

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

**Directors' Report and Audited Financial Statements**  
**30 June 2010**

**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 30 June 2010.

**Principal activities**

The Bank was incorporated under the Islamic Banking Act 1983.

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

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 year.

**Results**

|                                  | <b>RM'000</b>    |
|----------------------------------|------------------|
| Profit before taxation and zakat | 532,996          |
| Taxation and zakat               | <u>(127,271)</u> |
| Profit for the year              | <u>405,725</u>   |

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

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

**Performance review**

The Bank recorded a profit before taxation and zakat of RM533.0 million for the financial year ended 30 June 2010, a commendable increase from RM475.6 million profit reported in the previous financial year. Earnings per share were 339.3 sen in 2010 as compared to 345.7 sen in 2009.

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**Performance review (cont'd.)**

Total income of RM1,958.2 million comprising RM1,821.0 million income derived from investment of depositors' funds and RM137.2 million income derived from shareholder's funds, was higher by RM300.9 million than the last financial period. Total overhead expenditures for the financial year ended 30 June 2010 was RM428.8 million (2009: RM352.9 million), of which 87.9% were overhead expenditures related to shared services cost paid/payable to Maybank. Return on equity was 13.9% (2009: 16.8%) resulted from an increase in shareholders' fund mainly attributable to capital expansion amounting to RM500.0 million during the period under review.

The Bank's total assets rose to RM44.2 billion, an increase of RM10.1 billion against previous period, mainly due to notable building up of financing and advances, cash and short-term funds and securities portfolio.

Total financing assets grew significantly by RM8.1 billion from RM25.3 billion registered in 2009 to RM33.4 billion, largely due to a substantial increase in term financing portfolios specifically ASB-i financing, hire purchase receivables and revolving credit. Deposits from customer soared by RM10.2 billion to close at RM34.5 billion as at 30 June 2010 from RM24.3 billion as at previous financial period as a result of aggressive efforts and various campaigns.

Total net non-performing financing ("NPF") dropped to RM298.5 million at end of June 2010 from RM484.2 million at end of 2009. The improvement has brought down net NPF ratio to 0.88% from 1.88% registered in last financial year.

As at 30 June 2010, the Bank's Risk-Weighted Capital Ratio was 10.66% against 11.56% in the previous financial year.

**Business plan and outlook**

The Bank anticipates that Malaysia's economy will grow at faster pace in third and fourth quarter of 2010, substantiated by key analysts' views on possible upwards revision in GDP from previously 5.20% year on year to at least 6.0%. The growth will be mainly supported by measures proposed under the 10th Malaysian Plan and the New Economic Model (NEM). Key economists also anticipate the Overnight Policy Rate (OPR) to maintain at 2.75% by end of 2010. The OPR is expected to increase to 3.25% in 2011 with further economic expansion.

For the new financial year 2010/11, the Bank targets to achieve double digit growth in financing assets and deposits in view of blistering pace of economic growth. In doing so, the Bank will still be leveraging on Maybank Group's infrastructure to continue increase its market shares and broaden its customers' base locally and regionally. The broad plans and strategies set are very much aligned with Maybank Group's 'Islamic First Strategy' of which the main aspiration is for Islamic banking to constitute at least one third of total Group financing by 2015. The Bank has laid down the following broad initiatives to achieve the strategy;

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**Business plan and outlook (cont'd.)**

- (1) Adopt top down Islamic First Strategy approach by rolling out nation-wide Islamic First Communication campaign for Maybank Group buy-in;
- (2) Expand the business regionally by capturing Islamic opportunities at existing footprints/presence;
- (3) Grow selected profitable business segments by reconfiguring Islamic business portfolios;
- (4) Optimise leverage model by enhancing dual role ownership;
- (5) Strengthen branding and distribution strategy by consolidating all Group's Islamic banking business under one-house brand i.e Maybank Islamic as well as increasing the Bank's visibility and customer experience at all distribution channels; and
- (6) Solidify internal capability which among others training and re-skilling the Bank's staff with Islamic banking qualification, embarking on preventative asset quality management and reviewing shared services agreement with Maybank.

**Dividend**

The amount of dividend paid by the Bank since 30 June 2009 was as follows:

|  | RM'000  |
|--|---------|
| In respect of the financial year ended 30 June 2010:   |         |
| Interim tax exempt (single-tier) dividend of RM1.81, on 110,600,000 ordinary shares, declared on 30 June 2010 and paid on 26 July 2010 | 200,186 |

**Issue of share capital**

On 31 May 2010, the Bank increased its issued and paid-up ordinary share capital from RM110,500,000 to RM110,600,000 by way of a rights issue of 100,000 new ordinary shares of RM1 each at an issue price of RM5,000 per shares on the basis of one (1) new share for every 1,105 existing ordinary shares held by Maybank.

**Directors**

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

|  |  |
|--|--|
| Datuk Dr Syed Othman bin Syed Hussin Al-Habshi |  |
| Dato' Seri Ismail bin Shahudin                 | (appointed with effect from 28 January 2010) |
| Tan Sri Dr Hadenan bin A. Jalil                | (appointed with effect from 28 January 2010) |
| En Zainal Abidin bin Jamal                     | (appointed with effect from 28 January 2010) |
| Datuk Johar bin Che Mat                        | (resigned with effect from 1 July 2010)      |
| Haji Mohd Hashir bin Haji Abdullah             | (resigned with effect from 28 January 2010)  |
| Teh Soon Poh                                   | (resigned with effect from 28 January 2010)  |

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**Directors' benefits**

Neither at the end of the financial year, nor at any time during the 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 the share options granted pursuant to the Maybank Group Employee Share Option Scheme ("ESOS"). During the financial year, the ESOS expired on 26 August 2009.

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 of the Bank as disclosed in Note 25 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

**Directors' interests**

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

|                                   | ----- Number of ordinary shares of RM1 each ----- |                     |                           |          |           |
|-----------------------------------|---|---------------------|---------------------------|----------|-----------|
|                                   | 1.7.2009  | Exercise of<br>ESOS | Bonus/<br>Rights<br>issue | Sold     | 30.6.2010 |
| Dato' Seri Ismail bin<br>Shahudin | 21,250  | -                   | -                         | -        | 21,250    |
| Datuk Johar bin Che Mat           | 212,050   | -                   | -                         | (10,000) | 202,050   |

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

**Rating by external rating agency**

Details of the Bank's rating are as follow:

| Rating Agency                 | Date         | Rating Classification                      | Rating Received |
|-------------------------------|--------------|--|-----------------|
| RAM Rating Services<br>Berhad | 16 July 2010 | Long-term Financial<br>Institution Rating  | AAA             |
|                               |              | Short-term Financial<br>Institution Rating | P1              |
|                               |              | Outlook (Long Term)                        | Stable          |

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**Other statutory information**

- (a) Before the balance sheets and income statements 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 debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render:
  - (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent; and
  - (ii) the values attributed to current assets in the financial statements of the Bank misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements the Bank which would render any amount stated in the financial statements misleading.
- (e) As 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 their obligations as and when they fall due; and

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**Other statutory information (cont'd.)**

- (f) In the opinion of the directors (cont'd.):
- (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.

**Shariah committee**

The operation of the Bank is governed by Section 3 subsection 5(b) of Islamic Banking Act, 1983 ("the Act"), which stipulates that any licensed Islamic bank is required to provide for the establishment of a Shariah advisory body to advise the bank on the operations of its business in order to ensure that it does not involve any element which is not approved by the Religion of Islam and Part B of BNM's "Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions" known as BNM/GPS 1, stipulates that "Every Islamic financial 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 Shariah Advisory Council ("SAC") of Bank Negara Malaysia;
- (f) To provide written Shariah opinion; and
- (g) To assist the SAC on reference for advice.

**Zakat obligation**

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



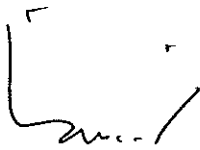
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**Auditors**

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 August 2010.



Dato' Seri Ismail bin Shahudin



Datuk Dr Syed Othman bin Syed Hussin Al-Habshi

Kuala Lumpur, Malaysia

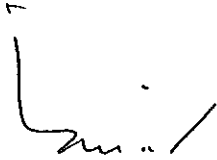
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**Statement by directors  
Pursuant to Section 169(15) of the Companies Act, 1965**

We, Dato' Seri Ismail bin Shahudin and Datuk Dr Syed Othman bin Syed Hussin Al-Habshi, 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 12 to 60 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines and the Shariah principles so as to give a true and fair view of the financial position of the Bank as at 30 June 2010 and of the results and the cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 20 August 2010.



Dato' Seri Ismail bin Shahudin



Datuk Dr Syed Othman bin Syed Hussin Al-Habshi

Kuala Lumpur, Malaysia

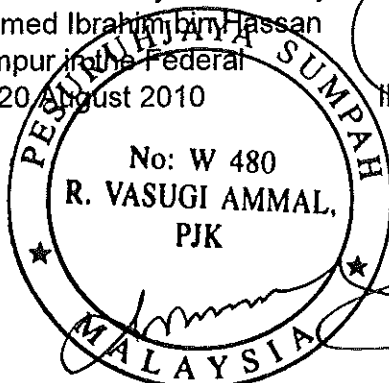
**Statutory declaration  
Pursuant to Section 169(16) of the Companies Act, 1965**

I, Ibrahim bin Hassan, 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 12 to 60 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 Ibrahim bin Hassan  
at Kuala Lumpur in the Federal  
Territory on 20 August 2010

  
Ibrahim bin Hassan

Before me,



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

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**Shariah committee's report**

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

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

We, Dr. Mohammad Deen bin Mohd Napiah and Dr. Ismail bin Mohd @ Abu Hassan, being two of the members of the Shariah Committee of Maybank Islamic Berhad, do hereby confirm on behalf of the Committee that we have provided the Shariah advisory services and consultation on various business and operational 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.

We are of the opinion that:

- (a) New products, business initiative and enhanced processes introduced by the Bank during the year ended 30 June 2010, 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 30 June 2010, that we have reviewed are in compliance with the Shariah rules and principles;
- (c) The main funding sources and investments activities of the Bank disclosed to us conform to the basis that had been approved by us as well as in accordance with the Shariah rules and principles; and
- (d) Financial statements of the Bank for the year 30 June 2010 together with the calculation of Zakat disclosed to us is in compliance with the Shariah rules and principles.

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

On behalf of the Committee



**Assistant Prof. Dr. Mohammad Deen bin  
Mohd Napiah**



**Assistant Prof. Dr. Ismail bin Mohd @  
Abu Hassan**

Kuala Lumpur, Malaysia  
20 August 2010

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

## Report on the financial statements

We have audited the financial statements of Maybank Islamic Berhad, which comprise the balance sheet as at 30 June 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 60.

### *Directors' responsibility for the financial statements*

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Guidelines and the Shariah principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' responsibility*

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

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

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

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

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia guidelines and the Shariah principles so as to give a true and fair view of the financial position of the Bank as at 30 June 2010 and of its financial performance and cash flows for the year then ended.

**Report on other legal and regulatory requirements**

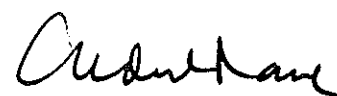
In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

**Other matters**

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



Ernst & Young  
AF: 0039  
Chartered Accountants



Abdul Rauf bin Rashid  
No. 2305/05/12(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
20 August 2010

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**Maybank Islamic Berhad**  
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**Balance sheet as at 30 June 2010**

|  | Note | 2010<br>RM'000    | Restated<br>2009<br>RM'000 |
|--|------|-------------------|----------------------------|
| <b>Assets</b>  |      |                   |                            |
| Cash and short-term funds  | 5    | 5,817,989         | 4,125,960                  |
| Deposits and placements with banks<br>and other financial institutions | 6    | 707               | 421                        |
| Securities portfolio   | 7    | 4,471,808         | 4,102,498                  |
| Financing and advances   | 8    | 33,410,134        | 25,339,016                 |
| Derivative assets  | 9    | 17,513            | 23,641                     |
| Other assets   | 10   | 206,678           | 170,760                    |
| Statutory deposits with Bank Negara Malaysia                           | 11   | 153,000           | 206,000                    |
| Deferred tax assets  | 17   | 79,712            | 58,304                     |
| <b>Total Assets</b>  |      | <b>44,157,541</b> | <b>34,026,600</b>          |
| <b>Liabilities</b>   |      |                   |                            |
| Deposits from customers  | 12   | 34,498,653        | 24,289,832                 |
| Deposits and placements of banks<br>and other financial institutions   | 13   | 691,700           | 485,503                    |
| Deposits and placements of holding company                             |      | 4,359,646         | 5,667,663                  |
| Bills and acceptances payable  |      | 28,175            | 2,931                      |
| Derivative liabilities   | 9    | 20,775            | 27,138                     |
| Other liabilities  | 14   | 1,231,139         | 970,184                    |
| Provision for taxation and zakat                                       | 16   | 30,092            | 24,888                     |
| <b>Total liabilities</b>   |      | <b>40,860,180</b> | <b>31,468,139</b>          |
| <b>Equity attributable to equity holder of the Bank</b>                |      |                   |                            |
| Share capital  | 18   | 110,600           | 110,500                    |
| Reserves   | 19   | 3,186,761         | 2,447,961                  |
|  |      | <b>3,297,361</b>  | <b>2,558,461</b>           |
| <b>Total liabilities and shareholder's equity</b>                      |      | <b>44,157,541</b> | <b>34,026,600</b>          |
| <b>Commitments and contingencies</b>                                   | 30   | <b>13,627,915</b> | <b>15,234,088</b>          |
| <b>Capital adequacy</b>  |      |                   |                            |
| Core capital ratio   | 33   | 9.14%             | 9.85%                      |
| Risk-weighted capital ratio  |      | 10.66%            | 11.56%                     |

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

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**Maybank Islamic Berhad  
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**Income statement  
For the year ended 30 June 2010**

|  | Note | 2010<br>RM'000   | 2009<br>RM'000   |
|--|------|------------------|------------------|
| Income derived from investment of depositors' funds                                | 20   | 1,821,023        | 1,525,511        |
| Income derived from investment of shareholder's funds                              | 21   | 137,190          | 131,826          |
| Allowance for losses on financing and advances                                     | 22   | (350,363)        | (198,653)        |
| Profit equalisation reserve  | 15   | 41,333           | 20,435           |
| Other expenses directly attributable to depositors' and shareholder's fund         |      | (15,492)         | (14,719)         |
| Total distributable income   |      | <u>1,633,691</u> | <u>1,464,400</u> |
| Income attributable to the depositors  | 23   | (671,924)        | (635,922)        |
| Total net income   |      | <u>961,767</u>   | <u>828,478</u>   |
| Overhead expenses  | 24   | (428,771)        | (352,883)        |
| Profit before taxation and zakat   |      | <u>532,996</u>   | <u>475,595</u>   |
| Taxation   | 26   | (120,202)        | (113,160)        |
| Zakat  |      | (7,069)          | (5,016)          |
| Profit for the year attributable to equity holder of the Bank                      |      | <u>405,725</u>   | <u>357,419</u>   |
| Earnings per share attributable to equity holder of the Bank - basic/diluted (sen) | 27   | <u>339.3</u>     | <u>345.7</u>     |

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

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**Statement of changes in equity  
For the year ended 30 June 2010**

|   | ←----- Non-distributable -----> |                            |  |                                |  |                           |  |
|---|---------------------------------|----------------------------|--|--------------------------------|--|---------------------------|--|
|   | Equity                          |                            |  | Unrealised                     |  | Total<br>equity<br>RM'000 |  |
|   | Share<br>capital<br>RM'000      | Share<br>premium<br>RM'000 | contribution<br>from the<br>holding<br>company<br>RM'000 | Statutory<br>reserve<br>RM'000 | holding<br>reserve/<br>(deficit)<br>RM'000 |                           | Distributable<br>retained<br>profits<br>RM'000 |
| <b>At 1 July 2009</b>   | 110,500                         | 1,988,500                  | 1,697  | 147,338                        | (15,621)                                   | 326,047                   | 2,558,461                                      |
| Unrealised net gain on revaluation of securities available-for-sale | -                               | -                          | -  | -                              | 33,361                                     | -                         | 33,361   |
| Net gain not recognised in the income statement                     | -                               | -                          | -  | -                              | 33,361                                     | -                         | 33,361   |
| Net profit for the year   | -                               | -                          | -  | -                              | -  | 405,725                   | 405,725  |
| Total recognised income for the year                                | -                               | -                          | -  | -                              | 33,361                                     | 405,725                   | 439,086  |
| Issue of ordinary shares (Note 18)                                  | 100                             | 499,900                    | -  | -                              | -  | -                         | 500,000  |
| Dividend on ordinary shares (Note 28)                               | -                               | -                          | -  | -                              | -  | (200,186)                 | (200,186)                                      |
| <b>At 30 June 2010</b>  | <b>110,600</b>                  | <b>2,488,400</b>           | <b>1,697</b>   | <b>147,338</b>                 | <b>17,740</b>                              | <b>531,586</b>            | <b>3,297,361</b>                               |



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**Statement of changes in equity  
For the year ended 30 June 2010**

|   | <----- Non-distributable -----> |               |                                       |                   |                           |                                |              |
|---|---------------------------------|---------------|---------------------------------------|-------------------|---------------------------|--------------------------------|--------------|
|   | Equity                          |               |                                       | Unrealised        |                           |                                |              |
|   | Share capital                   | Share premium | contribution from the holding company | Statutory reserve | holding reserve/(deficit) | Distributable retained profits | Total equity |
|   | RM'000                          | RM'000        | RM'000                                | RM'000            | RM'000                    | RM'000                         | RM'000       |
| <b>At 1 July 2008</b>   | 100,000                         | 1,500,000     | -                                     | 57,983            | (31,126)                  | 57,983                         | 1,684,840    |
| Unrealised net gain on revaluation of securities available-for-sale | -                               | -             | -                                     | -                 | 15,505                    | -                              | 15,505       |
| Net gain not recognised in the income statement                     | -                               | -             | -                                     | -                 | 15,505                    | -                              | 15,505       |
| Net profit for the year   | -                               | -             | -                                     | -                 | -                         | 357,419                        | 357,419      |
| Total recognised income for the year                                | -                               | -             | -                                     | -                 | 15,505                    | 357,419                        | 372,924      |
| Waiver of intercompany balances during the year *                   | -                               | -             | 1,697                                 | -                 | -                         | -                              | 1,697        |
| Transfer to statutory reserve                                       | -                               | -             | -                                     | 89,355            | -                         | (89,355)                       | -            |
| Issue of ordinary shares (Note 18)                                  | 10,500                          | 488,500       | -                                     | -                 | -                         | -                              | 499,000      |
| <b>At 30 June 2009</b>  | 110,500                         | 1,988,500     | 1,697                                 | 147,338           | (15,621)                  | 326,047                        | 2,558,461    |

\* Arose from waiver of intercompany balances with fellow subsidiaries on the instruction of the holding company.

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

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

**Cash flow statement**  
**For the year ended 30 June 2010**

|   | 2010<br>RM'000   | Restated<br>2009<br>RM'000 |
|---|------------------|----------------------------|
| <b>Cash flows from operating activities</b>   |                  |                            |
| Profit before taxation and zakat  | 532,996          | 475,595                    |
| Adjustments for:  |                  |                            |
| Amortisation of premium less accretion of discount  | (4,091)          | (10,089)                   |
| Allowances for losses on financing and advances   | 389,460          | 222,287                    |
| Profit equalisation reserve   | (41,333)         | (20,435)                   |
| Operating profit before working capital changes   | <u>877,032</u>   | <u>667,358</u>             |
| Change in deposits and placements with banks<br>and other financial institutions              | (286)            | 840                        |
| Change in securities portfolio  | (331,858)        | (1,359,772)                |
| Change in financing and advances  | (8,460,578)      | (4,663,337)                |
| Change in derivative assets and liabilities   | (235)            | 3,482                      |
| Change in other assets  | (35,918)         | 9,639                      |
| Change in statutory deposits with Bank Negara Malaysia  | 53,000           | 569,000                    |
| Change in deposits from customers   | 10,208,821       | 5,579,260                  |
| Change in deposits and placements of banks<br>and other financial institutions                | 206,197          | (3,105,475)                |
| Change in deposits and placements of holding company  | (1,308,017)      | 3,667,663                  |
| Change in bills and acceptances payable   | 25,244           | (387,179)                  |
| Change in other liabilities   | 102,102          | 534,364                    |
| Cash generated from operations  | <u>1,335,504</u> | <u>1,515,843</u>           |
| Taxes and zakat paid  | (143,475)        | (171,243)                  |
| Net cash generated from operating activities  | <u>1,192,029</u> | <u>1,344,600</u>           |
| <b>Cash flows from financing activities</b>   |                  |                            |
| Proceeds from issuance of shares representing<br>net cash generated from financing activities | <u>500,000</u>   | <u>499,000</u>             |
| <b>Net increase in cash and cash equivalents</b>  | <u>1,692,029</u> | <u>1,843,600</u>           |
| Cash and cash equivalents at beginning of year  | <u>4,125,960</u> | <u>2,282,360</u>           |
| <b>Cash and cash equivalents at end of year</b>   | <u>5,817,989</u> | <u>4,125,960</u>           |
| Cash and cash equivalents comprise:   |                  |                            |
| Cash and short term funds (Note 5)  | <u>5,817,989</u> | <u>4,125,960</u>           |

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

**Maybank Islamic Berhad  
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**Notes to the financial statements - 30 June 2010**

**1. Corporate information**

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

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

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

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 20 August 2010.

**2. Basis of preparation of the financial statements**

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

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

**3. Significant accounting policies**

**(i) Basis of accounting**

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

**(ii) Standards and interpretations issued but not yet effective**

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

**Maybank Islamic Berhad  
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**3. Significant accounting policies (cont'd.)**

**(ii) Standards and interpretations issued but not yet effective (cont'd.)**

**Effective for financial periods beginning on or after 1 January 2010**

- (i) FRS 4: Insurance Contracts
- (ii) FRS 7: Financial Instruments-Disclosures
- (iii) FRS 101: Presentation of Financial Statements (revised 2009)
- (iv) FRS 123: Borrowing Costs
- (v) FRS 139: Financial Instruments - Recognition and Measurement
- (vi) Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- (vii) Amendments to FRS 2: Share-based Payment - Vesting Conditions and Cancellations
- (viii) Amendments to FRS 132: Financial Instruments: Presentation
- (ix) Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosure and IC Interpretation 9: Reassessment of Embedded Derivatives
- (x) Amendments to FRSs contained in the document entitled 'Improvements to FRSs (2009)
- (xi) IC Interpretation 9: Reassessment of Embedded Derivatives
- (xii) IC Interpretation 10: Interim Financial Reporting and Impairment
- (xiii) IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions
- (xiv) IC Interpretation 13: Customer Loyalty Programmes
- (xv) IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- (xvi) TR i - 3: Presentation of Financial Statements of Islamic Financial Institutions
- (xvii) SOP i - 1: Financial Reporting from an Islamic Perspective

**Effective for financial periods ending on or after 31 December 2010**

TR - 3: Guidance on Disclosures of Transition to IFRSs

**Effective for financial periods beginning on or after 1 March 2010**

Amendments to FRS 132: Financial Instruments: Presentation (Classification of Rights Issues)

**Maybank Islamic Berhad  
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**3. Significant accounting policies (cont'd.)**

**(ii) Standards and interpretations issued but not yet effective (cont'd.)**

**Effective for financial periods beginning on or after 1 July 2010**

- (i) FRS 1: First-time Adoption of Financial Reporting Standards
- (ii) FRS 3: Business Combinations (revised)
- (iii) FRS 127: Consolidated and Separate Financial Statements (amended)
- (iv) Amendments to FRS 2: Share-based Payment
- (v) Amendment to FRS 5: Non-current Assets Held for Sale and Discontinued Operations
- (vi) Amendments to FRS 138: Intangible Assets
- (vii) Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
- (viii) IC Interpretation 12: Service Concession Arrangements
- (ix) IC Interpretation 15: Agreements for the Construction of Real Estate
- (x) IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
- (xi) IC Interpretation 17: Distributions of Non-cash Assets to Owners

**Effective for financial periods beginning on or after 1 January 2011**

- (i) Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
- (ii) Additional Exemptions for First-time Adopters (Amendments to FRS 1)
- (iii) Group Cash-Settled Share-based Payment Transactions (Amendments to FRS 2)
- (iv) Amendments to FRS 7: Improving Disclosures about Financial Instruments
- (v) TR i - 4: Shariah Compliant Sale Contracts

The Bank plans to adopt the above pronouncements when they become effective in the respective financial period. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Bank upon their initial application:

FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures

The new Standard on FRS 139: Financial Instruments: Recognition and Measurement establishes principles for recognition and measurement of financial assets, financial liabilities and some contracts to buy and sell non-financial items. Requirements for presenting information about financial instruments are in FRS 132: Financial Instruments: Presentation and the requirements for disclosing information about financial instruments are in FRS 7: Financial Instruments: Disclosures.

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**3. Significant accounting policies (cont'd.)**

**(ii) Standards and interpretations issued but not yet effective (cont'd.)**

FRS 7: Financial Instruments: Disclosures requires new disclosures in relation to financial instruments. The Standard results to increased disclosures, both quantitative and qualitative of the Bank's exposure to risks, enhanced disclosure regarding components of the Bank's financial position and performance, and possible changes to the way of presenting certain items in the financial statements.

In accordance with the respective transitional provisions, the Bank is exempted from disclosing the possible impact to the financial statements upon the initial application.

FRS 101: Presentation of Financial Statements (revised)

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is currently evaluating the format to adopt. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. This Standard does not have any impact on the financial position and results of the Bank.

**(iii) Currency translation**

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

**(iv) Cash and cash equivalents**

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

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**3. Significant accounting policies (cont'd.)**

**(v) Securities portfolio**

The holdings of the securities portfolio of the Bank are recognised based on the following categories and valuation methods:

**(a) Securities held-for-trading**

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their values and derecognition of these securities are recognised in the income statement.

**(b) Securities held-to-maturity**

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

Securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

**(c) Securities available-for-sale**

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value, or at cost (less impairment losses) if the fair value cannot be reliably measured. The return and cost of the securities available-for-sale are credited and charged to the income statement using accreted/amortised cost based on the effective yield method. Any gain or loss arising from a change in fair value after applying the accreted/amortised cost method are recognised directly in equity through the statement of changes in equity, until the securities are sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

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**3. Significant accounting policies (cont'd.)**

**(v) Securities portfolio (cont'd.)**

**(d) Impairment of securities portfolio**

The Bank assesses at each balance sheet date whether there is any objective evidence that a security or group of securities (other than securities held-for-trading) is impaired.

**(i) Securities held-to-maturity**

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

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the securities' carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in the income statement.

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

**(ii) Securities available-for-sale**

For securities available-for-sale in which there is objective evidence of impairment, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to the income statement, even though the securities have not been derecognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. Impairment losses on investments in equity instruments classified as available-for-sale recognised are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the income statement if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.



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**3. Significant accounting policies (cont'd.)**

**(vi) Allowance for losses**

Specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as bad and doubtful. Additional allowances are made for long outstanding non-performing financings aged more than five years.

In addition, a general allowance is made based on a certain percentage of total risk-weighted assets for credit risk, which takes into account certain financial assets and their perceived credit risk levels.

The allowance for losses on financing and advances of the Bank are computed based on the requirements of Bank Negara Malaysia's "Guideline on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" (BNM/GP3), which is consistent with the adoption made in the previous audited annual financial statements.

**(vii) Derivative instruments**

Derivative instruments are initially recognised at fair value, which is normally zero or negligible at inception and subsequently re-measured at their fair value. Fair values are obtained either from quoted market prices in active markets, including recent market transactions, independent dealer quotes 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.

**(viii) Other assets**

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

**(ix) Liabilities**

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

**(x) Bills and acceptances payable**

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

**Maybank Islamic Berhad  
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**3. Significant accounting policies (cont'd.)**

**(xi) Provisions for liabilities**

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

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

**(xii) Profit Equalisation Reserve ("PER")**

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

**(xiii) Income tax**

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

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

**Maybank Islamic Berhad  
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**3. Significant accounting policies (cont'd.)**

**(xiii) Income tax (cont'd.)**

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

**(xiv) Zakat**

This represent business zakat payable by the Bank in compliance with Shariah principles and as approved by the Bank's Shariah Committee.

**(xv) Income recognition**

**(a) Financing income**

Financing income is recognised using the effective yield method.

Whereas an Islamic financing account becomes non-performing, the recognition of income from financing is suspended until it is realised on a cash basis.

Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three months.

**(b) Hibah**

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

**(c) 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.

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**3. Significant accounting policies (cont'd.)**

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

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

**(xvii) Employee benefits**

**(a) Short term benefits**

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

**(b) Defined contribution plans**

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

**(c) Share-based compensation**

The Maybank Group's Employee Share Options Scheme ("ESOS") is an equity-settled share-based compensation plan that allows the Maybank Group's Directors and employees to acquire shares of Maybank. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the capital contribution by Maybank within equity 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 balance sheet date, the Bank revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the capital contribution by Maybank.

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**3. Significant accounting policies (cont'd.)**

**(xviii) Impairment of assets**

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

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

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

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

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

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**3. Significant accounting policies (cont'd.)**

**(xviii) Impairment of assets (cont'd.)**

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

**4. Significant accounting estimates and judgements**

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

**(i) Fair value estimation of securities available-for-sale, held-for-trading (Note 7) and derivative financial instruments (Note 9)**

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

**(ii) Impairment of securities portfolio (Note 7)**

The Bank reviews its securities portfolio and assesses at each reporting date if there is any objective evidence that a security is impaired. When an impairment review is performed, certain judgements are applied:

- (i) Determination of whether a security is impaired is based on certain indicators such as, among others, significant and prolonged decline in fair value, significant financial difficulties of the issuer or obligors, the disappearance of an active trading market and deterioration of the credit quality of the issuers or obligors.

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

**(ii) Impairment of securities portfolio (Note 7) (cont'd.)**

- (ii) Determination of "significant" or "prolonged" requires judgement and the management evaluates various factors, such as historical fair value movement and the significant reduction in fair value.

**(iii) Allowances for losses (Note 8 (viii) and Note 22)**

The Bank reviews the doubtful financing and advances at each reporting date to assess whether allowances for impairment should be recorded in the financial statements. In particular, judgement is required in the identification of doubtful financing, and the estimation of realisation amount from the doubtful financing when determining the level of allowance required.

The Bank has adopted certain criteria in the identification of doubtful financing, which include classifying financing as non-performing when repayments are in arrears for more than three (3) months. Specific allowances for doubtful financing are provided after taking into consideration of the values assigned to collateral. The values assigned to collateral are estimated based on market value and/or forced sale value, as appropriate and conforms with BNM guidelines. In addition to the specific allowances made, the Bank also makes general allowances against exposure not specifically identified based on a certain percentage of total risk-weighted assets for credit risk. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

**(iv) Deferred tax (Note 17) and income taxes (Note 26)**

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

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

|  | 2010<br>RM'000   | 2009<br>RM'000   |
|--|------------------|------------------|
| Cash and balances with banks and other financial institutions                          | 112,149          | -                |
| Money at call and interbank placements with remaining maturity not exceeding one month | 5,705,840        | 4,125,960        |
|  | <u>5,817,989</u> | <u>4,125,960</u> |

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

|                      | 2010<br>RM'000 | 2009<br>RM'000 |
|----------------------|----------------|----------------|
| Bank Negara Malaysia | <u>707</u>     | <u>421</u>     |

**7. Securities portfolio**

|                               | Note  | 2010<br>RM'000   | 2009<br>RM'000   |
|-------------------------------|-------|------------------|------------------|
| Securities available-for-sale | (i)   | 4,222,546        | 3,937,078        |
| Securities held-to-maturity   | (ii)  | 180,466          | 135,474          |
| Securities held-for-trading   | (iii) | 68,796           | 29,946           |
|                               |       | <u>4,471,808</u> | <u>4,102,498</u> |

**(i) Securities available-for-sale**

|   | 2010<br>RM'000   | 2009<br>RM'000   |
|---|------------------|------------------|
| <b>At fair value</b>                            |                  |                  |
| <b>Money market instruments:</b>                |                  |                  |
| Cagamas bonds                                   | 231,996          | -                |
| Malaysian Government Investment Issues          | 2,446,888        | 2,717,524        |
| Negotiable instruments of deposits              | 429,386          | 243,401          |
| Bankers' acceptances and Islamic accepted bills | 78,499           | 46,119           |
| Khazanah bonds                                  | 186,560          | 353,069          |
|   | <u>3,373,329</u> | <u>3,360,113</u> |
| <b>Unquoted securities:</b>                     |                  |                  |
| Islamic private debt securities in Malaysia     | <u>849,217</u>   | <u>576,965</u>   |
| <b>Total securities available-for-sale</b>      | <u>4,222,546</u> | <u>3,937,078</u> |



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**7. Securities portfolio (cont'd.)**

**(ii) Securities held-to-maturity**

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| <b>At amortised cost</b>                    |                |                |
| <b>Money market instruments:</b>            |                |                |
| Malaysian Government Investment Issues      | 150,466        | 135,474        |
| <b>Unquoted Securities:</b>                 |                |                |
| Islamic private debt securities in Malaysia | <u>30,000</u>  | <u>-</u>       |
| <b>Total securities held-to-maturity</b>    | <u>180,466</u> | <u>135,474</u> |

**(iii) Securities held-for-trading**

|  | 2010<br>RM'000   | 2009<br>RM'000   |
|--|------------------|------------------|
| <b>At fair value</b>                     |                  |                  |
| <b>Money market instruments:</b>         |                  |                  |
| Malaysian Government Investment Issues   | 25,365           | 29,946           |
| Bank Negara Malaysia Sukuk Ijarah bonds  | 19,972           | -                |
| Bank Negara Malaysia Monetary Notes      | <u>23,459</u>    | <u>-</u>         |
| <b>Total securities held-for-trading</b> | <u>68,796</u>    | <u>29,946</u>    |
| <b>Total securities portfolio</b>        | <u>4,471,808</u> | <u>4,102,498</u> |

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

|                           | 2010<br>RM'000   | 2009<br>RM'000   |
|---------------------------|------------------|------------------|
| Maturing within one year  | 668,611          | 1,090,605        |
| One year to three years   | 740,697          | 549,617          |
| Three years to five years | 559,389          | 671,185          |
| After five years          | <u>1,555,098</u> | <u>1,184,180</u> |
|                           | <u>3,523,795</u> | <u>3,495,587</u> |

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**8. Financing and advances**

|   | 2010<br>RM'000    | 2009<br>RM'000    |
|---|-------------------|-------------------|
| Cashline  | 2,092,616         | 2,032,608         |
| Term financing:                                 |                   |                   |
| - House financing                               | 5,465,917         | 4,967,816         |
| - Syndicated financing                          | 71,137            | -                 |
| - Hire purchase receivables                     | 15,028,210        | 12,658,514        |
| - Other term financing                          | 23,512,350        | 13,491,187        |
| Bills receivables                               | 5,004             | 47,931            |
| Trust receipts                                  | 126,423           | 137,853           |
| Claims on customers under acceptance credits    | 2,881,944         | 3,374,953         |
| Staff financing                                 | 455,891           | 308,966           |
| Credit card receivables                         | 193,114           | 82,596            |
| Revolving credit                                | 1,540,800         | 263,100           |
|   | <u>51,373,406</u> | <u>37,365,524</u> |
| Unearned income                                 | (16,796,539)      | (11,028,542)      |
| Gross financing and advances                    | <u>34,576,867</u> | <u>26,336,982</u> |
| Allowance for losses on financing and advances: |                   |                   |
| - Specific                                      | (633,025)         | (561,520)         |
| - General                                       | (533,708)         | (436,446)         |
| Net financing and advances                      | <u>33,410,134</u> | <u>25,339,016</u> |

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

|                                 | 2010<br>RM'000    | 2009<br>RM'000    |
|---------------------------------|-------------------|-------------------|
| Bai' Bithaman Ajil              | 13,712,133        | 9,373,223         |
| Al-Ijarah Thumma Al-Bai (AITAB) | 12,399,343        | 10,581,933        |
| Murabahah                       | 6,938,773         | 5,914,894         |
| Mudharabah                      | -                 | 25,712            |
| Musharakah Mutanaqisah          | 1,255,688         | 325,692           |
| Bai Al-Dayn                     | 3,004             | 28,507            |
| Al-Ijarah Muntahiyah Bi-Tamleek | 71,137            | -                 |
| Others                          | 196,789           | 87,021            |
| Gross financing and advances    | <u>34,576,867</u> | <u>26,336,982</u> |

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

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

|                                   | 2010<br>RM'000    | 2009<br>RM'000    |
|-----------------------------------|-------------------|-------------------|
| Domestic non-banking institutions | 2,921,405         | 1,792,589         |
| Domestic business enterprises     |                   |                   |
| - Small and medium enterprises    | 2,418,673         | 3,553,629         |
| - Others                          | 6,705,571         | 3,919,823         |
| Government and statutory bodies   | 21,439            | 69,465            |
| Individuals                       | 22,386,011        | 16,886,525        |
| Other domestic entities           | 7,986             | 12,263            |
| Foreign entities in Malaysia      | 115,782           | 102,688           |
| Gross financing and advances      | <u>34,576,867</u> | <u>26,336,982</u> |

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

|                              | 2010<br>RM'000    | 2009<br>RM'000    |
|------------------------------|-------------------|-------------------|
| Fixed rate                   |                   |                   |
| - House financing            | 3,094,989         | 3,458,004         |
| - Hire purchase receivables  | 12,399,743        | 10,581,881        |
| - Other financing            | 4,752,629         | 3,425,624         |
| Floating rate                |                   |                   |
| - House financing            | 1,719,045         | 916,436           |
| - Other financing            | 12,610,461        | 7,955,037         |
| Gross financing and advances | <u>34,576,867</u> | <u>26,336,982</u> |

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

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

|  | 2010               |                   | 2009             |                   |
|--|--------------------|-------------------|------------------|-------------------|
|  | RM'000             | RM'000            | RM'000           | RM'000            |
| Purchase of securities                             |                    | 4,020,840         |                  | 1,324,293         |
| Purchase of transport vehicles                     | 13,585,853         |                   | 10,921,969       |                   |
| Less: Hire purchase receivables<br>sold to Cagamas | <u>(1,137,321)</u> | 12,448,532        | <u>(268,304)</u> | 10,653,665        |
| Purchase of landed properties:                     |                    |                   |                  |                   |
| - Residential                                      | 5,566,632          |                   | 5,364,137        |                   |
| - Non-residential                                  | 750,607            |                   | 659,299          |                   |
| Less: House financing sold<br>to Cagamas           | <u>-</u>           | 6,317,239         | <u>(315,069)</u> | 5,708,367         |
| Personal use                                       |                    | 702,426           |                  | 434,302           |
| Consumer durables                                  |                    | 1,113             |                  | 856               |
| Construction                                       |                    | 769,318           |                  | 872,845           |
| Working capital                                    |                    | 10,117,332        |                  | 7,230,993         |
| Credit/charge card                                 |                    | 193,113           |                  | 82,596            |
| Other purposes                                     |                    | 6,954             |                  | 29,065            |
| Gross financing and advances                       |                    | <u>34,576,867</u> |                  | <u>26,336,982</u> |

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

|                              | 2010              | 2009              |
|------------------------------|-------------------|-------------------|
|                              | RM'000            | RM'000            |
| Maturing within one year     | 5,911,689         | 6,288,298         |
| One year to three years      | 1,657,436         | 1,335,348         |
| Three years to five years    | 5,250,191         | 3,352,385         |
| After five years             | 21,757,551        | 15,360,951        |
| Gross financing and advances | <u>34,576,867</u> | <u>26,336,982</u> |

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

(vi) Movements in the non-performing financing and advances ("NPF") are as follows:

|   | 2010<br>RM'000    | 2009<br>RM'000    |
|---|-------------------|-------------------|
| At beginning of the year                | 1,045,712         | 1,106,390         |
| Non-performing during the year          | 639,433           | 425,269           |
| Reclassified as performing              | (404,555)         | (267,311)         |
| Recovered during the year               | (143,316)         | (116,344)         |
| Expenses debited to customers' accounts | 14,498            | 5,509             |
| Amount written off                      | (220,279)         | (107,801)         |
| At end of the year                      | <u>931,493</u>    | <u>1,045,712</u>  |
| Less: Specific allowance                | (633,025)         | (561,520)         |
| Net NPF                                 | <u>298,468</u>    | <u>484,192</u>    |
| <br>                                    |                   |                   |
| Gross financing and advances            | 34,576,867        | 26,336,982        |
| Less: Specific allowance                | (633,025)         | (561,520)         |
| Net financing and advances              | <u>33,943,842</u> | <u>25,775,462</u> |
| <br>                                    |                   |                   |
| Ratio of net NPF                        | <u>0.88%</u>      | <u>1.88%</u>      |

(vii) NPF analysed by their economic purposes are as follows:

|                                | 2010<br>RM'000 | 2009<br>RM'000   |
|--------------------------------|----------------|------------------|
| Purchase of securities         | 6,739          | 7,038            |
| Purchase of transport vehicles | 40,757         | 31,793           |
| Purchase of landed properties: |                |                  |
| - Residential                  | 342,569        | 474,157          |
| - Non-residential              | 27,656         | 37,578           |
| Personal use                   | 26,574         | 37,807           |
| Consumer durables              | 3              | 4                |
| Construction                   | 86,167         | 97,321           |
| Working capital                | 398,194        | 359,479          |
| Credit/charge card             | 2,834          | 535              |
|                                | <u>931,493</u> | <u>1,045,712</u> |

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

(viii) Movements in the allowance for losses on financing and advances are as follows:

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| <b>Specific allowance</b>   |                |                |
| Balance at beginning of the year  | 561,520        | 549,632        |
| Allowance made during the year  | 351,462        | 193,410        |
| Amount written back in respect of recoveries  | (59,678)       | (73,721)       |
| Amount written off  | (220,279)      | (107,801)      |
| Balance at end of the year  | <u>633,025</u> | <u>561,520</u> |
| <b>General allowance</b>  |                |                |
| Balance at beginning of the year  | 436,446        | 333,981        |
| Allowance made during the year  | 97,262         | 102,465        |
| Balance at end of the year  | <u>533,708</u> | <u>436,446</u> |
| As a percentage of total financing (less specific allowance)                                    | <u>1.57%</u>   | <u>1.69%</u>   |
| As a percentage of total risk-weighted assets<br>for credit risk, excluding deferred tax assets | <u>1.55%</u>   | <u>1.73%</u>   |

**9. Derivative financial instruments**

|   | 2010                         |                  |                       | 2009                         |                  |                       |
|---|------------------------------|------------------|-----------------------|------------------------------|------------------|-----------------------|
|   | Notional<br>amount<br>RM'000 | Fair value       |                       | Notional<br>amount<br>RM'000 | Fair value       |                       |
|   |                              | Assets<br>RM'000 | Liabilities<br>RM'000 |                              | Assets<br>RM'000 | Liabilities<br>RM'000 |
| <b>Foreign exchange contracts:</b>                |                              |                  |                       |                              |                  |                       |
| Currency forward                                  | 685,223                      | 3,119            | (2,743)               | -                            | -                | -                     |
| <b>Profit rate related contracts:</b>             |                              |                  |                       |                              |                  |                       |
| Options   | 430,050                      | 14,314           | (14,313)              | 591,950                      | 22,797           | (22,797)              |
| Profit rate swaps                                 | 933,800                      | 80               | (3,719)               | 391,850                      | 844              | (4,341)               |
|   | <u>1,363,850</u>             | <u>14,394</u>    | <u>(18,032)</u>       | <u>983,800</u>               | <u>23,641</u>    | <u>(27,138)</u>       |
| <b>Total derivative assets/<br/>(liabilities)</b> | <u>2,049,073</u>             | <u>17,513</u>    | <u>(20,775)</u>       | <u>983,800</u>               | <u>23,641</u>    | <u>(27,138)</u>       |

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**10. Other assets**

|                          | 2010<br>RM'000 | 2009<br>RM'000 |
|--------------------------|----------------|----------------|
| Profit receivables       | 89,597         | 77,436         |
| Handling fees            | 108,129        | 87,982         |
| Prepayments and deposits | 2,072          | 1,831          |
| Other debtors            | 6,880          | 3,511          |
|                          | <u>206,678</u> | <u>170,760</u> |

**11. Statutory deposits with Bank Negara Malaysia**

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

**12. Deposits from customers**

|                                    | 2010<br>RM'000    | 2009<br>RM'000    |
|------------------------------------|-------------------|-------------------|
| <u>Mudharabah Fund</u>             |                   |                   |
| Demand deposits                    | 2,870,838         | 2,451,217         |
| Savings deposits                   | 258,018           | 163,642           |
| General investment deposits        | 13,686,631        | 10,138,519        |
| Negotiable instruments of deposits | 656,815           | 1,881,710         |
|                                    | <u>17,472,302</u> | <u>14,635,088</u> |
| <u>Non-Mudharabah Fund</u>         |                   |                   |
| Demand deposits                    | 4,432,253         | 3,819,313         |
| Savings deposits                   | 5,029,645         | 4,414,806         |
| Fixed return investment deposits   | 7,114,164         | 872,700           |
| Structured deposits *              | 450,289           | 547,925           |
|                                    | <u>17,026,351</u> | <u>9,654,744</u>  |
|                                    | <u>34,498,653</u> | <u>24,289,832</u> |

\* Structured deposits represent Ringgit Malaysia time deposits with embedded foreign currency exchange option, index-linked and commodity-linked time deposits.

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

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

|                           | 2010<br>RM'000    | 2009<br>RM'000    |
|---------------------------|-------------------|-------------------|
| Due within six months     | 19,038,504        | 9,542,374         |
| Six months to one year    | 1,540,761         | 2,004,990         |
| One year to three years   | 649,292           | 1,136,674         |
| Three years to five years | 116,076           | 102,411           |
| After five years          | 112,977           | 106,480           |
|                           | <u>21,457,610</u> | <u>12,892,929</u> |

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

|                                 | 2010<br>RM'000    | 2009<br>RM'000    |
|---------------------------------|-------------------|-------------------|
| Business enterprises            | 12,630,647        | 7,470,202         |
| Individuals                     | 9,544,610         | 7,510,435         |
| Government and statutory bodies | 6,649,935         | 4,303,043         |
| Others                          | 5,673,461         | 5,006,152         |
|                                 | <u>34,498,653</u> | <u>24,289,832</u> |

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

|                              | 2010<br>RM'000 | 2009<br>RM'000 |
|------------------------------|----------------|----------------|
| <u>Mudharabah fund</u>       |                |                |
| Licensed banks               | 148,112        | 80,000         |
| Other financial institutions | 232,288        | 207,118        |
|                              | <u>380,400</u> | <u>287,118</u> |
| <u>Non-Mudharabah fund</u>   |                |                |
| Licensed banks               | 667            | 7,417          |
| Other financial institutions | 310,633        | 190,968        |
|                              | <u>311,300</u> | <u>198,385</u> |
|                              | <u>691,700</u> | <u>485,503</u> |



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**14. Other liabilities**

|                                       | 2010<br>RM'000   | 2009<br>RM'000 |
|---------------------------------------|------------------|----------------|
| Profit payables                       | 114,059          | 60,803         |
| Profit equalisation reserve (Note 15) | -                | 41,333         |
| Due to holding company                | 1,041,663        | 797,700        |
| Sundry creditors                      | 34,033           | 26,485         |
| Deposit on trade financing            | 13,968           | 14,145         |
| Provisions and accruals               | 11,950           | 17,418         |
| Others                                | 15,466           | 12,300         |
|                                       | <u>1,231,139</u> | <u>970,184</u> |

**15. Profit Equalisation Reserve ("PER")**

|                              | 2010<br>RM'000 | 2009<br>RM'000 |
|------------------------------|----------------|----------------|
| At beginning of the year     | 41,333         | 61,768         |
| Provided during the year     | 31,525         | 36,141         |
| Written back during the year | (72,858)       | (56,576)       |
| At end of the year *         | <u>-</u>       | <u>41,333</u>  |

\* PER at the end of the financial year of which the shareholder's portion is RM nil (2009: RM 3,289,328).

**16. Provision for taxation and zakat**

|          | 2010<br>RM'000 | 2009<br>RM'000 |
|----------|----------------|----------------|
| Taxation | 22,775         | 19,691         |
| Zakat    | 7,317          | 5,197          |
|          | <u>30,092</u>  | <u>24,888</u>  |

**17. Deferred tax assets**

|  | 2010<br>RM'000 | 2009<br>RM'000 |
|--|----------------|----------------|
| At beginning of the year                     | 58,304         | 27,114         |
| Recognised in the income statement (Note 26) | 32,528         | 36,920         |
| Recognised in equity                         | (11,120)       | (5,730)        |
| At end of the year                           | <u>79,712</u>  | <u>58,304</u>  |

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

**Deferred tax assets of the Bank:**

|                                       | Allowance for<br>losses on<br>financing and<br>advances<br>RM'000 | Unrealised<br>holding<br>reserve/<br>(deficit)<br>RM'000 | Other<br>temporary<br>difference<br>RM'000 | Total<br>RM'000 |
|---------------------------------------|---|--|--|-----------------|
| At 1 July 2009                        | 51,061  | 5,206  | 2,037                                      | 58,304          |
| Recognised in the income<br>statement | 33,497  | -  | (969)                                      | 32,528          |
| Recognised in equity                  | -   | (11,120)   | -  | (11,120)        |
| At 30 June 2010                       | <u>84,558</u>   | <u>(5,914)</u>   | <u>1,068</u>                               | <u>79,712</u>   |
| At 1 July 2008                        | 15,068  | 10,936   | 1,110                                      | 27,114          |
| Recognised in the income<br>statement | 35,993  | -  | 927  | 36,920          |
| Recognised in equity                  | -   | (5,730)  | -  | (5,730)         |
| At 30 June 2009                       | <u>51,061</u>   | <u>5,206</u>   | <u>2,037</u>                               | <u>58,304</u>   |

**18. Share capital**

|                               | Number of ordinary<br>shares of RM1 each |                | Amount         |                |
|-------------------------------|--|----------------|----------------|----------------|
|                               | 2010<br>'000                             | 2009<br>'000   | 2010<br>RM'000 | 2009<br>RM'000 |
| <b>Authorised:</b>            |  |                |                |                |
| At 30 June                    | <u>500,000</u>                           | 500,000        | <u>500,000</u> | 500,000        |
| <b>Issued and fully paid:</b> |  |                |                |                |
| At beginning of year          | 110,500                                  | 100,000        | 110,500        | 100,000        |
| Issued during the year        | 100                                      | 10,500         | 100            | 10,500         |
| At end of year                | <u>110,600</u>                           | <u>110,500</u> | <u>110,600</u> | <u>110,500</u> |

On 31 May 2010, the Bank increased its issued and paid-up ordinary share capital from RM110,500,000 to RM110,600,000 by way of a rights issue of 100,000 new ordinary shares of RM1 each at an issue price of RM5,000 per shares on the basis of one (1) new share for every 1,105 existing ordinary shares held by Maybank.

The new ordinary shares are rank pari passu with the existing ordinary shares of the Bank in all respects.

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**19. Reserves**

|  | 2010<br>RM'000   | 2009<br>RM'000   |
|--|------------------|------------------|
| <b>Non-distributable:</b>                    |                  |                  |
| Share premium                                | 2,488,400        | 1,988,500        |
| Equity contribution from the holding company | 1,697            | 1,697            |
| Statutory reserve                            | 147,338          | 147,338          |
| Unrealised holding reserves                  | 17,740           | (15,621)         |
|  | <u>2,655,175</u> | <u>2,121,914</u> |
| <b>Distributable:</b>                        |                  |                  |
| Retained profits                             | 531,586          | 326,047          |
| Total reserves                               | <u>3,186,761</u> | <u>2,447,961</u> |

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

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

|                                 | 2010<br>RM'000   | 2009<br>RM'000   |
|---------------------------------|------------------|------------------|
| Income from investment of:      |                  |                  |
| (i) General investment deposits | 1,097,977        | 691,555          |
| (ii) Other deposits             | 723,046          | 833,956          |
|                                 | <u>1,821,023</u> | <u>1,525,511</u> |

**(i) Income derived from investment of general investment deposits**

|  | 2010<br>RM'000   | 2009<br>RM'000 |
|--|------------------|----------------|
| <b>Finance income and hibah</b>                        |                  |                |
| Financing and advances                                 | 911,902          | 551,895        |
| Securities:  |                  |                |
| - Available-for-sale                                   | 79,938           | 42,013         |
| - Held-for-trading                                     | 1,436            | 1              |
| - Held-to-maturity                                     | 3,198            | 745            |
| Money at call and deposits with financial institutions | 41,668           | 51,272         |
|  | <u>1,038,142</u> | <u>645,926</u> |
| Amortisation of premium less accretion of discount     | 2,294            | 4,210          |
| Total finance income and hibah                         | <u>1,040,436</u> | <u>650,136</u> |

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

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

|   | 2010<br>RM'000   | 2009<br>RM'000 |
|---|------------------|----------------|
| <b>Other operating income</b>                                   |                  |                |
| Fee income:   |                  |                |
| - Processing fees   | 1,347            | 4,655          |
| - Commissions   | 29,148           | 19,896         |
| - Service charges   | 25,007           | 15,214         |
| Unrealised losses on revaluation of derivatives                 | (155)            | (1,458)        |
| Unrealised losses on revaluation of securities held-for-trading | (635)            | (5)            |
| Gains/(losses) on sale of securities available-for-sale         | 1,551            | (136)          |
| Gains on sale of securities held-for-trading                    | 803              | -              |
| Unrealised gains on foreign exchange translations               | 475              | 3,253          |
|   | <u>1,097,977</u> | <u>691,555</u> |

(ii) Income derived from investment of other deposits

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| <b>Finance income and hibah</b>                                 |                |                |
| Financing and advances  | 600,511        | 665,540        |
| Securities:   |                |                |
| - Available-for-sale  | 52,641         | 50,664         |
| - Held-for-trading  | 946            | 2              |
| - Held-to-maturity  | 2,106          | 898            |
| Money at call and deposits with financial institutions          | 27,440         | 61,830         |
|   | <u>683,644</u> | <u>778,934</u> |
| Amortisation of premium less accretion of discount              | 1,510          | 5,077          |
| Total finance income and hibah                                  | <u>685,154</u> | <u>784,011</u> |
| <b>Other operating income</b>                                   |                |                |
| Fee income:   |                |                |
| - Processing fees   | 887            | 5,613          |
| - Commissions   | 19,195         | 23,993         |
| - Service charges   | 16,468         | 18,347         |
| Unrealised losses on revaluation of derivatives                 | (102)          | (1,760)        |
| Unrealised losses on revaluation of securities held-for-trading | (418)          | (7)            |
| Gains/(losses) on sale of securities available-for-sale         | 1,021          | (165)          |
| Gains on sale of securities held-for-trading                    | 528            | -              |
| Unrealised gains on foreign exchange translations               | 313            | 3,924          |
|   | <u>723,046</u> | <u>833,956</u> |

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

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| <b>Finance income and hibah</b>                                 |                |                |
| Financing and advances  | 113,940        | 105,204        |
| Securities:   |                |                |
| - Available-for-sale  | 9,988          | 8,009          |
| - Held-for-trading  | 179            | -              |
| - Held-to-maturity  | 400            | 142            |
| Money at call and deposits with financial institutions          | 5,206          | 9,774          |
|   | <u>129,713</u> | <u>123,129</u> |
| Amortisation of premium less accretion of discount              | 287            | 802            |
| Total finance income and hibah                                  | <u>130,000</u> | <u>123,931</u> |
| <b>Other operating income</b>                                   |                |                |
| Fee income  |                |                |
| - Processing fees   | 168            | 887            |
| - Commissions   | 3,642          | 3,793          |
| - Service charges   | 3,125          | 2,900          |
| Unrealised losses on revaluation of derivatives                 | (19)           | (279)          |
| Unrealised losses on revaluation of securities held-for-trading | (79)           | (1)            |
| Gains/(losses) on sale of securities available-for-sale         | 194            | (26)           |
| Gains on sale of securities held-for-trading                    | 100            | -              |
| Unrealised gains on foreign exchange translations               | 59             | 621            |
|   | <u>137,190</u> | <u>131,826</u> |

**22. Allowances for losses on financing and advances**

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| Allowance for losses on financing and advances: |                |                |
| Specific allowance                              |                |                |
| - Made in the year                              | 351,462        | 193,410        |
| - Written back                                  | (59,678)       | (73,721)       |
| General allowance                               |                |                |
| - Made in the year                              | 230,930        | 117,165        |
| - Written back                                  | (133,668)      | (14,700)       |
| Bad financing                                   |                |                |
| - Written off                                   | 414            | 133            |
| - Recoveries                                    | (39,097)       | (23,634)       |
|   | <u>350,363</u> | <u>198,653</u> |

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**23. Income attributable to depositors**

|   | 2010<br>RM'000 | 2009<br>RM'000 |
|---|----------------|----------------|
| Deposits from customers   |                |                |
| - Mudharabah fund   | 313,103        | 243,151        |
| - Non-mudharabah fund   | 146,518        | 92,455         |
| Deposits and placements of banks and other financial institutions |                |                |
| - Mudharabah fund   | 209,404        | 297,185        |
| - Non-mudharabah fund   | 2,899          | 3,131          |
|   | <u>671,924</u> | <u>635,922</u> |

**24. Overhead expenses**

|  | 2010<br>RM'000 | 2009<br>RM'000 |
|--|----------------|----------------|
| Personnel expenses                             |                |                |
| - Salaries and wages                           | 4,607          | 3,958          |
| - Allowance and bonuses                        | 1,953          | 1,851          |
| - Social security cost                         | 28             | 23             |
| - Pension cost - defined contribution plan     | 1,069          | 952            |
| - Other staff related expenses                 | 1,490          | 1,237          |
|  | <u>9,147</u>   | <u>8,021</u>   |
| Establishment costs                            |                |                |
| - Rental of premises                           | 571            | -              |
| - Repairs, servicing and maintenance           | 11             | 3              |
| - Information technology expenses              | 1,511          | 1,352          |
|  | <u>2,093</u>   | <u>1,355</u>   |
| Marketing costs                                |                |                |
| - Advertisement and publicity                  | 13,739         | 12,955         |
| - Others                                       | 13             | 6              |
|  | <u>13,752</u>  | <u>12,961</u>  |
| Administration and general expenses            |                |                |
| - Fees and brokerage                           | 12,190         | 8,637          |
| - Administrative expenses                      | 5,792          | 3,287          |
| - General expenses                             | 8,042          | 8,273          |
| - Auditors' remuneration                       |                |                |
| - Statutory audit                              | 280            | 265            |
| - Other services                               | 292            | 151            |
| - Directors' fees (Note 25)                    | 92             | 95             |
| - Shared service costs paid/payable to Maybank | 377,091        | 309,838        |
|  | <u>403,779</u> | <u>330,546</u> |
| <b>Total</b>                                   | <u>428,771</u> | <u>352,883</u> |

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

|  | 2010<br>RM'000 | 2009<br>RM'000 |
|--|----------------|----------------|
| Chief executive officer:                                   |                |                |
| Salary and other remuneration, including meeting allowance | 443            | 424            |
| Estimated money value of benefit-in-kind                   | 94             | 91             |
|  | <u>537</u>     | <u>515</u>     |
| Non-executive directors:                                   |                |                |
| Fees   | 71             | 76             |
| Other remunerations  | 21             | 19             |
|  | <u>92</u>      | <u>95</u>      |
| Shariah committee members                                  | 260            | 169            |
| Total  | <u>889</u>     | <u>779</u>     |
| Total (excluding benefit-in-kind)                          | <u>795</u>     | <u>688</u>     |

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

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

**26. Taxation**

|  | 2010<br>RM'000  | 2009<br>RM'000  |
|--|-----------------|-----------------|
| Tax expense for the year   | <u>152,730</u>  | <u>150,080</u>  |
| Deferred tax (Note 17):  |                 |                 |
| Deferred tax in relation to origination and reversal<br>of temporary differences | (32,528)        | (37,542)        |
| Effect of the changes in tax rate on opening balance<br>of deferred tax          | -               | 622             |
|  | <u>(32,528)</u> | <u>(36,920)</u> |
|  | <u>120,202</u>  | <u>113,160</u>  |

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

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

|  | 2010<br>RM'000 | 2009<br>RM'000 |
|--|----------------|----------------|
| Profit before taxation   | <u>532,996</u> | <u>475,595</u> |
| Taxation at Malaysian statutory tax rate of 25%                      | 133,249        | 118,899        |
| Effect of the changes in tax rate on opening balance of deferred tax | -              | 622            |
| Income not subject to tax  | (10,840)       | (6,376)        |
| Expenses not deductible for tax purposes                             | 587            | 15             |
| Effect of zakat deduction  | (2,794)        | -              |
| Tax expense for the year   | <u>120,202</u> | <u>113,160</u> |

**27. Earnings per share ("EPS")**

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

|   | 2010           | 2009           |
|---|----------------|----------------|
| Profit for the year attributable to equity holder of the Bank (RM' 000) | <u>405,725</u> | <u>357,419</u> |
| Weighted average number of ordinary shares in issue ('000)              | <u>119,590</u> | <u>103,384</u> |
| Basic/diluted EPS (sen)   | <u>339.3</u>   | <u>345.7</u>   |

**28. Dividend**

|   | 2010<br>RM'000 |
|---|----------------|
| Recognised during the financial year:   |                |
| Dividend on ordinary shares:  |                |
| - Interim tax exempt (single-tier) dividend of RM1.81 per share on 110,600,000 shares declared on 30 June 2010 and paid on 26 July 2010 | <u>200,186</u> |



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

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

|  | 2010<br>RM'000 | 2009<br>RM'000 |
|--|----------------|----------------|
| <b>Holding company</b>                                 |                |                |
| Expenditure  |                |                |
| Income attributable on deposits and placements of bank | 118,621        | 198,932        |
| Shared service cost paid/payable to Maybank            | 377,091        | 309,838        |
| Other expenses   | 2,163          | -              |
|  | <u>497,875</u> | <u>508,770</u> |

(b) Included in the balance sheet of the Bank are amounts due to holding company represented by the following:

|  | 2010<br>RM'000   | 2009<br>RM'000   |
|--|------------------|------------------|
| Amount due to:                           |                  |                  |
| Current accounts and deposits            | 162,765          | 2,461,592        |
| Negotiable instruments of deposits       |                  |                  |
| - Remaining maturity less than one year  | 500,310          | -                |
| - Remaining maturity more than one years | 3,859,336        | 3,206,071        |
| Profit payable on deposits               | 8,778            | 16,241           |
| Dividend payable                         | 200,186          | -                |
| Others                                   | 841,477          | 797,740          |
|  | <u>5,572,852</u> | <u>6,481,644</u> |

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

(c) Key management personnel compensation

The remuneration of directors and other members of key management during the year are as disclosed in Note 25. The movement in share options of key management personnel is as follows:

|                         | 2010<br>RM | 2009<br>RM    |
|-------------------------|------------|---------------|
| At beginning of year    | 24,000     | 17,200        |
| Granted during the year | -          | 6,800         |
| Expired                 | (24,000)   | -             |
| At end of year          | <u>-</u>   | <u>24,000</u> |

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

(c) Key management personnel compensation (cont'd.)

The share options were granted on the same terms and conditions as those offered to other employees of the Maybank Group and expired on 26 August 2009.

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

|   | 2010           | 2009           |
|---|----------------|----------------|
| Outstanding credit exposure with connected parties (RM'000)   | <u>238,077</u> | <u>212,105</u> |
| Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures | <u>0.7%</u>    | <u>0.8%</u>    |
| Percentage of outstanding credit exposures to connected parties which is non-performing or in default   | <u>-</u>       | <u>-</u>       |

The credit exposure above are derived based on para 9.1 of 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) Controlling shareholder and his close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (iv) 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;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) 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;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

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

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**30. Commitments and contingencies**

In the normal course of business, the Bank make various commitments and incur 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 30 June, are as follows:

|  | 2010                   |                                  |                              | 2009                   |                                  |                              |
|--|------------------------|----------------------------------|------------------------------|------------------------|----------------------------------|------------------------------|
|  | Notional amount RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 | Notional amount RM'000 | Credit equivalent amount* RM'000 | Risk weighted amount* RM'000 |
| Direct credit substitutes                                  | 231,467                | 231,467                          | 197,308                      | 190,877                | 190,877                          | 150,107                      |
| Certain transaction-related contingent items               | 578,250                | 289,125                          | 261,531                      | 575,052                | 287,526                          | 252,382                      |
| Short-term self-liquidating trade-related contingencies    | 141,549                | 28,310                           | 25,121                       | 138,077                | 27,615                           | 22,778                       |
| Housing and hire purchase financing sold to Cagamas Berhad | 1,137,321              | 1,137,321                        | 1,137,321                    | 583,373                | 583,373                          | 425,839                      |
| Irrevocable commitments to extend credit:                  |                        |                                  |                              |                        |                                  |                              |
| - maturity within one year                                 | 8,490,457              | -                                | -                            | 12,392,187             | -                                | -                            |
| - maturity more than one year                              | 993,810                | 496,905                          | 465,488                      | 362,205                | 181,103                          | 164,291                      |
| Foreign exchange related contracts:                        |                        |                                  |                              |                        |                                  |                              |
| - less than one year                                       | 685,223                | 22,572                           | 4,711                        | -                      | -                                | -                            |
| Profit rate related contracts:                             |                        |                                  |                              |                        |                                  |                              |
| - one year to less than five years                         | 1,363,850              | 33,532                           | 6,706                        | 983,800                | 22,349                           | 4,470                        |
| Miscellaneous  | 5,988                  | -                                | -                            | 8,517                  | -                                | -                            |
|  | <b>13,627,915</b>      | <b>2,239,232</b>                 | <b>2,098,186</b>             | <b>15,234,088</b>      | <b>1,292,843</b>                 | <b>1,019,867</b>             |

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

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**31. Profit rate risk**

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

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

| 2010  | Non-trading book     |                      |                       |                    |                     |                             | Effective profit rate % |                      |              |
|---|----------------------|----------------------|-----------------------|--------------------|---------------------|-----------------------------|-------------------------|----------------------|--------------|
|   | Up to 1 month RM'000 | >1 - 3 months RM'000 | >3 - 12 months RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 |                         | Trading books RM'000 | Total RM'000 |
| <b>Assets</b>   |                      |                      |                       |                    |                     |                             |                         |                      |              |
| Cash and short-term funds   | 5,705,840            | -                    | -                     | -                  | -                   | 112,149                     | -                       | 5,817,989            | 2.47         |
| Deposits and placements with banks and other financial institutions | -                    | -                    | -                     | -                  | -                   | 707                         | -                       | 707                  | -            |
| Securities held-for-trading   | -                    | -                    | -                     | -                  | -                   | -                           | 68,796                  | 68,796               | 2.30         |
| Securities available-for-sale                                       | -                    | -                    | 301,579               | 1,307,537          | 1,451,518           | -                           | 1,161,912               | 4,222,546            | 3.55         |
| Securities held-to-maturity   | -                    | -                    | 10,037                | 170,429            | -                   | -                           | -                       | 180,466              | 3.83         |
| Financing and advances  |                      |                      |                       |                    |                     |                             |                         |                      |              |
| - performing  | 2,151,192            | 1,460,292            | 613,960               | 5,042,647          | 24,377,282          | -                           | -                       | 33,645,373           | 5.19         |
| - non-performing*   | -                    | -                    | -                     | -                  | -                   | (235,239)                   | -                       | (235,239)            | -            |
| Derivative assets   | -                    | -                    | -                     | -                  | -                   | -                           | 17,513                  | 17,513               | -            |
| Other assets  | -                    | -                    | -                     | -                  | -                   | 439,390                     | -                       | 439,390              | -            |
| <b>Total assets</b>   | <b>7,857,032</b>     | <b>1,460,292</b>     | <b>925,576</b>        | <b>6,520,613</b>   | <b>25,828,800</b>   | <b>317,007</b>              | <b>1,248,221</b>        | <b>44,157,541</b>    |              |

\* This is arrived after deducting the general allowances and specific allowances from the outstanding non-performing financing and advances.

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## 31. Profit rate risk (cont'd.)

|   | Non-trading book           |                            |                             |                          |                           | Non-<br>profit<br>sensitive<br>RM'000 | Trading<br>books<br>RM'000 | Total<br>RM'000 | Effective<br>profit<br>rate<br>% |
|---|----------------------------|----------------------------|-----------------------------|--------------------------|---------------------------|---------------------------------------|----------------------------|-----------------|----------------------------------|
|   | Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 |                                       |                            |                 |                                  |
| <b>Liabilities and shareholder's equity</b>                       |                            |                            |                             |                          |                           |                                       |                            |                 |                                  |
| Deposits from customers   | 14,381,573                 | 6,469,588                  | 5,272,632                   | 8,261,883                | 112,977                   | -                                     | 34,498,653                 | 1.79            |                                  |
| Deposits and placements of banks and other financial institutions | 98,520                     | 50,350                     | 3,522                       | 179,661                  | 5,000                     | -                                     | 691,700                    | 2.52            |                                  |
| Deposits and placements of holding company                        | 160,980                    | 501,961                    | 134                         | 3,696,571                | -                         | -                                     | 4,359,646                  | 3.40            |                                  |
| Bills and acceptances payable                                     | -                          | -                          | -                           | -                        | -                         | 28,175                                | 28,175                     | -               |                                  |
| Derivative liabilities  | -                          | -                          | -                           | -                        | -                         | -                                     | 20,775                     | -               |                                  |
| Other liabilities   | -                          | -                          | -                           | -                        | -                         | 1,261,231                             | 1,261,231                  | -               |                                  |
| <b>Total liabilities</b>  | <b>14,641,073</b>          | <b>7,021,899</b>           | <b>5,276,288</b>            | <b>12,138,115</b>        | <b>117,977</b>            | <b>1,644,053</b>                      | <b>40,860,180</b>          |                 |                                  |
| Shareholder's equity  | -                          | -                          | -                           | -                        | -                         | 3,297,361                             | 3,297,361                  |                 |                                  |
| <b>Total liabilities and shareholder's equity</b>                 | <b>14,641,073</b>          | <b>7,021,899</b>           | <b>5,276,288</b>            | <b>12,138,115</b>        | <b>117,977</b>            | <b>4,941,414</b>                      | <b>44,157,541</b>          |                 |                                  |
| <b>On-balance sheet profit rate sensitivity gap</b>               | <b>(6,784,041)</b>         | <b>(5,561,607)</b>         | <b>(4,350,712)</b>          | <b>(5,617,502)</b>       | <b>25,710,823</b>         | <b>(4,624,407)</b>                    | <b>1,227,446</b>           | <b>-</b>        |                                  |
| <b>Cumulative profit rate sensitivity gap</b>                     | <b>(6,784,041)</b>         | <b>(12,345,648)</b>        | <b>(16,696,360)</b>         | <b>(22,313,862)</b>      | <b>3,396,961</b>          | <b>(1,227,446)</b>                    | <b>-</b>                   | <b>-</b>        |                                  |

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**31. Profit rate risk (cont'd.)**

| 2009  | Non-trading book     |                      |                       |                    |                     |                             | Effective profit rate % |                      |              |
|---|----------------------|----------------------|-----------------------|--------------------|---------------------|-----------------------------|-------------------------|----------------------|--------------|
|   | Up to 1 month RM'000 | >1 - 3 months RM'000 | >3 - 12 months RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 | Non-profit sensitive RM'000 |                         | Trading books RM'000 | Total RM'000 |
| <b>Assets</b>   |                      |                      |                       |                    |                     |                             |                         |                      |              |
| Cash and short-term funds   | 725,370              | -                    | -                     | -                  | -                   | 3,400,590                   | -                       | 4,125,960            | 1.97         |
| Deposits and placements with banks and other financial institutions | -                    | -                    | -                     | -                  | -                   | 421                         | -                       | 421                  | -            |
| Securities held-for-trading   | -                    | -                    | -                     | 29,946             | -                   | -                           | -                       | 29,946               | 3.94         |
| Securities available-for-sale                                       | 150,278              | 388,816              | 754,343               | 1,415,250          | 1,228,391           | -                           | -                       | 3,937,078            | 3.34         |
| Securities held-to-maturity   | -                    | -                    | -                     | 60,087             | 75,387              | -                           | -                       | 135,474              | 3.78         |
| Financing and advances  |                      |                      |                       |                    |                     |                             |                         |                      |              |
| - performing  | 1,831,032            | 1,462,900            | 529,549               | 4,054,585          | 17,413,204          | -                           | -                       | 25,291,270           | 5.47         |
| - non-performing*   | -                    | -                    | -                     | -                  | -                   | 47,746                      | -                       | 47,746               | -            |
| Derivative assets   | -                    | -                    | -                     | -                  | -                   | -                           | 23,641                  | 23,641               | -            |
| Other assets  | -                    | -                    | -                     | -                  | -                   | 435,064                     | -                       | 435,064              | -            |
| <b>Total assets</b>   | <b>2,706,680</b>     | <b>1,851,716</b>     | <b>1,283,892</b>      | <b>5,559,868</b>   | <b>18,716,982</b>   | <b>3,883,821</b>            | <b>23,641</b>           | <b>34,026,600</b>    |              |

\* This is arrived after deducting the general allowances and specific allowances from the outstanding non-performing financing and advances.

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## 31. Profit rate risk (cont'd.)

|   | Non-trading book           |                            |                             |                          |                           | Non-<br>profit<br>sensitive<br>RM'000 | Trading<br>books<br>RM'000 | Total<br>RM'000   | Effective<br>profit<br>rate<br>% |
|---|----------------------------|----------------------------|-----------------------------|--------------------------|---------------------------|---------------------------------------|----------------------------|-------------------|----------------------------------|
|   | Up to<br>1 month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5<br>years<br>RM'000 | Over 5<br>years<br>RM'000 |                                       |                            |                   |                                  |
| <b>Liabilities and shareholder's equity</b>                       |                            |                            |                             |                          |                           |                                       |                            |                   |                                  |
| Deposits from customers   | 7,881,873                  | 3,489,445                  | 5,118,242                   | 7,693,792                | 106,480                   | -                                     | -                          | 24,289,832        | 1.57                             |
| Deposits and placements of banks and other financial institutions | 110,057                    | 55,000                     | 4,423                       | 172,146                  | 12,160                    | 131,717                               | -                          | 485,503           | 1.24                             |
| Deposits and placements of holding company                        | 610,242                    | 1,000,862                  | 850,488                     | 3,206,071                | -                         | -                                     | -                          | 5,667,663         | 2.91                             |
| Bills and acceptances payable                                     | 259                        | -                          | -                           | -                        | -                         | 2,672                                 | -                          | 2,931             | 3.30                             |
| Derivative liabilities  | -                          | -                          | -                           | -                        | -                         | -                                     | 27,138                     | 27,138            | -                                |
| Other liabilities   | -                          | -                          | -                           | -                        | -                         | 995,072                               | -                          | 995,072           | -                                |
| <b>Total liabilities</b>  | <b>8,602,431</b>           | <b>4,545,307</b>           | <b>5,973,153</b>            | <b>11,072,009</b>        | <b>118,640</b>            | <b>1,129,461</b>                      | <b>27,138</b>              | <b>31,468,139</b> |                                  |
| Shareholder's equity  | -                          | -                          | -                           | -                        | -                         | 2,558,461                             | -                          | 2,558,461         |                                  |
| <b>Total liabilities and shareholder's equity</b>                 | <b>8,602,431</b>           | <b>4,545,307</b>           | <b>5,973,153</b>            | <b>11,072,009</b>        | <b>118,640</b>            | <b>3,687,922</b>                      | <b>27,138</b>              | <b>34,026,600</b> |                                  |
| <b>On-balance sheet profit rate sensitivity gap</b>               | <b>(5,895,751)</b>         | <b>(2,693,591)</b>         | <b>(4,689,261)</b>          | <b>(5,512,141)</b>       | <b>18,598,342</b>         | <b>195,899</b>                        | <b>(3,497)</b>             | <b>-</b>          |                                  |
| <b>Cumulative profit rate sensitivity gap</b>                     | <b>(5,895,751)</b>         | <b>(8,589,342)</b>         | <b>(13,278,603)</b>         | <b>(18,790,744)</b>      | <b>(192,402)</b>          | <b>3,497</b>                          | <b>-</b>                   | <b>-</b>          |                                  |

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**32. Fair values of financial assets and financial liabilities**

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

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

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

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

|   | 2010                     |                      | 2009                     |                      |
|---|--------------------------|----------------------|--------------------------|----------------------|
|   | Carrying value<br>RM'000 | Fair value<br>RM'000 | Carrying value<br>RM'000 | Fair value<br>RM'000 |
| <b>Financial assets</b>   |                          |                      |                          |                      |
| Securities held-to-maturity   | 180,466                  | 181,861              | 135,474                  | 134,813              |
| Financing and advances*   | <u>33,943,842</u>        | <u>34,274,843</u>    | <u>25,775,462</u>        | <u>26,410,189</u>    |
| <b>Financial liabilities</b>  |                          |                      |                          |                      |
| Deposits from customers   | 34,498,653               | 34,529,810           | 24,289,832               | 24,334,213           |
| Deposits and placements<br>of banks and other<br>financial institutions | <u>5,051,346</u>         | <u>5,243,769</u>     | <u>6,153,166</u>         | <u>6,344,817</u>     |

\* The general allowances for the Bank amounting to RM 533,708,000 (2009: RM 436,446,000) have been added back to arrive at the carrying value of the financing and advances.



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

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

**(a) Cash and short-term funds**

The carrying amount approximates fair value due to the relatively short maturity of the financial instruments.

**(b) Deposits and placements with financial institutions and bills and acceptance payable**

The fair values of those financial instruments with remaining maturities of less than one year approximate their carrying values due to their relatively short maturities. For those financial instruments with maturities of more than one year, the fair values are estimated based on discounted cash flows using applicable prevailing market rates of similar remaining maturities at the balance sheet date.

**(c) Securities**

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

**(d) Financing and advances**

The fair values of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing and advances, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing financing, the fair values are deemed to approximate the carrying values which are net of income-in-suspense and specific provision for bad and doubtful financing.

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

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

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

**(f) Recourse obligation on financing sold to Cagamas**

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

**(g) Derivative financial instruments**

Fair values of derivative financial instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The fair values of the Bank's derivative financial instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

**33. Capital adequacy**

The Bank closely monitors and manages its capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by Bank Negara Malaysia. During the year, the Bank had complied with the externally imposed capital requirements.

With effect from 1 January 2008, the capital adequacy ratios of Islamic Banks are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks ("CAFIB") for those Islamic Banks adopting the Standardised Approach. However, the Bank is fully committed to adopt the Foundation Internal Ratings Based ("FIRB") Approach for credit risk and Alternative Standardised Approach for operational risk, in line with the Maybank Group initiative to adopt FIRB approach beginning financial year ended 30 June 2011.

On 29 June 2010, Bank Negara Malaysia has approved Maybank Group's application to migrate fully into FIRB Approach from 1 July 2010.

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**33. Capital adequacy (cont'd.)**

The capital adequacy ratios of the Bank as at 30 June, are as follows:

|  | 2010             | 2009             |
|--|------------------|------------------|
| <b>Capital ratio</b>                                   |                  |                  |
| Core capital ratio                                     | 9.14%            | 9.85%            |
| Risk-weighted capital ratio                            | <u>10.66%</u>    | <u>11.56%</u>    |
|  | 2010             | 2009             |
|  | RM'000           | RM'000           |
| <b>Tier 1 capital</b>                                  |                  |                  |
| Paid-up share capital                                  | 110,600          | 110,500          |
| Share premium  | 2,488,400        | 1,988,500        |
| Other reserves   | 680,621          | 475,082          |
| Less: Deferred tax assets (Note 17)                    | (79,712)         | (58,304)         |
| Total Tier 1 capital                                   | <u>3,199,909</u> | <u>2,515,778</u> |
| <b>Tier 2 capital</b>                                  |                  |                  |
| General allowance for losses on financing and advances | <u>533,708</u>   | 436,446          |
| Total Tier 2 capital                                   | <u>533,708</u>   | <u>436,446</u>   |
| Total capital  | <u>3,733,617</u> | 2,952,224        |
| Less: Liquidity reserve on illiquid securities         | (9)              | -                |
| Capital base   | <u>3,733,608</u> | <u>2,952,224</u> |

The breakdown of risk-weighted assets for credit risk (excluding deferred tax assets) in the various categories of risk-weights are as follows:

|  | 2010                |                             | 2009                |                             |
|--|---------------------|-----------------------------|---------------------|-----------------------------|
|  | Principal<br>RM'000 | Risk-<br>weighted<br>RM'000 | Principal<br>RM'000 | Risk-<br>weighted<br>RM'000 |
| 0%   | 8,079,415           | -                           | 7,005,243           | -                           |
| 10%  | 280,000             | 28,000                      | 325,000             | 32,500                      |
| 20%  | 1,876,056           | 375,211                     | 863,001             | 172,600                     |
| 50%  | 5,281,495           | 2,640,748                   | 4,927,914           | 2,463,957                   |
| 100%   | <u>31,473,796</u>   | <u>31,473,796</u>           | <u>22,576,426</u>   | <u>22,576,426</u>           |
| Total risk-weighted assets for credit risk             |                     | <u>34,517,755</u>           |                     | 25,245,483                  |
| Total risk-weighted assets for market risk             |                     | <u>483,259</u>              |                     | <u>287,203</u>              |
| Total risk-weighted assets for credit and market risks |                     | <u>35,001,014</u>           |                     | <u>25,532,686</u>           |

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**34. Financial risk management policies**

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

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

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

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

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

The following are the key risk areas encountered by the Maybank Group and how they are managed by the risk management units within the Maybank Group:

**(a) Credit risk management**

The Credit Risk Management team is primarily involved in managing and enhancing asset quality through the formulation and review of credit risk frameworks, policies, credit risk measurement methodologies, tools and reports. The team sets and reviews concentration limits according to various categories such as single customer groups, economic segments, collateral types, product types, banks and countries. Credit risk ratings are also developed to measure the risk of default by enterprise borrowers across the Maybank Group. Periodic credit stress testing under selected scenarios are also performed and the results reported. Credit risk reports are regularly submitted to the Executive Risk Committee, Risk Management Committee and the Board of Directors.

**(b) Market risk management**

The Market Risk Management team continually evaluates risk arising from adverse movements in market prices or rates that impact both the trading and banking book. A proactive risk assessment process is maintained through a robust market risk management framework that includes quantification methodologies, risk limits and measurement systems. Market risk profiles are regularly reported to the various levels of management, the Asset and Liability Management Committee (ALCO), the Risk Management Committee (RMC) and the Board of Directors.

Market risk controls adopted include the "Value-at-Risk" ("VaR"), "Earnings-at-Risk" ("EaR"), "Economic Value-at-Risk" ("EVaR") and dynamic simulation measurement tools, independent mark-to-market valuations, on-line tracking of various risk limits for trading positions, stress testing of portfolios and back testing of risk models.

**(c) Liquidity risk management**

The primary mechanism and tool for monitoring liquidity is the cash flow behaviour of the Bank. A liquidity risk framework ascertains liquidity based on the contractual and behavioural cash flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of eligible liquid assets.

Liquidity risk is addressed through various measurement techniques such as liquidity gap analysis, early warning signals and stress testing that are controlled using approved limits and benchmarks. Periodic reports are presented to various operating and management level, including the ALCO, RMC and Board of Directors. In addition, the Bank reviews and enhances its Contingency Funding Plan to address probable circumstances that could cause liquidity distress to the Bank.

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

**(d) Operational risk management**

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

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

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

Further information on the risk management practices of the Maybank Group are disclosed in the Section on Risk Management.

**35. Comparatives**

Restatement of comparatives:

|                        | Previously<br>stated<br>RM'000 | Increase/<br>(decrease)<br>RM'000 | Restated<br>RM'000 |
|------------------------|--------------------------------|-----------------------------------|--------------------|
| <b>Balance sheet:</b>  |                                |                                   |                    |
| Financing and advances | 25,302,763                     | 36,253                            | <b>25,339,016</b>  |
| Other assets           | 207,013                        | (36,253)                          | <b>170,760</b>     |

Restatement of comparatives relates to reclassification of certain credit card receivables which were previously reported in other assets to financing and advances. The balances have been restated to conform with the current year presentation.