

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
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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

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

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.

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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:

	RM'000
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	<u>974,184</u>

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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.

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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.

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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.

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Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
RAM Ratings Services Berhad ("RAM")	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.

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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.

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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).

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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.

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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