180	4.06%
Subordinated sukuk	-	-	1,516,593	1,017,708	-	-	-	2,534,301	4.72%
Capital securities	-	-	-	1,002,441	-	-	-	1,002,441	4.95%
Other liabilities	-	-	-	-	-	2,129,694	-	2,129,694	-
Other non-yield/profit sensitive balances	-	-	-	-	-	23,450	-	23,450	-
<b>Total liabilities</b>	<b>68,424,899</b>	<b>40,774,237</b>	<b>52,008,876</b>	<b>26,723,657</b>	<b>23,767,336</b>	<b>2,646,743</b>	<b>391,949</b>	<b>214,737,697</b>	
Islamic banking capital funds	-	-	-	-	-	10,477,364	-	10,477,364	
<b>Total liabilities and Islamic banking capital funds</b>	<b>68,424,899</b>	<b>40,774,237</b>	<b>52,008,876</b>	<b>26,723,657</b>	<b>23,767,336</b>	<b>13,124,107</b>	<b>391,949</b>	<b>225,215,061</b>	
<b>On-balance sheet yield/profit rate sensitivity gap</b>	<b>76,093,362</b>	<b>(34,783,280)</b>	<b>(46,507,074)</b>	<b>(5,930,715)</b>	<b>16,263,777</b>	<b>(6,143,186)</b>	<b>1,007,116</b>	<b>-</b>	
<b>Cumulative yield/profit rate sensitivity gap</b>	<b>76,093,362</b>	<b>41,310,082</b>	<b>(5,196,992)</b>	<b>(11,127,707)</b>	<b>5,136,070</b>	<b>(1,007,116)</b>	<b>-</b>		

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

**(f) Market risk management (cont'd.)**

**3. Profit rate risk (cont'd.)**

	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 %
<b>2017</b>									
<b>Assets</b>									
Cash and short-term funds	17,133,782	-	-	-	-	577	-	17,134,359	2.99%
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	-
<b>Total assets</b>	<b>124,458,385</b>	<b>9,939,013</b>	<b>3,003,119</b>	<b>18,207,627</b>	<b>37,033,070</b>	<b>9,125,279</b>	<b>728,560</b>	<b>202,495,053</b>	

\* This is arrived after deducting the individual allowance from the gross impaired financing and advances.

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

**(f) Market risk management (cont'd.)**

**3. Profit rate risk (cont'd.)**

	<b>Up to 1 month RM'000</b>	<b>&gt;1 - 3 months RM'000</b>	<b>&gt;3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>Non-profit sensitive RM'000</b>	<b>Trading books RM'000</b>	<b>Total RM'000</b>	<b>Effective profit rate %</b>
<b>2017</b>									
<b>Liabilities and shareholder's equity</b>									
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	-
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	-
<b>Total liabilities</b>	<b>51,044,036</b>	<b>37,524,867</b>	<b>54,982,879</b>	<b>44,384,352</b>	<b>3,741,025</b>	<b>856,165</b>	<b>650,320</b>	<b>193,183,644</b>	
Islamic banking capital funds	-	-	-	-	-	9,311,409	-	9,311,409	
<b>Total liabilities and Islamic banking capital funds</b>	<b>51,044,036</b>	<b>37,524,867</b>	<b>54,982,879</b>	<b>44,384,352</b>	<b>3,741,025</b>	<b>10,167,574</b>	<b>650,320</b>	<b>202,495,053</b>	
<b>On-balance sheet yield/profit rate sensitivity gap</b>	<b>73,414,349</b>	<b>(27,585,854)</b>	<b>(51,979,760)</b>	<b>(26,176,725)</b>	<b>33,292,045</b>	<b>(1,042,295)</b>	<b>78,240</b>	<b>-</b>	
<b>Cumulative yield/profit rate sensitivity gap</b>	<b>73,414,349</b>	<b>45,828,495</b>	<b>(6,151,265)</b>	<b>(32,327,990)</b>	<b>964,055</b>	<b>(78,240)</b>	<b>-</b>	<b>-</b>	

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

**(f) 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.

	2018			2017		
	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to profit before tax		274,617	(274,617)		279,498	(279,498)
Impact to profit after tax	24%	<u>208,709</u>	<u>(208,709)</u>	24%	<u>212,418</u>	<u>(212,418)</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 fair value through of comprehensive income ("FVOCI") and available-for-sale ("AFS") portfolio:

	2018		2017	
	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 FVOCI and AFS.	<u>(648,733)</u>	<u>648,733</u>	<u>(557,562)</u>	<u>557,562</u>

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

**(f) 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 2018 and 31 December 2017 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
<b>2018</b>									
<b>Assets</b>									
Cash and short-term funds	21,870,929	5,556	40,619	3,867	-	-	-	1,132	21,922,103
Deposits and placements with banks and other financial institutions	251,328	-	-	-	-	-	-	-	251,328
Financial investments portfolio*	19,587,965	-	-	-	309,481	-	-	-	19,897,446
Financing and advances	170,074,889	31,651	1,189,520	-	2,668,355	-	24,593	279,195	174,268,203
Derivative assets	(2,379,840)	793,181	3,674	-	1,985,567	(96)	1,296	211	403,993
Other assets	2,409,932	1,996	69,506	226	1,779,745	929	(21,354)	1,931	4,242,911
Statutory deposit with Bank Negara Malaysia	4,205,000	-	-	-	-	-	-	-	4,205,000
Deferred tax assets	24,077	-	-	-	-	-	-	-	24,077
<b>Total assets</b>	<b>216,044,280</b>	<b>832,384</b>	<b>1,303,319</b>	<b>4,093</b>	<b>6,743,148</b>	<b>833</b>	<b>4,535</b>	<b>282,469</b>	<b>225,215,061</b>

\* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost.

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

**(f) Market risk management (cont'd.)**

**5. Foreign exchange risk (cont'd.)**

2018	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
<b>Liabilities</b>									
Deposits from customers	142,026,794	8,430	1,258,674	3,280	4,420,264	-	20,183	44,124	147,781,749
Investment accounts of customers	23,565,061	-	-	-	-	-	-	-	23,565,061
Deposits and placements of banks and other financial institutions	28,054,811	27,112	1,176,590	-	2,664,058	828	6,005	244,731	32,174,135
Bills and acceptances payable	11,050	-	-	-	-	-	-	-	11,050
Financial liabilities at fair value through profit or loss	385,687	-	-	-	-	-	-	-	385,687
Derivative liabilities	1,887,879	795,190	(1,206,044)	-	(1,082,563)	(518)	(354)	(1,641)	391,949
Other liabilities	2,062,603	-	11	-	66,921	-	140	19	2,129,694
Provision for taxation and zakat	23,450	-	-	-	-	-	-	-	23,450
Term funding	4,738,180	-	-	-	-	-	-	-	4,738,180
Subordinated sukuk	2,534,301	-	-	-	-	-	-	-	2,534,301
Capital Securities	1,002,441	-	-	-	-	-	-	-	1,002,441
<b>Total liabilities</b>	<b>206,292,257</b>	<b>830,732</b>	<b>1,229,231</b>	<b>3,280</b>	<b>6,068,680</b>	<b>310</b>	<b>25,974</b>	<b>287,233</b>	<b>214,737,697</b>
<b>On-balance sheet open position</b>	<b>9,752,023</b>	<b>1,652</b>	<b>74,088</b>	<b>813</b>	<b>674,468</b>	<b>523</b>	<b>(21,439)</b>	<b>(4,764)</b>	<b>10,477,364</b>
Less: Derivative assets	2,379,840	(793,181)	(3,674)	-	(1,985,567)	96	(1,296)	(211)	(403,993)
Add: Derivative liabilities	1,887,879	795,190	(1,206,044)	-	(1,082,563)	(518)	(354)	(1,641)	391,949
<b>Net open position</b>	<b>14,019,742</b>	<b>3,661</b>	<b>(1,135,630)</b>	<b>813</b>	<b>(2,393,662)</b>	<b>101</b>	<b>(23,089)</b>	<b>(6,616)</b>	<b>10,465,320</b>

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

**(f) 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
<b>Assets</b>									
Cash and short-term funds	16,975,061	-	47,701	4,986	90,684	-	7,539	8,388	17,134,359
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
<b>Total assets</b>	<b>199,344,201</b>	<b>874,297</b>	<b>1,451,177</b>	<b>4,641</b>	<b>307,101</b>	<b>943</b>	<b>55,853</b>	<b>456,840</b>	<b>202,495,053</b>

\* 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.

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

**(f) Market risk management (cont'd.)**

**5. Foreign exchange risk (cont'd.)**

<b>2017</b>	<b>Malaysian Ringgit RM'000</b>	<b>Singapore Dollar RM'000</b>	<b>Great Britain Pound RM'000</b>	<b>Hong Kong Dollar RM'000</b>	<b>United States Dollar RM'000</b>	<b>Indonesia Rupiah RM'000</b>	<b>Euro RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>									
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
<b>Total liabilities</b>	<b>190,588,124</b>	<b>871,147</b>	<b>1,408,639</b>	<b>4,064</b>	<b>(248,984)</b>	<b>185</b>	<b>76,673</b>	<b>483,796</b>	<b>193,183,644</b>
<b>On-balance sheet open position</b>	<b>8,756,077</b>	<b>3,150</b>	<b>42,538</b>	<b>577</b>	<b>556,085</b>	<b>758</b>	<b>(20,820)</b>	<b>(26,956)</b>	<b>9,311,409</b>
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
<b>Net open position</b>	<b>10,433,739</b>	<b>2,787</b>	<b>224,981</b>	<b>577</b>	<b>(1,137,949)</b>	<b>18</b>	<b>(20,948)</b>	<b>(29,465)</b>	<b>9,473,740</b>

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

**(f) 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:

	2018		2017	
	1% appreciation RM'000	1% depreciation RM'000	1% appreciation RM'000	1% depreciation RM'000
Impact to profit after tax	<u>(7,253)</u>	<u>7,253</u>	<u>(5,553)</u>	<u>5,553</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.

**(g) 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.

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

**(g) 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 communications 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.

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

**(g) 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 2018 and 31 December 2017.

These disclosures are made in accordance with the requirement of policy document on Financial Reporting issued by BNM:

	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
<b>2018</b>									
<b>Assets</b>									
Cash and short-term funds	21,922,103	-	-	-	-	-	-	-	21,922,103
Deposits and placements with banks and other financial institutions	-	251,328	-	-	-	-	-	-	251,328
Financial investments portfolio*	10,194	718,376	3,151,891	311,727	1,296,272	4,105,035	10,302,701	1,250	19,897,446
Financing and advances	25,648,510	4,544,004	1,370,717	947,641	6,717,444	14,275,710	120,764,177	-	174,268,203
Derivative assets	16,430	86,744	158,926	20,549	42,648	61,870	16,826	-	403,993
Other financial assets	-	-	-	3,619,174	-	-	-	623,737	4,242,911
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	4,205,000	4,205,000
Deferred tax assets	-	-	-	-	-	-	-	24,077	24,077
<b>Total assets</b>	<b>47,597,237</b>	<b>5,600,452</b>	<b>4,681,534</b>	<b>4,899,091</b>	<b>8,056,364</b>	<b>18,442,615</b>	<b>131,083,704</b>	<b>4,854,064</b>	<b>225,215,061</b>

\* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost.

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

## (g) Liquidity risk management (cont'd.)

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

	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
<b>2018</b>									
<b>Liabilities</b>									
Customer funding:									
- Deposits from customers	87,800,043	27,672,750	20,156,966	11,663,543	474,328	14,119	-	-	147,781,749
- Investment accounts of customers	15,287,661	1,861,981	4,270,772	2,125,559	5,176	13,912	-	-	23,565,061
Deposits and placements of banks and other financial institutions	6,099,592	6,114,040	4,249,955	846,655	6,116,175	3,838,564	4,909,154	-	32,174,135
Bills and acceptances payable	11,050	-	-	-	-	-	-	-	11,050
Financial liabilities at fair value through profit or loss	-	-	-	-	385,687	-	-	-	385,687
Derivative liabilities	34,950	61,216	157,968	19,770	45,982	61,870	10,193	-	391,949
Other financial liabilities	-	-	-	2,129,694	-	-	-	-	2,129,694
Provision for taxation and zakat	-	-	-	-	-	-	-	23,450	23,450
Term funding	748,078	1,986,880	-	-	-	2,003,222	-	-	4,738,180
Subordinated sukuk	-	-	-	-	-	-	2,534,301	-	2,534,301
Capital securities	-	-	-	-	-	-	1,002,441	-	1,002,441
<b>Total liabilities</b>	<b>109,981,374</b>	<b>37,696,867</b>	<b>28,835,661</b>	<b>16,785,221</b>	<b>7,027,348</b>	<b>5,931,687</b>	<b>8,456,089</b>	<b>23,450</b>	<b>214,737,697</b>
<b>Net liquidity gap</b>	<b>(62,384,137)</b>	<b>(32,096,415)</b>	<b>(24,154,127)</b>	<b>(11,886,130)</b>	<b>1,029,016</b>	<b>12,510,928</b>	<b>122,627,615</b>	<b>4,830,614</b>	<b>10,477,364</b>

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

(g) 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
<b>Assets</b>									
Cash and short-term funds	17,134,359	-	-	-	-	-	-	-	17,134,359
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
<b>Total assets</b>	<b>38,701,569</b>	<b>9,790,141</b>	<b>2,114,066</b>	<b>7,223,970</b>	<b>8,595,316</b>	<b>14,928,002</b>	<b>117,444,833</b>	<b>3,697,156</b>	<b>202,495,053</b>

\* 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.

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

**(g) 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
<b>Liabilities</b>									
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
<b>Total liabilities</b>	<b>89,567,691</b>	<b>35,290,111</b>	<b>28,100,561</b>	<b>20,383,621</b>	<b>2,696,447</b>	<b>9,710,714</b>	<b>7,286,126</b>	<b>148,373</b>	<b>193,183,644</b>
<b>Net liquidity gap</b>	<b>(50,866,122)</b>	<b>(25,499,970)</b>	<b>(25,986,495)</b>	<b>(13,159,651)</b>	<b>5,898,869</b>	<b>5,217,288</b>	<b>110,158,707</b>	<b>3,548,783</b>	<b>9,311,409</b>

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

**(g) 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 2018 and 31 December 2017. 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.

2018	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
<b>Non-derivative liabilities</b>								
Customers' funding:								
- Deposits from customers	87,999,872	28,015,365	20,405,128	11,953,734	497,396	16,325	-	148,887,820
- Investment accounts of customers	15,300,495	1,887,180	4,325,717	2,179,445	5,568	16,461	-	23,714,866
Deposits and placements of banks and other financial institutions	6,110,497	6,141,080	4,252,048	911,854	6,515,615	4,297,417	6,323,163	34,551,674
Bills and acceptances payable	11,050	-	-	-	-	-	-	11,050
Other financial liabilities	-	-	-	2,129,694	-	-	-	2,129,694
Financial liabilities at fair value through profit or loss	3,505	143	1,338	-	381,418	-	-	386,404
Term funding	748,078	1,986,880	42,000	42,000	168,000	2,084,000	-	5,070,958
Subordinated sukuk	-	23,250	35,625	58,875	235,500	235,500	2,651,875	3,240,625
Capital securities	-	-	24,750	24,750	99,000	1,049,500	-	1,198,000
	<b>110,173,497</b>	<b>38,053,898</b>	<b>29,086,606</b>	<b>17,300,352</b>	<b>7,902,497</b>	<b>7,699,203</b>	<b>8,975,038</b>	<b>219,191,091</b>

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

(g) Liquidity risk management (cont'd.)

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

2018	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
<b>Commitments and contingencies</b>								
Direct credit substitutes	129,382	131,743	144,189	286,265	169,145	45,595	500,500	1,406,819
Certain transaction-related contingent items	195,080	109,341	251,069	479,943	863,818	1,297,501	185,744	3,382,496
Short-term self-liquidating trade-related contingencies	71,318	98,111	30,534	10,768	-	-	-	210,731
Irrevocable commitments to extend credit	-	-	-	22,252,458	8,719,317	-	-	30,971,775
Miscellaneous	-	-	-	84,129	-	-	-	84,129
	<b>395,780</b>	<b>339,195</b>	<b>425,792</b>	<b>23,113,563</b>	<b>9,752,280</b>	<b>1,343,096</b>	<b>686,244</b>	<b>36,055,950</b>

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

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (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	Total RM'000
<b>Non-derivative liabilities</b>								
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

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

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (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	Total RM'000
<b>Commitments and contingencies</b>								
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
	<u>530,056</u>	<u>514,452</u>	<u>321,508</u>	<u>20,488,161</u>	<u>9,077,007</u>	<u>607,116</u>	<u>1,422,151</u>	<u>32,960,451</u>

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

**(g) 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 2018 and 31 December 2017. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	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
<b>2018</b>								
<b>Net settled derivatives</b>								
<b>Derivative financial liabilities</b>								
<b>Trading derivatives</b>								
- Profit rate derivatives	(209)	(1,359)	(1,418)	(2,671)	(4,765)	(1,259)	740	(10,941)
<b>Hedging derivatives</b>								
- Profit rate derivatives	-	(1,421)	-	-	-	-	-	(1,421)
	<b>(209)</b>	<b>(2,780)</b>	<b>(1,418)</b>	<b>(2,671)</b>	<b>(4,765)</b>	<b>(1,259)</b>	<b>740</b>	<b>(12,362)</b>
<b>Gross settled derivatives</b>								
<b>Derivative financial liabilities</b>								
<b>Trading derivatives</b>								
Derivatives:								
- Outflow	2,436,936	1,566,143	1,563,553	986,781	892,955	1,027,560	-	8,473,928
- Inflow	(2,232,290)	(1,626,458)	(1,609,367)	(1,006,203)	(948,226)	(1,102,054)	-	(8,524,598)
<b>Hedging derivatives</b>								
Derivatives:								
- Outflow	-	-	716,579	-	-	-	-	716,579
- Inflow	-	-	(827,197)	-	-	-	-	(827,197)
	<b>204,646</b>	<b>(60,315)</b>	<b>(156,432)</b>	<b>(19,422)</b>	<b>(55,271)</b>	<b>(74,494)</b>	<b>-</b>	<b>(161,288)</b>

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

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (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	Total RM'000
<b>Net settled derivatives</b>								
<b>Derivative financial liabilities</b>								
<b>Trading derivatives</b>								
- Profit rate derivatives	(464)	(1,923)	(2,145)	(2,656)	(4,728)	(1,690)	1,018	(12,588)
<b>Hedging derivatives</b>								
- 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>
<b>Gross settled derivatives</b>								
<b>Derivative financial liabilities</b>								
<b>Trading derivatives</b>								
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)
<b>Hedging derivatives</b>								
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>

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

**(h) 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.

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**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's 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.

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**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. 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*

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

*Financial assets designated at fair value through profit or loss, financial investments at fair value through comprehensive income, financial investments at amortised cost, 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.

*Financing and advances at fair value through other comprehensive income*

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 customers with similar credit profiles.

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**38. Fair values measurements (cont'd.)**

**(b) Valuation techniques (cont'd.)**

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:

*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.

**(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	Valuation technique using		Total RM'000
		Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	
2018				
Financial assets measured at fair values:				
Financial investments at FVTPL	-	995,072	-	995,072
Financial investments at FVOCI	-	12,446,139	1,250	12,447,389
Financing and advances at FVOCI	-	-	471,122	471,122
Derivative assets	-	403,993	-	403,993
	-	13,845,204	472,372	14,317,576
Financial liabilities measured at fair values:				
Derivative liabilities	-	391,949	-	391,949
Financial liabilities at FVTPL	-	385,687	-	385,687
	-	777,636	-	777,636

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**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	
<b>2017</b>				
Financial assets measured at fair values:				
Financial investments at FVTPL	-	240,571	-	240,571
Financial investments AFS	-	9,881,254	750	9,882,004
Derivative assets	-	487,989	-	487,989
	-	<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>1,543,015</u>	<u>-</u>	<u>1,543,015</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 2.2(xiv). There were no transfers between Level 1 and Level 2 for the Bank during the financial year ended 31 December 2018.

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**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.

	<b>Financial investments FVOCI 2018 RM'000</b>	<b>Financing and advances 2018 RM'000</b>	<b>Financial investments AFS 2017 RM'000</b>	<b>Financing and advances 2017 RM'000</b>
At 1 January	750	-	750	-
Effect of adopting MFRS 9	-	434,456	-	-
Restated as at 1 January	750	434,456	750	-
Unrealised gain recognised in other comprehensive income	-	6,522	-	-
Purchases/additions	500	281,700	-	-
Settlements	-	(251,556)	-	-
At 31 December	<b>1,250</b>	<b>471,122</b>	750	-

**(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.

**(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.

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**38. Fair values measurements (cont'd.)**

**(g) Financial instruments not measured at fair value (cont'd.)**

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:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Carrying</b>
<b>2018</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>fair value</b>	<b>amount</b>
				<b>RM'000</b>	<b>RM'000</b>
<b>Financial assets</b>					
Financing and advances	-	<b>24,385,491</b>	<b>151,331,186</b>	<b>175,716,677</b>	<b>174,268,203</b>
Financial investments at amortised cost	-	<b>6,454,985</b>	-	<b>6,454,985</b>	<b>6,454,985</b>
<b>Financial liabilities</b>					
Deposits from customers	-	<b>147,777,720</b>	-	<b>147,777,720</b>	<b>147,781,749</b>
Investment accounts of customers	-	<b>23,565,595</b>	-	<b>23,565,595</b>	<b>23,565,061</b>
Deposits and placements of banks and other financial institutions	-	<b>32,116,353</b>	-	<b>32,116,353</b>	<b>32,174,135</b>

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**38. Fair values measurements (cont'd.)**

**(g) Financial instruments not measured at fair value (cont'd.)**

<b>2018</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total fair value RM'000</b>	<b>Carrying amount RM'000</b>
<b>Financial liabilities (cont'd.)</b>					
Term funding Subordinated sukuk	-	4,730,383	-	4,730,383	4,738,180
Capital securities	-	2,584,647	-	2,584,647	2,534,301
	-	998,975	-	998,975	1,002,441

<b>2017</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total fair value RM'000</b>	<b>Carrying amount RM'000</b>
<b>Financial assets</b>					
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
<b>Financial liabilities</b>					
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 Subordinated sukuk	-	4,941,794	-	4,941,794	4,945,437
Capital securities	-	2,558,967	-	2,558,967	2,534,105
	-	999,897	-	999,897	1,002,441

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**38. Fair values measurements (cont'd.)**

**(g) Financial instruments not measured at fair value (cont'd.)**

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

**(i) Financial investments at amortised cost/held-to-maturity ("HTM")**

Fair values of securities that are actively traded are 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 customers with similar credit profiles. In respect of impaired financing, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

**(iii) 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.

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**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.

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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	
<b>2018</b>						
<b>Financial assets</b>						
Derivative assets	403,993	-	403,993	-	-	403,993
<b>Financial liabilities</b>						
Derivative liabilities	391,949	-	391,949	-	-	391,949
<b>2017</b>						
<b>Financial assets</b>						
Derivative assets	487,989	-	487,989	(814)		487,175
<b>Financial liabilities</b>						
Derivative liabilities	650,320	-	650,320	(814)	(164,420)	485,086

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**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.

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**40. Capital management (cont'd.)**

Pursuant to Bank Negara Malaysia's ("BNM") Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 2 February 2018, 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) both issued on 2 February 2018. The total RWA 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 2018 (2017: 4.5%, 6.0% and 8.0% of total RWA).

**(b) The capital adequacy ratios of the Bank**

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

	<b>2018</b>	<b>2017</b>
<b>Capital ratios</b>		
CET1 capital ratio	<b>16.368%</b>	14.500%
Tier 1 capital ratio	<b>17.984%</b>	16.150%
Total capital ratio	<b><u>22.545%</u></b>	<u>20.782%</u>

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**41. Capital adequacy (cont'd.)**

**(c) Components of Tier 1 and Tier 2 capital**

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CET1/Tier 1 Capital</b>		
Paid-up share capital	<b>7,197,398</b>	5,481,783
Retained profits	<b>2,970,618</b>	3,351,547
Other reserves	<b>303,622</b>	478,079
<b>CET1 capital before regulatory adjustments</b>	<b>10,471,638</b>	9,311,409
Less: Regulatory adjustment applied in CET1 capital	<b>(342,549)</b>	(521,603)
Deferred tax assets	<b>(24,077)</b>	(12,903)
Gain of financial instruments classified as 'fair value through other comprehensive income'	<b>(4,956)</b>	-
Regulatory reserve	<b>(313,516)</b>	(508,700)
<b>Total CET1 Capital</b>	<b>10,129,089</b>	8,789,806
<b>Additional Tier 1 Capital</b>		
Capital securities	<b>1,000,000</b>	1,000,000
<b>Total Tier 1 Capital</b>	<b>11,129,089</b>	9,789,806
<b>Tier 2 Capital</b>		
Tier 2 capital instruments	<b>2,500,000</b>	2,500,000
General provision <sup>1</sup>	<b>23,310</b>	-
Collective allowance <sup>2</sup>	-	20,923
Surplus of eligible provision over expected loss	<b>299,696</b>	287,154
<b>Total Tier 2 capital</b>	<b>2,823,006</b>	2,808,077
<b>Total Capital</b>	<b>13,952,095</b>	12,597,883

<sup>1</sup> Refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under Standardised Approach for credit risk.

<sup>2</sup> Excludes collective allowance for impaired financing and advances restricted from Tier 2 Capital of the Bank.

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**41. Capital adequacy (cont'd.)**

(d) The breakdown of RWA by each major risk categories for the Bank are as follows:

	2018 RM'000	2017 RM'000
Standardised Approach exposure	5,647,539	8,796,181
Internal Ratings-Based Approach exposure after scaling factor	<u>60,816,283</u>	<u>60,246,868</u>
Total RWA for credit risk	<b>66,463,822</b>	69,043,049
Total RWA for credit risk absorbed by the holding company and Investment Account Holder ("IAH") <sup>^</sup>	<b>(13,113,007)</b>	(15,855,390)
Total RWA for market risk	1,152,312	939,674
Total RWA for operational risk	<u>7,381,566</u>	<u>6,490,748</u>
Total RWA	<b><u>61,884,693</u></b>	<b><u>60,618,081</u></b>

<sup>^</sup> In accordance with BNM's guideline on the recognition and measurement of Restricted Profit Sharing Investment Account ("RPSIA") and Investment Account ("IA") 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 channelling the amount to an approved charitable organisation.

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**42. Shariah disclosures (cont'd.)**

**(a) Shariah governance (cont'd.)**

For the financial year ended 31 December 2018, the nature of transactions deliberated to SC for Shariah non-compliance are as follows:

(i) Shariah non-compliant events

<b>2018</b>	<b>No. of event</b>	<b>RM'000</b>
Non-execution of Commodity Murabahah trading prior to financing disbursement	<u>1</u>	<u>28</u>
	<u>1</u>	<u>28</u>
<b>2017</b>		
Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	<u>3</u>	<u>1</u>
	<u>3</u>	<u>1</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

	<b>2018</b>	<b>2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Sources of charity funds</b>		
Shariah non-compliant/prohibited income	<u>28</u>	<u>1</u>
<b>Total sources of charity funds during the year</b>	<u>28</u>	<u>1</u>
<b>Uses of charity funds</b>		
Contribution to non-profit organisation	<u>28</u>	<u>1</u>
<b>Total uses of charity funds during the year</b>	<u>28</u>	<u>1</u>
<b>Undistributed charity funds as at 31 December 2018/2017</b>	<u>-</u>	<u>-</u>

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**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**

There is no significant event of the Bank during the financial year ended 31 December 2018.